

## Portfolio Team



**Christopher Cuesta, CFA**  
Principal, CEO  
Portfolio Manager  
24 years of experience



**Manish Maheshwari, CFA**  
Principal  
Portfolio Manager  
22 years of experience

## Portfolio Objective

THB Mid Cap seeks long term capital appreciation over full market cycles by investing in a concentrated group of companies within the Russell Midcap Index that THB believes are undervalued, display lower volatility, and have superior operating metrics. The strategy will hold exactly 30 securities and have high active share.

## Our Firm

Founded in 1982, we are an employee-owned boutique firm that specializes in Micro, Small, Mid Cap, and International niche equity strategies. Our accomplished team of eight investment professionals constantly strives to find the best investment ideas to produce outstanding results. With a robust research team and a deep bench, we pride ourselves on our entrepreneurial culture and our commitment to innovation and improvement.

## Strategy Details

Benchmark	Russell Mid Cap	
Inception	February 2014	
Strategy Size	\$1.9 million	
	<b>THB</b>	<b>Index</b>
Alpha	4.2%	—
Beta	0.84	—
Tracking Error	4.94	—
Sharpe Ratio	0.78	0.50
Info Ratio	0.60	—
Std Deviation	14.0%	15.9%

## Market Commentary

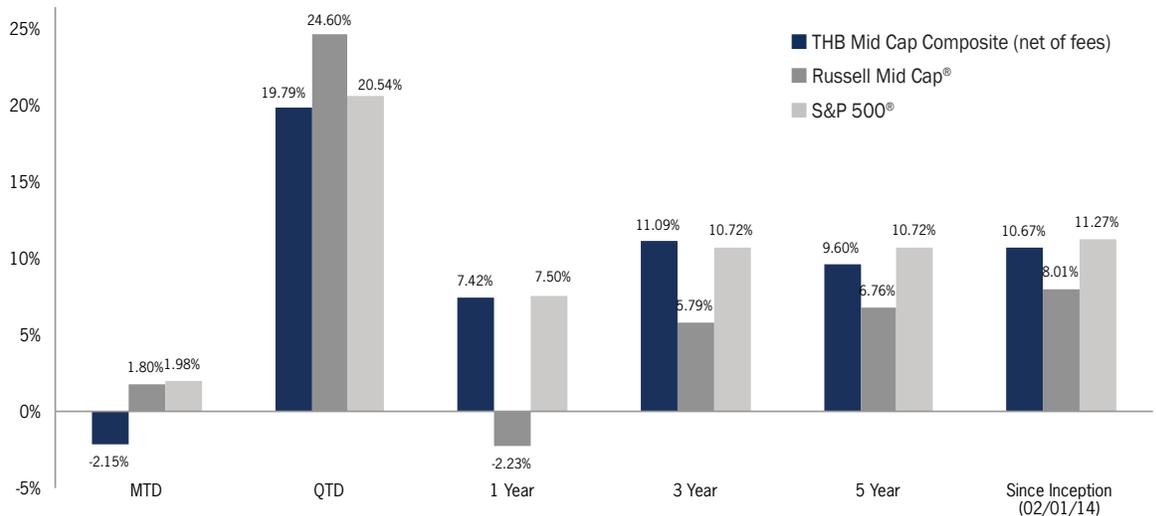
The Russell Midcap® Index (Index) returned +24.6% (USD) in 2Q 2020.

Energy (+52.1%) was the best performing sector in Q2, followed by Consumer Discretionary (+39.1%) and Information Technology (+32.3%). Utilities (+3.3%) was the worst performing sector, followed by Real Estate (+12.1%) and Consumer Staples (+13.8%).

US equities rallied this quarter as extreme views regarding the pandemic gave way to more rational thinking. Equities were led by strong performance from smaller capitalization equities as the Russell 2000 and Russell Mid Cap returned 25.41% and 24.60% respectively. US Large Cap Stocks delivered a 20.54% return as measured by the S&P 500. The Equal Weighted S&P 500 outperformed the cap weighted index by returning 21.73% and highlighting good breadth in the markets.

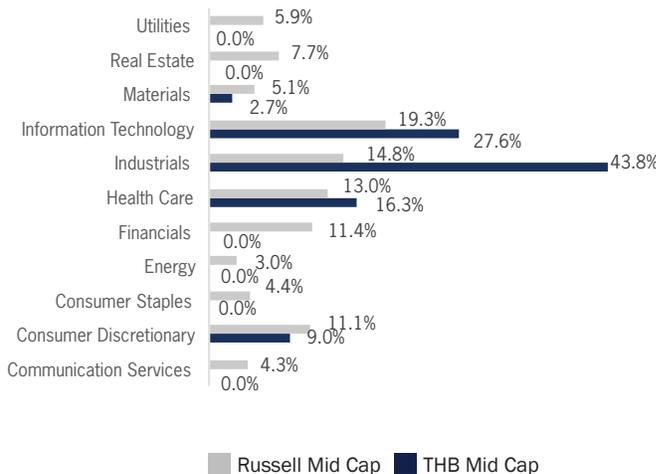
From the onset, we have believed COVIDs impacts would be transitory and have elements of natural disaster. Exhibiting a sharp, but brief drawdown in economic activity. There is an incredible amount of capital, bright minds and all the best medical technologies working towards a vaccine and/or therapeutic, mitigation efforts are in place, treatment procedures have been improved and the normal time element associated with all viral outbreaks is taking place. We continue to believe that there exists a high probability that some end to COVID is in the near future. The duration function of COVID is therefore sensitive to the ebb and flow of news. Positive news (vaccine, therapeutic, lower cases/mortality) shortens duration while negative news (higher infection rates, higher mortality rates, pushback of vaccine or therapeutic) elongates durations. We believe the sharp move higher off of the March lows confirms that we are closer to the end of COVID and plan to use news flow related pullbacks to add to our favorite positions.

## Performance Snapshot (Net of Fees)



1. Periods end 6/30/2020 and are net of fees and presented in USD. Past performance is not indicative of future results. Periods greater than 1 year are annualized. Returns represented include reinvestment of dividends and other income.

## Sector Weightings



Sector weightings subject to change.

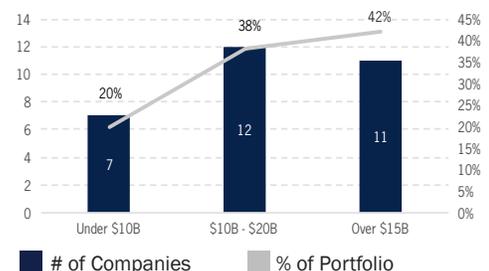
## Active Management, High Active Share

### Active Share vs Russell Mid Cap Index

Active share is the percentage of the fund's portfolio that differs from the benchmark index. High active share indicates a high degree of active management.

# 94.0%

## Market Cap Distribution



## Our Commitment

THB is committed to building long term partnerships with our clients by providing investment products that seek to help achieve their long term goals.

Our entrepreneurial culture and boutique structure allow us to embrace the unique needs and preferences of our clients.

Our sole focus is to provide excellent stewardship of our clients' capital over full market cycles.

We are passionate about, and committed to, our thoughtful and disciplined process of investing in micro, small, and mid cap companies.

We will constantly measure and seek to mitigate risk while not straying from our stated investment mandates.

All of our clients will have full transparency and will be handled with the highest levels of integrity.

THB Asset Management claims compliance with the Global Investment Performance Standards (GIPS®). More information on calculation methodology and a list showing every holding's contribution to overall performance during that period, and a list of composite descriptions and/or presentation that complies with the GIPS standards available upon request

For more information on calculation methodology and a list showing every holding's contribution to overall performance during that period, or to receive a list of composite descriptions and/or presentation that complies with the GIPS standards, contact marketing@thbinc.com or (203) 653-7060.



**THB Asset Management**  
501 Merritt 7, Penthouse  
Norwalk, CT 06851  
[www.thbinc.com](http://www.thbinc.com)

## Portfolio Commentary

The THB Mid Cap Composite returned -19.8% in USD (net of fees) in 2Q, underperforming the Index by 480 bps.

The portfolio saw positive contribution from underallocation to Utilities (+1.4%), Real Estate (+1.0%) and Consumer Staples (+0.5%). Negative contribution mainly came from stock selection in Health Care (-2.5%), Information Technology (-1.5%), and Industrials (-1.4%)

THB's top five performing stocks (from a contribution standpoint) were Synopsys, Inc.(Information Technology, +1.7%), Fastenal Company (Industrials, +1.3%), Dollar General Corp (Consumer Discretionary, +1.2%), Amphenol Corp(Information Technology, +1.2%) and Cadence Design Systems, Inc. (Information Technology, +1.2%).

The bottom five performing stocks (from a contribution standpoint) were IAA, Inc. (Industrials, -0.3%), Carlisle Companies, Inc. (Industrials, -0.2%),Graco, Inc. (Industrials, -0.1%), CACI International, Inc. (Information Technology, +0.0%) and Waters Corporation (Health Care, +0.0%).

The economic and market effects from the virus are happening real time providing both opportunities and risks. Adaption, persistence, and ingenuity are on display as companies and industries look to move forward and thrive in a post COVID world. Some existing secular changes have been accelerated while adaptive technologies are seeing robust levels of growth. Misplaced fears about industries and companies have created tremendous valuation opportunities.

The sharp recovery in equity markets reflects the optimism that the worst may be behind us. That optimism has been confirmed in better than expected employment data, improvements in high frequency data and increasing confidence levels. Optimism is a necessary ingredient for our economy to continue to improve as both consumers and businesses make decisions whether to spend or save. Household balance sheets are flush with cash and confidence levels are increasing leading us to believe this key pillar of the US economy will resume pre COVID levels of spending in a timely manner. Well capitalized corporations are beginning to invest excess cash flows through acquisitions of weakened competitors or expanding their market share. During the quarter, two portfolio companies announced new share repurchase authorizations totaling \$1.2B and five companies made acquisitions. We believe well managed and strongly capitalized companies will continue to adapt and thrive in an ever-changing macro environment.

## Portfolio and Benchmark Characteristics

Characteristics	THB Mid Cap	Russell Mid Cap
Holdings	30	811
Market Cap (\$, mil)	159,978	15,584
Dividend Yield	0.7%	2.0%
LT Debt/Capital	32.5%	43.5%
Price/Earnings	29.3x	19.8x
P/E Forward	27.6x	21.9x
Price/Book	5.1x	2.4x
Price/Sales	2.9x	1.5x
EV/EBITDA	16.4x	13.2x
EV/Sales	3.4x	2.2x
FCF Yield	4.5%	3.5%
Operating Margin	16.7%	12.6%
ROE	25.2%	14.2%
ROIC	13.8%	7.6%

## Corporate Activity

THB Mid Cap Portfolio Trailing 12 months (\$ in millions, except # of companies)	
Number of Companies	30
Companies with Share Repurchases	26
Companies that Paid Dividends	18
Value of Share Repurchases	12,512
Value of Dividends Paid	3,458
<b>Total Capital Returned to Shareholders</b>	<b>15,970</b>
Number of Acquisitions	54
<b>Value of Acquisitions</b>	<b>8,800</b>

Our portfolio companies have returned a healthy amount of capital back to shareholders via repurchases and dividends, illustrating their current financial strength and the variety of options available to them in seeking to enhance shareholder wealth.

1. Periods end 6/30/2020 and are net of fees and presented in USD. Past performance is not indicative of future results. Periods greater than 1 year are annualized. Returns represented include reinvestment of dividends and other income. 2. "Portfolio & Benchmark Characteristics" and "Portfolio Sector Weightings" information is supplemental. THB Asset Management is a registered investment advisor specializing in smaller company strategies. Registration with the US Securities and Exchange Commission does not imply a certain level of skill or training. The focus of the strategy is on mid-capitalization companies in the US market that are under-researched and over-looked. The benchmark is the Russell Midcap Index. The Russell Midcap Index is a capitalization weighted index of the smallest 800 companies in the Russell 1000. The index comparisons herein are provided for informational purposes only and should not be used as the basis for making an investment decision. There are significant differences between client accounts and the indices referenced including, but not limited to, risk profile, liquidity, volatility, and asset composition. You cannot invest directly in an index. 3. Portfolio holdings and allocations are subject to change and should not be considered as investment recommendations to trade individual securities. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified were or will be profitable. There is no assurance that any securities discussed herein will remain in the portfolio at the time you receive this report, or that securities sold have not been repurchased. There can be no assurance that investment objectives will be achieved. A full list showing every holding's contribution to the overall account's performance during the measurement period and calculation methodology is available upon request.