

**Hand Composite Employee Benefit Trust**  
**ClearBridge Large Cap Growth CIF**  
Independent Auditor's Report and Financial Statements  
December 31, 2018



# Hand Composite Employee Benefit Trust

## December 31, 2018

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## Independent Auditor's Report

Board of Directors  
Hand Composite Employee Benefit Trust  
Houston, Texas

We have audited the accompanying financial statements of the selected fund, ClearBridge Large Cap Growth CIF, included in the Hand Composite Employee Benefit Trust ("Trust" or "Fund"), which comprise the statement of assets and liabilities, including the schedule of investments, as of December 31, 2018, and the related statements of operations and changes in net assets for the year ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the selected fund, ClearBridge Large Cap Growth CIF, as of December 31, 2018, and the results of its operations and the changes in its net assets for the year ended, in accordance with accounting principles generally accepted in the United States of America.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of investment purchases and sales listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***BKD, LLP***

Houston, Texas  
May 24, 2019

**Hand Composite Employee Benefit Trust**  
**Statement of Assets and Liabilities – Selected Fund**  
**December 31, 2018**

	<b>ClearBridge Large Cap Growth CIF</b>
<b>Assets</b>	
Investments, at cost	\$ 127,570,841
Investments, at fair value	\$ 130,145,843
Receivable for:	
Capital shares sold	172,851
Dividends and interest	81,229
Investment advisor waived fees	6,009
Total assets	<u>\$ 130,405,932</u>
<b>Liabilities</b>	
Payable for capital shares redeemed	\$ 28,069
Management fee payable	48,347
Accounts payable and accrued liabilities	24,850
Total liabilities	<u>\$ 101,266</u>
Net assets held for participants:	
Class R1A	\$ 29,366,170
Class R2	97,496,757
Class R3	3,441,739
Total net assets held for participants	<u>\$ 130,304,666</u>
Units outstanding:	
Class R1A	2,208,501
Class R2	7,306,464
Class R3	257,731
Total units outstanding	<u>9,772,696</u>
Net asset value per unit:	
Class R1A	<u>\$ 13.30</u>
Class R2	<u>\$ 13.34</u>
Class R3	<u>\$ 13.35</u>

**Hand Composite Employee Benefit Trust**  
**Schedule of Investments**  
**ClearBridge Large Cap Growth CIF**  
**December 31, 2018**

Number of Shares		Cost	Fair Value
<b><u>Short Term Investment</u></b>			
2,927,469	State Street Institutional Investment Trust Treasury Money Market Fund, Premier Class 2.25%	\$ 2,927,469	\$ 2,927,469
<b>Total Short Term Investment</b>		<b>2.25%</b>	<b>2,927,469</b>
<b><u>Common Stocks</u></b>			
<b><u>Consumer Discretionary</u></b>			
5,242	Amazon.com, Inc.	6,312,631	7,873,327
3,860	Chipotle Mexican Grill, Inc.	1,487,352	1,666,709
76,140	Comcast Corp. Class A	2,795,855	2,592,567
14,830	Home Depot, Inc.	2,470,458	2,548,091
26,170	Walt Disney Co.	2,801,909	2,869,540
64,660	Yum China Holdings, Inc.	2,297,876	2,168,050
Total Consumer Discretionary		15.15%	18,166,081
<b><u>Consumer Staples</u></b>			
32,730	Anheuser-Busch InBev S.A. ADR	3,345,068	2,153,961
40,220	Coca-Cola Co.	1,820,570	1,904,417
10,654	Costco Wholesale Corp.	2,007,318	2,170,327
9,087	McCormick & Co., Inc.	954,104	1,265,274
Total Consumer Staples		5.76%	8,127,060
<b><u>Energy</u></b>			
8,182	Pioneer Natural Resources Co.	1,441,717	1,076,097
33,630	Schlumberger Ltd.	2,341,280	1,213,370
Total Energy		1.76%	3,782,997
<b><u>Financials</u></b>			
22,550	American Express Co.	2,022,150	2,149,466
5,840	BlackRock, Inc.	2,604,033	2,294,069
56,390	Charles Schwab Corp.	2,526,113	2,341,877
Total Financials		5.21%	7,152,296
<b><u>Health Care</u></b>			
18,780	Alexion Pharmaceuticals, Inc.	2,273,640	1,828,421
9,010	Biogen, Inc.	2,604,759	2,711,289
15,880	BioMarin Pharmaceutical, Inc.	1,437,836	1,352,182
33,740	Celgene Corp.	3,290,271	2,162,397
14,580	Johnson & Johnson	1,912,422	1,881,549
4,460	Regeneron Pharmaceuticals, Inc.	1,615,160	1,665,810
12,690	Thermo Fisher Scientific, Inc.	2,433,625	2,839,895
16,570	UnitedHealth Group, Inc.	3,448,988	4,127,918
34,440	Zoetis, Inc.	2,428,346	2,945,998
Total Health Care		16.53%	21,445,047

**Hand Composite Employee Benefit Trust**  
**Schedule of Investments (Continued)**  
**ClearBridge Large Cap Growth CIF (Continued)**  
**December 31, 2018**

Number of Shares		Cost	Fair Value
<b><u>Common Stocks (Continued)</u></b>			
<b><i>Industrials</i></b>			
13,530	Caterpillar, Inc.	\$ 1,991,088	\$ 1,719,257
18,980	Honeywell International, Inc.	2,628,831	2,507,637
35,169	IHS Markit Ltd.	1,774,238	1,687,057
19,960	United Parcel Service, Inc. Class B	2,286,445	1,946,699
10,280	WW Grainger, Inc.	2,614,476	2,902,661
	Total Industrials	8.27% 11,295,078	10,763,311
<b><i>Information Technology</i></b>			
15,860	Adobe, Inc.	2,758,520	3,588,166
40,570	Akamai Technologies, Inc.	2,637,393	2,478,016
10,410	Alibaba Group Holding Ltd. ADR	1,705,750	1,426,899
1,601	Alphabet, Inc. Class A	1,560,347	1,672,981
4,014	Alphabet, Inc. Class C	3,872,635	4,156,938
18,940	Apple, Inc.	3,115,944	2,987,596
34,890	Facebook, Inc. Class A	5,429,783	4,573,730
57,210	Microsoft Corp.	4,678,973	5,810,820
33,730	Nutanix, Inc. Class A	1,357,782	1,402,831
6,950	NVIDIA Corp.	1,089,807	927,825
61,560	Oracle Corp.	2,917,200	2,779,434
11,650	Palo Alto Networks, Inc.	1,822,388	2,194,277
31,850	PayPal Holdings, Inc.	2,073,695	2,678,266
41,260	QUALCOMM, Inc.	2,330,824	2,348,107
13,300	Red Hat, Inc.	1,554,378	2,336,012
21,010	Splunk, Inc.	1,756,998	2,202,898
22,880	Texas Instruments, Inc.	2,075,399	2,162,160
35,120	Visa, Inc. Class A	3,813,608	4,633,733
10,720	VMware, Inc. Class A	1,101,193	1,470,034
	Total Information Technology	39.83% 47,652,617	51,830,723
<b><i>Materials</i></b>			
17,360	Ecolab, Inc.	2,355,784	2,557,996
13,610	Linde PLC	2,191,805	2,123,704
	Total Materials	3.60% 4,547,589	4,681,700
<b><i>Real Estate</i></b>			
6,070	Equinix, Inc. REIT	2,474,607	2,140,039
	Total Real Estate	1.64% 2,474,607	2,140,039
	<b>Total Common Stocks</b>	<b>97.75% 124,643,372</b>	<b>127,218,374</b>
	<b>Total Investments</b>	<b>100.00% \$ 127,570,841</b>	<b>\$ 130,145,843</b>

**Abbreviations used in this table:**

ADR American Depository Receipt  
REIT Real Estate Investment Trust

**Hand Composite Employee Benefit Trust**  
**Statement of Operations – Selected Fund**  
**Year Ended December 31, 2018**

	<b>ClearBridge Large Cap Growth CIF</b>
<b>Income</b>	
Interest	\$ 96,626
Dividends (net of foreign withholding taxes of \$28,809)	<u>1,810,853</u>
Total income	<u>1,907,479</u>
<b>Expenses</b>	
Trustee and administrative	199,672
Class R1A expenses	322,763
Class R2 expenses	163,239
Class R3 expenses	166,164
Class R1 expenses	<u>33,117</u>
Total expenses before reimbursement	884,955
Reimbursement of fees	<u>(12,947)</u>
Net expenses	<u>872,008</u>
<b>Net Investment Income</b>	<u>1,035,471</u>
<b>Net Realized Gains on Investments</b>	17,053,458
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	
Investments	<u>(12,895,148)</u>
Net realized and unrealized gains on investments	<u>4,158,310</u>
<b>Net Increase in Net Assets Resulting From Operations</b>	<u><u>\$ 5,193,781</u></u>



**Hand Composite Employee Benefit Trust**  
**Statement of Changes in Net Assets – Selected Fund**  
**Year Ended December 31, 2018**

	<b>ClearBridge Large Cap Growth CIF</b>
<b>Operations</b>	
Net investment income	\$ 1,035,471
Net realized gains	17,053,458
Change in net unrealized appreciation (depreciation)	(12,895,148)
Net increase in net assets from operations	5,193,781
<b>Net Decrease in Net Assets From Participant Unit Transactions</b>	(7,096,439)
<b>Decrease in Net Assets</b>	(1,902,658)
<b>Net Assets</b>	
Beginning of year	132,207,324
End of year	\$ 130,304,666

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

### December 31, 2018

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Hand Composite Employee Benefit Trust ("HB&T" or "the Trust") was created in order to provide broad and uniform diversification programs for pension and profit sharing plans which, having complied with the requirements of the Internal Revenue Code (the IRC), are exempt from taxation under the provisions of the IRC. The Trust is comprised of 92 portfolios (the Funds); the financial statements of one of those funds, the ClearBridge Large Cap Growth CIF (the Fund), are included in this report.

Each class of the Fund has equal rights as to earnings and assets except that each class bears different distribution, shareholder servicing and transfer agent expenses. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments and foreign currency are allocated to each class of units based on its relative net assets.

The R1, R-INT and R-LM classes were liquidated during 2018.

##### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of investment income and expenses during the reporting period. Actual results could differ from those estimates.

##### ***Investment Valuation***

All investments in securities are recorded at their estimated fair value. Transfers in and out of Level 1 (quoted market prices), Level 2 (significant other observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

##### ***Investment Transactions***

Investment transactions are accounted for on trade date. Realized gains and losses from investment transactions and unrealized appreciation or depreciation of investments are reported on the identified cost basis.

##### ***Investment Income and Distribution of Income***

Dividend income less foreign taxes withheld, if any, is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Investment income is allocated ratably on the valuation dates among all participants. No distributions are made to participants in the Fund until

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

### December 31, 2018

units owned are redeemed, at which time the market value of redeemed units is distributed. Investment income and realized gains (if any) earned by the Fund are reinvested, thereby increasing the respective unit values.

#### ***Valuation of Participants' Interest***

Units of participation may be purchased or redeemed on the valuation dates at the fair value per unit on such valuation dates. The Fund is valued daily.

#### ***Federal Income Taxes***

The Fund complies with the requirements under Section 501(a) of the IRC and apportion all of its taxable income to its participants. Therefore, no federal income tax provision is required.

#### ***Subsequent Events***

Subsequent events have been evaluated through May 24, 2019, which is the date the financial statements were available to be issued.

#### ***Investment Management Advisors***

The investment management advisor for the Fund is ClearBridge Investments, LLC.

## **Note 2: Investment Advisory Fees and Other Transactions With Affiliates**

The Fund is charged an administrative fee by HB&T for trustee/administrative services (fund accounting services, transfer agency services, trustee services, etc.). The Fund has also entered into investment advisory and service agreements with a third-party advisor. These fees compensate the advisor for the services it provides and for expenses borne by the advisor under the agreement.

During the period ended December 31, 2018, the investment advisor voluntarily reimbursed the Fund for a portion of its expenses.

The following table indicates the fees charged to the Fund and various classes of units within the Fund (as a percentage of net assets). These charges are calculated using the Fund's prior day total net assets:

Fund	Trustee/ Administrative Fees	Investment Management Fees	Other Fees	Total Fees
ClearBridge Large Cap Growth CIF:				
Class R1A	0.04%	0.50%	0.16%	0.70%
Class R2	0.04%	0.45%	0.06%	0.55%
Class R3	0.04%	0.40%	0.06%	0.50%

**Hand Composite Employee Benefit Trust**  
**Notes to Financial Statements**  
**December 31, 2018**

**Note 3: Financial Highlights**

	<b>ClearBridge Large Cap Growth CIF</b>		
	<b>Class R1A</b>	<b>Class R2</b>	<b>Class R3</b>
Net asset value, beginning of period	\$ 13.37	\$ 13.38	\$ 13.39
Net investment income	0.07	0.11	0.09
Net realized and unrealized losses	(0.14)	(0.15)	(0.13)
Net decrease from investment operations	(0.07)	(0.04)	(0.04)
Net asset value, end of period	\$ 13.30	\$ 13.34	\$ 13.35
Total return	(0.52)%	(0.30)%	(0.30)%
Ratio to average net assets:			
Net investment income	0.51%	0.78%	0.61%
Expenses without reimbursement	0.71%	0.56%	0.50%
Expenses with reimbursement	0.70%	0.55%	0.50%

**Note 4: Participant Unit Transactions**

	<b>ClearBridge Large Cap Growth CIF</b>	
	<b>Units</b>	<b>Dollars</b>
<b>Class R1A:</b>		
Proceeds from sales of units	406,309	\$ 5,773,011
Cost of units redeemed	(573,036)	(8,174,060)
Net decrease in net assets from participant transactions	(166,727)	(2,401,049)
<b>Class R1:</b>		
Proceeds from sales of units	827,473	11,689,619
Cost of units redeemed	(827,473)	(12,368,538)
Net decrease in net assets from participant transactions	0	(678,919)

**Hand Composite Employee Benefit Trust**  
**Notes to Financial Statements**  
**December 31, 2018**

	<b>ClearBridge Large Cap Growth CIF</b>	
	<b>Units</b>	<b>Dollars</b>
<b>Class R2:</b>		
Proceeds from sales of units	5,331,030	\$ 75,120,920
Cost of units redeemed	(802,141)	(11,414,788)
Net decrease in net assets from participant transactions	4,528,889	63,706,132
<b>Class R3:</b>		
Proceeds from sales of units	807,694	11,583,991
Cost of units redeemed	(4,596,300)	(69,672,557)
Net decrease in net assets from participant transactions	(3,788,606)	(58,088,566)
<b>Class R-INT:</b>		
Cost of units redeemed	(540,573)	(7,650,585)
Net decrease in net assets from participant transactions	(540,573)	(7,650,585)
<b>Class R-LM:</b>		
Proceeds from sales of units	243,804	3,582,383
Cost of units redeemed	(382,072)	(5,565,835)
Net decrease in net assets from participant transactions	(138,268)	(1,983,452)
Net decrease in net assets from participant unit transactions		\$ (7,096,439)

**Note 5: Disclosures About Fair Value of Financial Instruments**

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value.

**Level 1:** Quoted prices in active markets for identical assets or liabilities that the Fund can access at the measurement date.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

### December 31, 2018

**Level 2:** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities that the entity can access at the measurement date; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of assets and liabilities, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended December 31, 2018.

**Short Term Investments.** Short term investments, including money market funds, for which market quotations are readily available, are valued at the last reported sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded and are categorized as Level 1 in the hierarchy.

**Common Stocks.** Securities traded on a national securities exchange (or reported on the NASDAQ national market) are valued at the last reported sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded and are categorized as Level 1 in the hierarchy. Certain foreign securities may be fair valued using a pricing service that considers the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments, such as American Depository Receipts and the movement of certain indexes of securities based on a statistical analysis of the historical relationship and are categorized as either Level 1 or 2 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying statement of assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018:

**Hand Composite Employee Benefit Trust**  
**Notes to Financial Statements**  
**December 31, 2018**

	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>ClearBridge Large Cap Growth CIF</b>				
Financial Instruments - Assets:				
Short Term Investment	\$ 2,927,469	\$ 2,927,469	-	\$ -
Common Stocks	127,218,374	127,218,374	-	-
 Total Financial Instruments - Assets	\$ 130,145,843	\$ 130,145,843		

**Note 6: Risk Factors**

***Investment Securities Risk***

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of assets and liabilities.

## **Supplemental Information**



**Hand Composite Employee Benefit Trust**  
**Schedule of Investment Purchases and Sales – Selected Fund**  
**Year Ended December 31, 2018**

<b>Purchases</b>	
<b>Investment Class</b>	<b>Cost</b>
Common Stocks	\$ 159,217,508
Total Investments Purchased	\$ 159,217,508

<b>Sales</b>			
<b>Investment Class</b>	<b>Proceeds</b>	<b>Cost</b>	<b>Gain</b>
Common Stocks	\$ 111,790,152	\$ 94,736,694	\$ 17,053,458
Total Investments Sold	\$ 111,790,152	\$ 94,736,694	\$ 17,053,458