

### Capstone High Quality Small Cap

There are three main building blocks to our investment process; small cap, high quality, and cheap valuation. We like to own companies that are growing faster than the market while trading at a significant discount to the market. When we started our firm, we chose a portfolio of 45 companies that met all these criteria and have steadily managed our holdings for 19 months. Over that time frame, our turnover has been approximately 40%. We are pleased with the way the portfolio has performed throughout the period. Our annualized since inception return, after all fees and expenses, is 18%, while the benchmark's annualized return over the same period was 13%. Below is a table that compares the characteristics of the portfolio at year-end 2015, year-end 2016, and at quarter end 6/30/2017. The shaded lines show the ratio of the metric in relation to the same calculation of the Russell 2000, our benchmark.

	12/31/2015	12/31/2016	6/30/2017
FY1 P/E	12.1	13.7	14.2
Benchmark relative	0.7x	0.7x	0.7x
ROE	19.5	18	18.7
Benchmark relative	3x	3x	3x
Earnings Growth*	29.5	39.2	37.1
Benchmark relative	2.43x	3.46x	3.7x
Debt. to Cap.	36.2	30.5	26.9
Benchmark relative	1.03x	0.83x	0.78x
*Historical 3 Year			
Source: Factset			

We have maintained our valuation bias against the benchmark with the PE of our portfolio being just 70% that of the Russell 2000. The ROE of the portfolio is three times that of the benchmark, while the earnings growth of our portfolio is almost four times that of the benchmark. Our portfolio's earnings growth has remained high during the period and our Net Debt to Market Capitalization ratio has improved. Our disciplined process has enabled us to continue to upgrade our holdings and maintain an attractive portfolio of stocks. We currently have a portfolio that, when compared to its benchmark, is three times as profitable, has EPS growth four times as high, and is trading at a thirty percent discount. For the quarter we were up 1.72% after fees, slightly underperforming the benchmark return of 2.46%

**Capstone Global Investments High Quality Small Cap Strategy**

As of June 30, 2017 (net of fees)				
	2Q 2017	YTD	1 year	Since Inception*
Capstone HQ Small Cap	1.72%	4.32%	36.67%	18.02%
Russell 2000	2.46%	4.99%	24.58%	12.78%
*Annualized with Inception Date 12/01/2015				

**Portfolio Review**

We purchased 2 new positions and exited 3 positions during the quarter.

We purchased Kulicke & Soffa Industries (K&S), a semiconductor advanced packaging company. K&S has no debt on the balance sheet and quite a bit of cash on hand. The stock trades at 13.7x FY1 PE has a double-digit ROE and is growing in a lumpy fashion at over 20% a year. The company generates solid cash flow and maintains a dominant position in a stable core growth area of wire bonding. The business is driven by the unit growth of integrated circuits and will benefit from the global growth in data traffic, smartphones, solid-state lighting, autonomous vehicles, electric vehicles, solid state hard drives and other semiconductor-based technologies.

We also purchased Methode Electronics, a conglomerate of electronic technologies. Methode specializes in designing solutions for user interfaces, sensors and switches, power, and data. They are a supplier to fifty-two of the Global 500 companies. The stock is trading at 15.1x FY1 PE and has a high teens ROE with no debt and high teens earnings growth. We exited Lamar advertising, it had become expensive for a low growth business trading at over 23x FY1 PE with mid-single digit earnings growth. We also divested Sunstone Hotel Investors for similar reasons. Sunstone was trading at over 23x FY1 PE and with estimates falling and expectation for earnings contracting over the next two years. Lastly, we exited Xperi Corp, it is undergoing a large business transition and management change. It is a pure play technology licensing company that will take a significant amount of time to achieve the synergies expected from the business transition.

**31-MAR-2017 to 30-JUN-2017**

Ticker		Contribution To Return
	<b>5 Highest</b>	<b>2.94</b>
NOVT	Novanta Inc	1.05
HOFT	Hooker Furniture Corporation	0.80
AOBC	American Outdoor Brands Corp.	0.41
WD	Walker & Dunlop, Inc.	0.36
LZB	LaZBoy Incorporated	0.32
	<b>5 Lowest</b>	<b>-2.16</b>
IPHI	Inphi Corporation	-0.95
CTB	Cooper Tire & Rubber Company	-0.57
CPS	Cooper-Standard Holdings Inc.	-0.28
AGII	Argo Group International Holdings	-0.19
KLIC	Kulicke & Soffa Industries, Inc.	-0.18
	Source: Factset	

**Market Comments**

Over the last 12 months, the S&P 500 has appreciated by 17.9% and the Russell 2000 by 24.6%. Over this one-year period, our portfolio has returned 36.6%, mostly driven by individual stock selection. Stock selection for the period was particularly strong in financials, consumer discretionary, and consumer staples. Stock selection was weak in information technology.

**Closing Comments**

We are off to a good start and have a well-constructed portfolio. We strive to manage an investment portfolio that will maintain your confidence. A significant portion of my personal wealth is invested alongside yours. Over short periods of time we may fall behind or lag the benchmark, but, over a longer holding period, our goal is to outpace the market. We look forward to keeping you up to date on our portfolio's progression through 2017.

Sincerely,

Chad Deakins, CFA

**Chief Investment Officer**

**Portfolio Manager**

**Capstone Global Investments Performance Results:**

## High Quality Small Cap Equity - December 1, 2015 through June 30, 2017

Year	Gross of Fee Return (%)	Net of Fee Return (%)	Benchmark Return (%)	Portfolios	Composite Dispersion (%)	Composite Assets (USD Millions)	Total Firm Assets (USD Millions)
12/1/2015 to 12/31/2015	-4.81	-4.89	-5.02	1	0	<1	<1
2016	32.30	31.02	21.32	3	0.01	2	3.5
YTD 2017	4.84	4.32	4.99	3	0	2.1	5.2

### GIPS Disclosures:

Capstone Global Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards for the period December 1, 2015 through June 30, 2017. Capstone has not been independently verified for GIPS compliance.

1. Capstone Global Investments is an independent investment adviser registered with the State of Georgia. Capstone was founded in December of 2015 and manages small-cap equity strategies. For composite reporting purposes, the Firm is defined as all equity portfolios managed by Capstone.
2. Beginning December 2015, the composite includes only (SMA) portfolios benchmarked to the Russell 2000 Small Cap Index.
3. The Capstone High Quality Small Cap Equity SMA Composite is composed of portfolios invested in US equities which have a market capitalization greater than \$50 million and less than \$10 billion. The investment goal is to find high quality investment opportunities that are trading at a discount to the market and have a catalyst to help propel their relative valuation up to fair value. A complete description of the composite is available on request.
4. The composite was created in January 2016. A complete list and description of firm composites and performance results are available upon request.
5. All returns are expressed in US dollars. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
6. The primary benchmark for the Capstone High Quality Small Cap Equity composite is the Russell 2000 Small Cap Index (Net). The Russell 2000 Small Cap Index returns are provided to represent the investment environment existing during the time periods shown. For comparison purposes, the index is fully invested and includes the reinvestment of income. The returns for the index do not include any trading costs, management fees, or other costs. Index returns have been taken from published sources.
7. Gross returns presented above as supplemental information. The SMA fee includes all charges for trading costs, portfolio management, custody, and other administrative fees. Net returns are calculated by subtracting the highest applicable SMA fee (1.00% on an annual basis, or 0.083% monthly) on a monthly basis from the gross composite monthly return. The standard fee schedule in effect is as follows: 1.00% on total assets.
8. The minimum portfolio size for the U.S. High Quality Small Cap Equity composite is seventy-five thousand dollars.
9. Past performance is not indicative of future results and no investment is guaranteed for the return of principal and/or return on investments. All information provided and used in calculations is believed to be correct, but accuracy cannot be guaranteed. Please consult with a financial professional before investing.
10. Composite dispersion is measured as the average of monthly standard deviations for the periods shown.