

Capstone High-Quality Small Cap

The three main attributes of our investment process focus on investing in smaller companies with low debt and high profitability that are trading at what we consider a discount. We like to own companies that are growing faster than the market while trading at multiples lower than the market. Over the last quarter and year, this strategy has been strongly rewarded. Our consistency of stock selection and portfolio management is most easily seen by our benchmark relative statistics listed in the table below. This table corresponds to the characteristics of the portfolio over time. The shaded lines show the ratio of the weighted average metric of the Capstone portfolio relative to the same metric of the Russell 2000 Index.

	12/31/2015	12/31/2016	12/29/2017	12/31/2018	12/31/2019
FY1 P/E	12.1	13.7	13.7	8.4	11.7
Benchmark relative	0.7x	0.7x	0.7x	0.6x	0.7x
ROE	19.5	18	19.7	20.8	22.4
Benchmark relative	3x	3x	3.4x	3.4x	4.2x
Earnings Growth*	29.5	39.2	23.5	18.6	33.0
Benchmark relative	2.43x	3.46x	2.1x	1.5x	2.1x
Debt. to Cap.	36.2	30.5	24.8	32.3	30.9
Benchmark relative	1.03x	0.83x	0.71x	0.97x	0.91x
*Historical 3 year Source: Factset					

We have a significant amount of our own capital invested in this strategy. The performance of our equity portfolio this quarter was better than the Russell 2000 Value and the Russell 2000 Index.

We have maintained our valuation bias against the benchmark. The PE of our portfolio is now **70%** of the Russell 2000. The ROE of the portfolio is over **four** times that of the benchmark, and the earnings growth of our portfolio is **>2x** that of the benchmark. Our portfolio's earnings growth has remained better than the Russell 2000 during the period, as has our Net Debt to Market Capitalization ratio. For the quarter the portfolio was up 16% after fees, outperforming the Russell 2000 Value's return of 8.5% and the Russell 2000 Index's return of 9.9%.

This was a very good year for our portfolio, but we want to point out based on our table of characteristics that it was the market that rewarded us for sticking to our process. When evaluating any manager, focused attention must be given to the consistency of investment process and execution. During seasons of underperformance, it is all too common for a manager to drift away from the core process while seeking improved performance. At Capstone, our investment process does not drift in times of underperformance or the opposite. We publish our portfolio characteristic for each quarter to hold ourselves accountable to a consistent approach. We believe our approach will deliver strong relative returns over time.

Top Contributors

Atkore International Group Inc. (ATKR) -Manufactures electrical raceway products. This is a great example of good management of a good business. Valuation is still attractive even after the recent strong performance. The company has continued to experience increased sales and earnings with lower debt ratios and improved cash flow.

KEMET Corporation (KEM) -Manufactures electronic components specifically tantalum capacitors. Kemet was offered a buyout at an attractive premium from a Taiwanese electronics supplier and we have taken profits in the new year.

Meritor, Inc. (MTOR) -Manufactures and supplies automobile integrated systems, tandem-drive axles modules and components for heavy trucks. After a near-record 2019 heavy truck production year, the outlook remains strong into 2020.

Victory Capital Holdings, Inc. Class A (VCTR) -Provides asset management services. Revenues have remained strong in a challenging marketplace. Along with the synergies and opportunities still to come from the acquisition of the USAA investment arm this stock looks like there is lot of opportunity.

NMI Holdings, Inc. Class A (NMIH) -Provides private mortgage insurance services. Housing starts have continued to be robust. Fannie Mae expects them to accelerate in 2020. With low-interest rates, we believe NMI will continue to improve.

Largest Detractors

Deluxe Corporation (DLX) - Deluxe corporation was originally known for providing checks. The company has created a service segment for small businesses that includes everything a small business would need to operate. Accounting and presentation software and physical supplies including a direct sales force. It is trading at less than 7x forward earnings and has a 25% return on equity.

Largest Detractors (continued)

Federated Investors, Inc. Class B (FII) -Provides investment management products and related financial services. Valuation is attractive, short interest is low, growth continues to look strong in the mid-teens. In the ongoing consolidation to fund families with scale and size, Federated looks to continue to take advantage of the opportunity.

CoreLogic, Inc. (CLGX) -Provides property, financial and consumer information analysis and services. This is another company that should benefit from a continued robust housing market. It trades below 15x forward PE with improving profitability and increased exposure to global markets.

Century Communities, Inc. (CCS) -Engages in the provision of home building services. While we continue to like the single-family home construction market Century does not seem to be executing its business well. The company is on our review list for exit.

Safe Bulkers, Inc. (SB) -Operates as a holding company with interest in providing marine transportation. This is a business that is driven by management's ability more than what is happening in the marketplace. Operations have not been as robust as expected and the company is on our review list for exit.

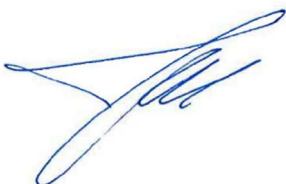
Closing Comments

We had a good quarter on a relative and absolute basis. All of our outperformance for the quarter was from stock selection alone. Most of the contribution was focused in the cheaper half of the market as measured by PE. Much of our outperformance was also in the higher growth segments of the market. The blend of quality, as measured by debt and profitability along with proven earnings growth and attractive PE ratios, is the core of the portfolios we build.

We continue to maintain what we view as an attractive portfolio of holdings. Valuation spreads remain very wide, and we believe we are positioned for strong returns if market participants continue to act rationally. We believe that the fundamental building blocks of our investment process (small cap, high quality, and attractive valuation) will generate a well-constructed portfolio with the potential to outpace the market.

Sincerely,

Chad Deakins, CFA **Portfolio Manager, CIO**



Capstone Global Investments High Quality Small Cap Strategy

	HQ Small Cap	Russell 2000 V	Russell 2000
4Q 2019	16.0%	8.5%	9.9%
1 Year	37.1%	22.4%	25.5%
3 Year	2.6%	4.8%	8.6%
ITD*	7.5%	9.3%	10.0%

Top/Bottom 10 Contributors to Return

30-SEP-2019 to 31-DEC-2019

Ticker		Average Weight	Total Return	Contribution To Return
	Total	100.00	16.84	16.84
	5 Highest	18.84	36.08	6.28
ATKR	Atkore International Group Inc.	4.30	33.31	1.35
KEM	KEMET Corporation	3.07	48.79	1.32
MTOR	Meritor, Inc.	3.33	41.57	1.25
VCTR	Victory Capital Holdings, Inc. Class A	3.70	36.67	1.21
NMIH	NMI Holdings, Inc. Class A	4.45	26.35	1.14
	5 Lowest	13.33	-3.11	-0.44
DLX	Deluxe Corporation	2.72	2.14	0.06
FII	Federated Investors, Inc. Class B	3.66	1.36	0.05
SB	Safe Bulkers, Inc.	1.83	-2.86	-0.04
CLGX	CoreLogic, Inc.	1.82	-5.53	-0.15
CCS	Century Communities, Inc.	3.30	-10.71	-0.37

High Quality Small Cap Equity - December 1, 2015 through December 31, 2019

Year	Gross of Fee Return (%)	Net of Fee Return (%)	Russell 2K Return (%)	Russell 2KV Return (%)	Number of Portfolios	Composite Dispersion (%)	Total Composite Assets at End of Period	Total Strategy Assets at End of Period	Total Firm AUM	Total Firm AUA
12/1/2015 to 12/31/2015	-4.81	-4.89	-5	-5.3	1	0	<1	<1	<1	<1
2016	32.3	31.02	21.3	31.7	3	0.01	2	2	3.5	3.5
2017	7.98	6.91	14.6	7.8	5	0.01	2.5	5.8	6.3	9.6
2018	-25.6	-26.4	-11.0	-12.8	8	0.05	2.4	5.4	6.3	9.3
2019	38.4	37.1	22.4	25.5	8	0.04	3.2	4 ¹²	7.6 ¹²	8.4 ¹²

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 December 31, 2019. 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 Value Index and Russell 2000 Small Cap Index.
3. The Capstone High Quality Small Cap Equity SMA Composite is composed of portfolios invested in US equities that 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.
11. Upon request, Capstone Global Investments will provide a list of all securities recommended for the previous year. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities discussed herein.
12. Estimated. To be updated January 31st.