

THB Small Cap Core Strategy



THB Asset Management | 2Q 2020

Portfolio Team



William J. Bryant, Jr.
Principal, Chairman
Portfolio Strategist
53 years of experience



Christopher Cuesta, CFA
Principal, CEO
Portfolio Manager
23 years of experience



Manish Maheshwari, CFA
Principal
Portfolio Manager
21 years of experience

Portfolio Objective

THB Small Cap Core seeks long term capital appreciation over full market cycles by using a disciplined, bottom up approach. We invest primarily in companies within the Russell 2000 Index that we believe are trading below their intrinsic value and have superior operating metrics. We utilize a proprietary Quality Assessment and Risk Grading during the research and portfolio construction processes. The product will typically hold 70-90 securities and have a 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.

Fund Details

Benchmark	Russell 2000
Inception	January 1992
Strategy Size	\$49 million

Risk Factors*	THB	Index
Alpha	2.2%	—
Beta	0.93	—
Tracking Error	7.62	—
Sharpe Ratio	0.54	0.46
Info Ratio	0.29	—
Std Deviation	19.4%	19.2%

Market Commentary

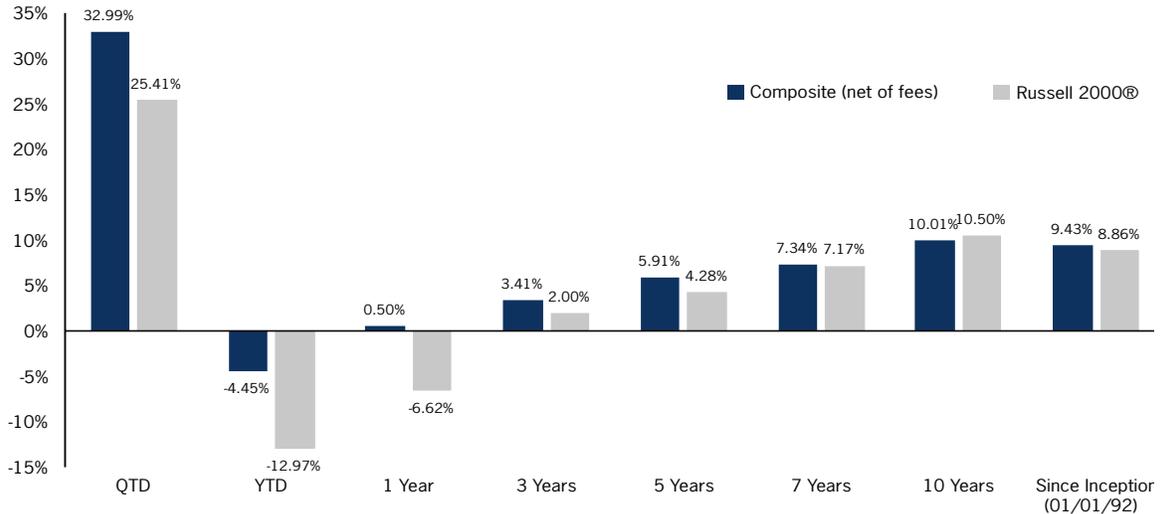
The Russell Smallcap® Index (Index) returned +25.4% in 2Q 2020.

Consumer Discretionary (+58.0%) was the best performing sector in 2Q, followed by Health Care (+32.4%) and Materials (+28.9%). Utilities (-3.9%) was the worst performing sector, followed by Financials (+11.2%) and Real Estate (+14.8%).

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 is 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 2000 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.

93.2%

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.

Portfolio Commentary

The THB Small Cap Composite returned +33.0% in USD (net of fees) in 2Q, outperforming the Index by 760 bps.

The portfolio saw positive contribution from overallocation to Consumer Discretionary (+2.8%), stock selection to Consumer Discretionary (+2.5%), and underallocation to Financials (+1.4%). Negative contribution came mainly from Stock selection in Health Care (-1.1%), underallocation to Health Care (-0.6%) and Energy (-0.2%).

THB's top five performing stocks (from a contribution standpoint) were Jack in the Box Inc. (Consumer Discretionary, +2.3%), Thor Industries, Inc. (Consumer Discretionary, +2.3%), Meritage Homes Corporation (Information Technology, +1.7%), Altra Industrial Motion Corp (Industrials, +1.6%) and Callaway Golf Company (Consumer Discretionary, +1.3%).

The bottom five performing stocks (from a contribution standpoint) were ANI Pharmaceuticals, Inc. (Health Care, -0.2%), RPC, Inc. (Energy, -0.1%), Forward Air Corporation (Industrials, -0.1%), ICU Medical, Inc. (Health Care, -0.1%) and HealthStream, Inc. (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 \$70M and four 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 Small Cap	Russell 2000
Holdings	69	2,005
Market Cap (\$mil)	2,610	2,071
Dividend Yield	0.7%	1.8%
LT Debt/Capital	30.4%	37.1%
Price/Earnings	21.0x	14.1x
P/E Forward	22.3x	17.9x
Price/Book	2.1x	1.7x
Price/Sales	1.2x	0.9x
EV/EBITDA	10.1x	11.6x
EV/Sales	1.6x	1.6x
FCF Yield	8.4%	4.5%
Operating Margin	10.0%	8.3%
ROE	9.8%	2.0%
ROIC	7.0%	4.1%

Corporate Activity

THB Small Cap Portfolio Trailing 12 months (\$ in millions, except # of companies)	
Companies with Share Repurchases	42
Companies that Paid Dividends	34
Value of Share Repurchases	2,602
Value of Dividends Paid	1,518
Total Capital Returned to Shareholders	4,119
Number of Acquisitions	53
Value of Acquisitions	6,500

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 Small Cap Core Composite is on smaller capitalization companies in the US market that are under-researched and over-looked. The benchmark is the Russell 2000 Index. 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.



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