

**Hand Composite Employee Benefit Trust  
ClearBridge Small Cap CIF**

Independent Auditor's Report and Financial Statements

December 31, 2017



# Hand Composite Employee Benefit Trust

## December 31, 2017

### Contents

<b>Independent Auditor's Report .....</b>	<b>1</b>
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#### **Basic Financial Statements**

Statement of Assets and Liabilities - Selected Fund.....	3
Schedule of Investments	
ClearBridge Small Cap CIF .....	4
Statement of Operations - Selected Fund.....	7
Statement of Changes in Net Assets - Selected Fund .....	8
Notes to Financial Statements.....	9

#### **Supplemental Information**

Schedule of Investment Purchases and Sales - Selected Fund.....	14
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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 Small Cap 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, 2017, and the related statements of operations, changes in net assets for the period from January 13, 2017 (inception) to December 31, 2017, 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 Small Cap CIF, as of December 31, 2017, and the results of its operations and the changes in its net assets for the period from January 13, 2017 (inception) to December 31, 2017, 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 25, 2018

**Hand Composite Employee Benefit Trust**  
**Statement of Assets and Liabilities – Selected Fund**  
**December 31, 2017**

	<b>ClearBridge Small Cap CIF</b>
<b>Assets</b>	
Investments, at cost	\$ 46,199,545
Investments, at fair value	\$ 48,969,280
Receivable for:	
Dividends and interest	94,953
Total assets	\$ 49,064,233
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 11,954
Total liabilities	\$ 11,954
Net assets held for participants:	
Class R-INT	\$ 3,447,879
Class R-LM	45,604,400
Total net assets held for participants	\$ 49,052,279
Units outstanding:	
Class R-INT	310,698
Class R-LM	4,116,936
Total units outstanding	4,427,634
Net asset value per unit:	
Class R-INT	\$ 11.10
Class R-LM	\$ 11.08

**Hand Composite Employee Benefit Trust**  
**Schedule of Investments**  
**ClearBridge Small Cap CIF**  
**December 31, 2017**

Number of Shares		Cost	Fair Value
<b><u>Short Term Investment</u></b>			
318,427	State Street Institutional Trust Treasury Money Market Fund, Premier Class 1.157%	\$ 318,427	\$ 318,427
<b>Total Short Term Investment</b>		<b>0.65%</b>	<b>318,427</b>
<b><u>Common Stocks</u></b>			
<b><u>Consumer Discretionary</u></b>			
19,194	Aaron's, Inc.	661,109	764,881
19,677	Chuy's Holdings, Inc.	513,717	551,940
30,319	Gentex Corp.	613,984	635,183
73,213	Gray Television, Inc.	893,837	1,226,318
29,682	Horizon Global Corp.	505,805	416,142
12,886	Monro, Inc.	699,819	733,858
9,824	Murphy USA, Inc.	639,176	789,456
8,997	Planet Fitness, Inc. Class A	203,130	311,566
29,952	Service Corp. International	933,473	1,117,808
Total Consumer Discretionary		13.37%	5,664,050
<b><u>Consumer Staples</u></b>			
9,441	Inter Parfums, Inc.	335,305	410,212
44,200	Sprouts Farmers Market, Inc.	865,845	1,076,270
Total Consumer Staples		3.04%	1,201,150
<b><u>Energy</u></b>			
42,614	Extraction Oil & Gas, Inc.	678,552	609,806
91,539	Smart Sand, Inc.	891,714	792,728
Total Energy		2.86%	1,570,266
<b><u>Financials</u></b>			
12,947	Assured Guaranty Ltd.	521,736	438,515
35,928	Beneficial Bancorp, Inc.	610,629	591,016
31,459	Cadence Bancorp	685,182	853,168
13,010	Encore Capital Group, Inc.	551,085	547,721
24,111	First Interstate BancSystem, Inc. Class A	963,790	965,646
10,622	Kinsale Capital Group, Inc.	375,378	477,990
25,260	LegacyTexas Financial Group, Inc.	1,033,212	1,066,225
9,512	Main Street Capital Corp.	360,559	377,912
47,793	NMI Holdings, Inc. Class A	530,561	812,481
31,352	OneMain Holdings, Inc.	782,673	814,838
42,956	PennantPark Investment Corp.	328,873	296,826
9,516	ProAssurance Corp.	531,697	543,839
17,733	Radian Group, Inc.	317,056	365,477
47,615	Triangle Capital Corp.	770,469	451,866
19,200	TriState Capital Holdings, Inc.	461,565	441,600
28,061	Washington Federal, Inc.	942,071	961,089
Total Financials		20.43%	9,766,536
<b><u>Health Care</u></b>			
179,033	Amarin Corp. PLC ADR	576,540	717,922
14,870	Cotiviti Holdings, Inc.	510,216	478,963
19,610	Dynavax Technologies Corp.	383,193	366,707
16,468	Encompass Health Corp.	733,051	813,684
17,770	HealthEquity, Inc.	849,874	829,148

**Hand Composite Employee Benefit Trust**  
**Schedule of Investments (Continued)**  
**ClearBridge Small Cap CIF**  
**December 31, 2017**

Number of Shares		Cost	Fair Value
<b><u>Common Stocks (Continued)</u></b>			
<b><i>Health Care (Continued)</i></b>			
28,739	Ironwood Pharmaceuticals, Inc.	\$ 455,610	\$ 430,798
97,362	Keryx Biopharmaceuticals, Inc.	562,283	452,733
42,994	Lexicon Pharmaceuticals, Inc.	586,378	424,781
4,822	Ligand Pharmaceuticals, Inc.	557,806	660,276
93,753	Quotient Ltd.	534,638	464,077
10,357	Syneos Health, Inc.	476,625	451,565
13,130	Tivity Health, Inc.	533,197	479,902
	Total Health Care	13.42% 6,759,411	6,570,556
<b><i>Industrials</i></b>			
3,122	Allegiant Travel Co.	496,479	483,129
15,526	Continental Building Products, Inc.	365,246	437,057
7,350	Cubic Corp.	332,677	433,283
5,730	EnPro Industries, Inc.	427,832	535,812
34,411	Foundation Building Materials, Inc.	481,040	508,939
6,168	GATX Corp.	368,245	383,403
6,725	HEICO Corp.	478,169	634,504
10,627	ICF International, Inc.	557,672	557,917
4,545	Landstar System, Inc.	406,628	473,135
31,138	Marten Transport Ltd.	491,994	632,101
30,860	MRC Global, Inc.	510,776	522,151
14,041	REV Group, Inc.	362,690	456,754
11,738	Rush Enterprises, Inc. Class A	430,671	596,408
26,930	Team, Inc.	352,255	401,257
24,256	Textainer Group Holdings Ltd.	420,986	521,504
11,584	Triton International Ltd.	288,622	433,821
	Total Industrials	16.36% 6,771,982	8,011,175
<b><i>Information Technology</i></b>			
14,770	2U, Inc.	615,325	952,813
23,790	Blackline, Inc.	865,743	780,312
15,621	EVERTEC, Inc.	276,733	213,227
18,699	ForeScout Technologies, Inc.	471,099	596,311
9,016	Manhattan Associates, Inc.	435,659	446,653
19,375	Methode Electronics, Inc.	798,940	776,938
10,222	MTS Systems Corp.	569,050	548,921
15,451	Q2 Holdings, Inc.	522,345	569,369
9,903	RingCentral, Inc. Class A	302,440	479,305
12,356	Semtech Corp.	418,571	422,575
14,910	Tower Semiconductor Ltd.	448,962	508,133
27,291	Veeco Instruments, Inc.	656,322	405,271
37,583	Web.com Group, Inc.	806,932	819,309
22,361	WNS Holdings Ltd. ADR	695,580	897,347
	Total Information Technology	17.19% 7,883,701	8,416,484
<b><i>Materials</i></b>			
7,559	Balchem Corp.	618,370	609,255
13,628	Clearwater Paper Corp.	753,635	618,711
28,370	Venator Materials PLC	604,849	627,545
	Total Materials	3.79% 1,976,854	1,855,511

**Hand Composite Employee Benefit Trust**  
**Schedules of Investments (Continued)**  
**ClearBridge Small Cap CIF**  
**December 31, 2017**

Number of Shares		Cost	Fair Value
<b><u>Common Stocks (Continued)</u></b>			
<i>Real Estate</i>			
26,206	American Homes 4 Rent Class A, REIT	\$ 561,678	\$ 572,339
48,702	Lexington Realty Trust REIT	512,246	469,974
21,900	Realty Holdings Corp.	640,327	580,350
30,680	STORE Capital Corp. REIT	694,969	798,907
33,893	Summit Hotel Properties, Inc. REIT	534,100	516,191
	Total Real Estate	6.00% 2,943,320	2,937,761
<i>Telecommunication Services</i>			
7,690	Cogent Communications Holdings, Inc.	334,580	348,357
	Total Telecommunication Services	0.71% 334,580	348,357
<i>Utilities</i>			
8,620	Black Hills Corp.	510,758	518,148
13,609	PNM Resources, Inc.	498,510	550,484
	Total Utilities	2.18% 1,009,268	1,068,632
	<b>Total Common Stocks</b>	<b>99.35% 45,881,118</b>	<b>48,650,853</b>
	<b>Total Investments</b>	<b>100.00% \$ 46,199,545</b>	<b>\$ 48,969,280</b>

**Abbreviation used in this table:**

ADR American Depositary Receipt



**Hand Composite Employee Benefit Trust**  
**Statement of Operations – Selected Fund**  
**Period Ended December 31, 2017**

	<b>ClearBridge Small Cap CIF*</b>
<b>Income</b>	
Interest	\$ 6,731
Dividends (net of foreign withholding taxes of \$798)	<u>436,598</u>
Total income	<u>443,329</u>
<b>Expenses</b>	
Trustee and administrative	<u>53,193</u>
Total expenses	<u>53,193</u>
<b>Net Investment Income</b>	<u>390,136</u>
<b>Net Realized Gains on Investments</b>	950,027
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	
Investments	<u>2,769,735</u>
Net realized and unrealized gains on investments	<u>3,719,762</u>
<b>Net Increase in Net Assets Resulting From Operations</b>	<u><u>\$ 4,109,898</u></u>

*\*Period from January 13, 2017 (inception) to December 31, 2017*

**Hand Composite Employee Benefit Trust**  
**Statement of Changes in Net Assets – Selected Fund**  
**Period Ended December 31, 2017**

	<b>ClearBridge Small Cap CIF*</b>
<b>Operations</b>	
Net investment income	\$ 390,136
Net realized gains	950,027
Change in net unrealized appreciation (depreciation)	2,769,735
Net increase in net assets from operations	4,109,898
<b>Net Increase in Net Assets From Participant Unit Transactions</b>	44,942,381
<b>Increase in Net Assets</b>	49,052,279
<b>Net Assets</b>	
Beginning of year	-
End of year	\$ 49,052,279

*\*Period from January 13, 2017 (inception) to December 31, 2017*

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

December 31, 2017

### 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 105 portfolios (the Funds); the financial statements of one of those funds, the ClearBridge Small Cap 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 ClearBridge Small Cap Fund's inception date was January 13, 2017.

#### *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 units owned

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

December 31, 2017

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 25, 2018, which is the date the financial statements were available to be issued.

### **Investment Management Advisors**

The investment management advisor for the Fund is ClearBridge, 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.

The following table indicates the fees charged to the Fund and the 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.

<b>Fund</b>	<b>Trustee/ Administrative Fees</b>	<b>Investment Management Fees</b>	<b>Other Fees</b>	<b>Total Fees</b>
ClearBridge Small Cap CIF:				
Class R-INT	0.04%	0.00%	0.07%	0.11%
Class R-LM	0.04%	0.00%	0.07%	0.11%

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

### December 31, 2017

#### Note 3: Financial Highlights

	ClearBridge Small Cap CIF	
	Class R-INT <sup>(1)</sup>	Class R-LM <sup>(2)</sup>
Net asset value, beginning of period	\$ 10.00	\$ 10.00
Net investment income	0.11	0.11
Net realized and unrealized gains	0.99	0.97
Net increase from investment operations	1.10	1.08
Net asset value, end of period	\$ 11.10	\$ 11.08
Total return	11.00%	10.80%
Ratio to average net assets <sup>(3)</sup> :		
Net investment income	1.10%	1.12%
Expenses	0.15%	0.15%

<sup>(1)</sup> For the period February 1, 2017 (inception date) to December 31, 2017

<sup>(2)</sup> For the period January 13, 2017 (inception date) to December 31, 2017

<sup>(3)</sup> Annualized

#### Note 4: Participant Unit Transactions

	ClearBridge Small Cap CIF	
	Units	Dollars
<b>Class R-INT<sup>1</sup>:</b>		
Proceeds from sales of units	326,919	\$ 3,285,000
Cost of units redeemed	(16,221)	(170,000)
Net increase in Class R-INT from participant transactions	310,698	3,115,000
<b>Class R-LM<sup>2</sup>:</b>		
Proceeds from sales of units	4,789,747	48,874,978
Cost of units redeemed	(672,811)	(7,047,597)
Net increase in Class R-LM from participant transactions	4,116,936	41,827,381
Net increase in net assets from participant unit transactions		\$ 44,942,381

<sup>1</sup> For the period February 1, 2017 (inception date) to December 31, 2017.

<sup>2</sup> For the period January 13, 2017 (inception date) to December 31, 2017.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

December 31, 2017

### 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 measurement date.
- Level 2:** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; 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, 2017.

**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 Depositary 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, 2017.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

December 31, 2017

	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 Small Cap CIF</b>				
Financial Instruments - Assets:				
Short Term Investment	\$ 318,427	\$ 318,427	\$ -	\$ -
Common Stocks	48,650,853	48,650,853	-	-
Total Financial Instruments - Assets	<u>\$ 48,969,280</u>	<u>\$ 48,969,280</u>	<u>\$ 0</u>	<u>\$ 0</u>

### 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**  
**Period Ended December 31, 2017**

<b>Purchases</b>	
<b>Investment Class</b>	<b>Cost</b>
Common Stocks	\$ 61,880,756

<b>Sales</b>			
<b>Investment Class</b>	<b>Proceeds</b>	<b>Cost</b>	<b>Gain</b>
Common Stocks	\$ 16,949,665	\$ 15,999,638	\$ 950,027

*\*For the period January 13, 2017 (inception date) to December 31, 2017*