

# THB Mid Cap Strategy

## 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	\$2.1 million	
	<b>THB</b>	<b>Index</b>
Alpha	4.6%	—
Beta	0.85	—
Tracking Error	4.86	—
Sharpe Ratio	0.86	0.56
Info Ratio	0.67	—
Std Deviation	14.1%	15.8%

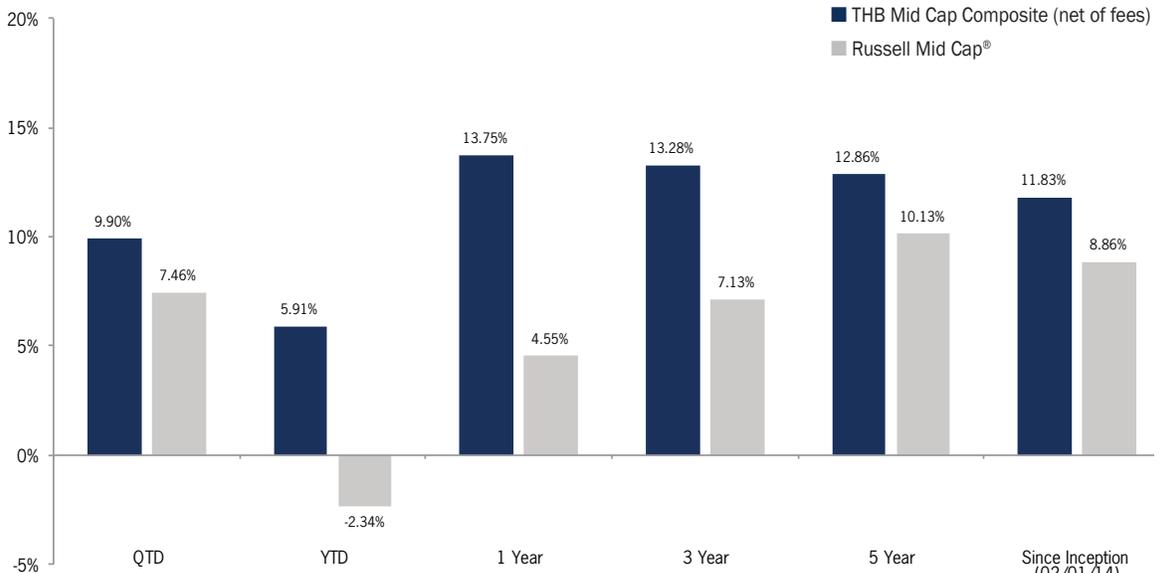
## Market Commentary

The Russell Midcap® Index (Index) returned +7.5% (USD) in 3Q 2020.

Communication Services (+15.9%) was the best performing sector in Q3, followed by Consumer Discretionary (+14.7%) and Materials (+12.9%). Energy (-15.6%) was the worst performing sector, followed by Real Estate (+0.3%) and Financials (+2.4%).

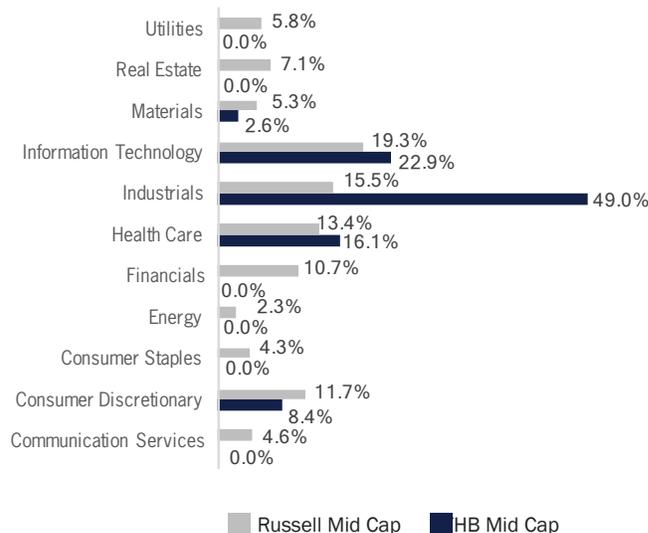
Economic data has continued to improve this quarter and by most measures we are experiencing a V Shaped recovery. Of course, there will be companies and industries which do not participate in the recovery. While unfortunate, there have always been companies and sectors which fall behind during historical economic expansions. Structural advantages, secular changes and rapid decision making allows a certain cohort of companies to outperform their peers. This is a natural part of the Darwinian nature of capitalism and over longer periods of time, is beneficial to the economy as a whole. The COVID-19 experience has also created a subset of companies which will perform relatively better than others and we remain focused on finding those companies and adding them to our strategy.

## Performance Snapshot (Net of Fees)



1. Periods end 9/30/2020 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.

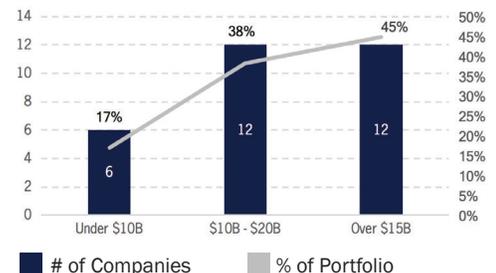
## Active Management, High Active Share

### 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.

**93.5%**

## 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](mailto:marketing@thbinc.com) or (203) 653-7060.



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

## Portfolio Commentary

The THB Mid Cap Composite returned 9.9% in USD (net of fees) in 3Q, outperforming the Index by 240 bps.

The portfolio saw positive contribution from overallocation to Industrials (+1.3%), underallocation to Energy (+0.7%) and stock selection in Industrials (+0.6%). Negative contribution mainly came from stock selection in Information Technology (-0.5%), underallocation to Communication Services (-0.3%) and Consumer Discretionary (-0.2%).

THB's top five performing stocks (from a contribution standpoint) were Copart, Inc.(Industrials, +1.1%), Graco Inc. (Industrials, +0.9%), Rollins, Inc. (Industrials, +0.8%), Toro Company(Industrials, +0.8%) and Cintas Corporation (Industrials, +0.7%).

The bottom five performing stocks (from a contribution standpoint) were Heico Corporation (Industrials, -0.2%), Fleetcor Technologies, Inc. (Information Technology, -0.1%),CACI International, Inc.(Information Technology, -0.1%), Keysight Technologies, Inc. (Information Technology, -0.1%) and Dentsply Sirona, Inc. (Health Care, +0.0%).

COVID-19 has elements of prior business recessions/recoveries, combined with unique elements all creating changes which are happening much faster than any prior cycles. The velocity of change is creating enormous opportunities within the share markets. Prior cycle playbooks have largely been rendered useless by the unique nature of CV19 and how it is reshaping our economy.

We have mentioned this before, and it remains even more applicable today. Macro events of differing forms will continue to blow through our economy, different political parties will run government and various natural disasters will cause concern, but the backdrop of ingenuity and creativity of the women and men running American businesses will remain constant. This steady backdrop provides amazing investment opportunities which we will continue to discover and add to your portfolio.

Our well capitalized companies announced eight acquisitions this quarter as they sought our inorganic growth opportunities.

## Portfolio and Benchmark Characteristics

Characteristics	THB Mid Cap	Russell Mid Cap
Holdings	30	821
Market Cap (\$, mil)	19,496	17,188
Dividend Yield	0.6%	1.8%
LT Debt/Capital	30.6%	43.3%
P/E Forward	27.2x	21.7x
EV/Sales	3.6x	2.5x

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.

## Corporate Activity

(As of September 30, 2020)

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	17
Value of Share Repurchases	9,102
Value of Dividends Paid	3,112
<b>Total Capital Returned to Shareholders</b>	<b>12,215</b>
Number of Acquisitions	54
<b>Value of Acquisitions</b>	<b>8,800</b>

1. Periods end 9/30/2020 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.