

**Hand Composite Employee Benefit Trust
ClearBridge Small Cap 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 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, 2018, and the related statements of operations, changes in net assets for the year then 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 Small Cap CIF, as of December 31, 2018, and the results of its operations and the changes in its net assets for the year then 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

	ClearBridge Small Cap CIF
Assets	
Investments, at cost	\$ 57,166,352
Investments, at fair value	\$ 51,024,373
Receivable for:	
Capital shares sold	11,693
Dividends and interest	72,310
Investment advisor waived fees	4,991
Total assets	\$ 51,113,367
Liabilities	
Payable for capital shares redeemed	\$ 63,852
Management fee payable	4,116
Accounts payable and accrued liabilities	17,259
Total liabilities	\$ 85,227
Net assets held for participants:	
Class R1	\$ 9,022,496
Class R-INT	4,197,715
Class R-LM	37,807,929
Total net assets held for participants	\$ 51,028,140
Units outstanding:	
Class R1	895,703
Class R-INT	415,023
Class R-LM	3,735,733
Total units outstanding	5,046,459
Net asset value per unit:	
Class R1	\$ 10.07
Class R-INT	\$ 10.11
Class R-LM	\$ 10.12

Hand Composite Employee Benefit Trust
Schedule of Investments
ClearBridge Small Cap CIF
December 31, 2018

Number of Shares		Cost	Fair Value
<u>Short Term Investment</u>			
1,307,967	State Street Institutional Investment Trust Treasury Money Market Fund, Premier Class 2.25%	\$ 1,307,967	\$ 1,307,967
Total Short Term Investment		2.56%	1,307,967
<u>Common Stocks</u>			
<u>Consumer Discretionary</u>			
30,494	Aaron's, Inc.	1,135,361	1,282,273
25,727	Chuy's Holdings, Inc.	691,306	456,397
6,360	Cooper-Standard Holdings, Inc.	559,457	395,083
90,853	Gray Television, Inc.	1,145,114	1,339,173
42,056	Hudson Ltd. Class A	656,583	721,261
7,180	Lithia Motors, Inc. Class A	563,292	548,049
7,533	Monro, Inc.	421,902	517,894
13,234	Murphy USA, Inc.	882,708	1,014,254
19,662	Service Corp. International	640,438	791,592
Total Consumer Discretionary		13.85%	6,696,161
<u>Consumer Staples</u>			
12,281	Inter Parfums, Inc.	492,029	805,265
5,780	Sanderson Farms, Inc.	577,140	573,896
41,140	Sprouts Farmers Market, Inc.	847,134	967,202
Total Consumer Staples		4.60%	1,916,303
<u>Energy</u>			
89,344	Extraction Oil & Gas, Inc.	1,137,908	383,286
43,280	Liberty Oilfield Services, Inc. Class A	831,185	560,476
117,729	Smart Sand, Inc.	1,027,052	261,358
33,060	US Silica Holdings, Inc.	595,185	336,551
Total Energy		3.02%	3,591,330
<u>Financials</u>			
17,137	Assured Guaranty Ltd.	669,144	656,004
21,770	Bank OZK	566,517	497,009
72,299	Cadence Bancorp	1,768,581	1,213,177
20,040	Encore Capital Group, Inc.	826,165	470,940
16,860	Essent Group Ltd.	628,962	576,275
30,611	First Interstate BancSystem, Inc. Class A	1,245,260	1,119,138
8,722	Kinsale Capital Group, Inc.	342,220	484,594
27,031	LegacyTexas Financial Group, Inc.	1,112,803	867,425
13,550	Main Street Capital Corp.	515,548	458,125
9,443	NMI Holdings, Inc. Class A	133,384	168,558
35,842	OneMain Holdings, Inc.	942,202	870,602
6,280	Origin Bancorp, Inc.	225,725	214,022
78,837	PennantPark Investment Corp.	580,100	502,192
17,446	ProAssurance Corp.	865,326	707,610
34,463	Radian Group, Inc.	604,976	563,815
30,516	TriState Capital Holdings, Inc.	759,114	593,841
26,581	Washington Federal, Inc.	888,479	709,979
Total Financials		20.92%	12,674,506

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

Number of Shares		Cost	Fair Value
<u>Common Stocks (Continued)</u>			
Health Care			
55,480	Akebia Therapeutics, Inc.	\$ 486,434	\$ 306,804
130,553	Amarin Corp. PLC ADR	737,752	1,776,826
50,910	Dynavax Technologies Corp.	828,386	465,827
14,948	Encompass Health Corp.	728,750	922,292
16,780	HealthEquity, Inc.	856,586	1,000,927
57,104	Lexicon Pharmaceuticals, Inc.	726,087	379,171
109,153	Quotient Ltd.	632,391	668,016
15,297	Syneos Health, Inc.	683,475	601,937
	Total Health Care	12.00% 5,679,861	6,121,800
Industrials			
20,976	Continental Building Products, Inc.	529,410	533,839
8,000	Dycom Industries, Inc.	737,515	432,320
10,130	EnPro Industries, Inc.	766,053	608,813
44,521	Foundation Building Materials, Inc.	634,801	369,969
8,128	GATX Corp.	511,258	575,544
8,332	ICF International, Inc.	461,723	539,747
5,985	Landstar System, Inc.	564,508	572,585
30,198	Marten Transport Ltd.	522,066	488,906
40,910	MRC Global, Inc.	710,078	500,329
20,208	Rush Enterprises, Inc. Class A	801,140	696,772
16,070	SkyWest, Inc.	792,849	714,633
42,116	Textainer Group Holdings Ltd.	692,942	419,475
23,974	Triton International Ltd.	643,629	744,872
	Total Industrials	14.11% 8,367,972	7,197,804
Information Technology			
12,229	2U, Inc.	612,505	608,026
18,310	Advanced Energy Industries, Inc.	1,037,258	786,048
15,060	Blackline, Inc.	552,980	616,707
18,111	EVERTEC, Inc.	324,435	519,786
17,490	Itron, Inc.	1,020,907	827,102
20,195	Methode Electronics, Inc.	790,140	470,342
31,390	nLight, Inc.	714,453	558,114
10,221	Q2 Holdings, Inc.	371,508	506,451
24,400	Rapid7, Inc.	571,407	760,304
7,173	RingCentral, Inc. Class A	276,209	591,342
8,766	Semtech Corp.	315,295	402,096
53,020	Tower Semiconductor Ltd.	1,314,397	781,515
16,121	WNS Holdings Ltd. ADR	562,712	665,152
	Total Information Technology	15.86% 8,464,206	8,092,985
Materials			
25,310	Silgan Holdings, Inc.	683,175	597,822
11,820	US Concrete, Inc.	629,283	417,010
121,580	Venator Materials PLC	1,650,303	509,420
	Total Materials	2.99% 2,962,761	1,524,252

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

Number of Shares		Cost	Fair Value
<u>Common Stocks (Continued)</u>			
<i>Real Estate</i>			
96,912	Lexington Realty Trust REIT	\$ 916,815	\$ 795,647
19,440	Outfront Media, Inc. REIT	351,437	352,253
22,090	STORE Capital Corp. REIT	518,872	625,368
79,123	Summit Hotel Properties, Inc. REIT	1,130,815	769,867
	Total Real Estate	4.98% 2,917,939	2,543,135
<i>Telecommunication Services</i>			
76,670	ORBCOMM, Inc.	780,084	633,294
	Total Telecommunication Services	1.24% 780,084	633,294
<i>Utilities</i>			
19,600	Black Hills Corp.	1,131,399	1,230,488
18,139	PNM Resources, Inc.	675,863	745,332
	Total Utilities	3.87% 1,807,262	1,975,820
	Total Common Stocks	97.44% 55,858,385	49,716,406
	Total Investments	100.00% \$ 57,166,352	\$ 51,024,373

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

	ClearBridge Small Cap CIF
Income	
Interest	\$ 34,793
Dividends	618,429
	653,222
Expenses	
Trustee and administrative	94,064
Class R1 expenses	56,392
	150,456
Total expenses before reimbursement	150,456
Reimbursement of fees	(6,491)
	143,965
Net expense	143,965
Net Investment Income	509,257
Net Realized Gains on Investments	3,523,222
Change in Net Unrealized Appreciation (Depreciation)	
Investments	(8,911,714)
	(8,911,714)
Net realized and unrealized losses on investments	(5,388,492)
	(5,388,492)
Net Decrease in Net Assets Resulting From Operations	\$ (4,879,235)

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

	<u>ClearBridge Small Cap CIF</u>
Operations	
Net investment income	\$ 509,257
Net realized gains	3,523,222
Change in net unrealized appreciation (depreciation)	<u>(8,911,714)</u>
Net decrease in net assets from operations	(4,879,235)
Net Increase in Net Assets From Participant Unit Transactions	<u>6,855,096</u>
Increase in Net Assets	1,975,861
Net Assets	
Beginning of year	<u>49,052,279</u>
End of year	<u>\$ 51,028,140</u>

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 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.

Class R1 had an inception date of January 2, 2018. Class R-INT was liquidated on January 25, 2018, and then re-incepted on June 18, 2018, upon shareholder investment.

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, 2018

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, 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.

During the year 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 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:

Fund	Trustee/ Administrative Fees	Investment Management Fees	Other Fees	Total Fees
ClearBridge Small Cap CIF:				
Class R1	0.04%	0.55%	0.12%	0.71%
Class R-INT	0.04%	0.00%	0.12%	0.16%
Class R-LM	0.04%	0.00%	0.12%	0.16%

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Notes to Financial Statements

December 31, 2018

Note 3: Financial Highlights

	ClearBridge Small Cap CIF		
	Class R1 ⁽¹⁾	Class R-INT ⁽²⁾	Class R-LM
Net asset value, beginning of period	\$ 11.17	\$ 11.84	\$ 11.08
Net investment income	0.06	0.07	0.11
Net realized and unrealized losses	(1.16)	(1.80)	(1.07)
Net decrease from investment operations	(1.10)	(1.73)	(0.96)
Net asset value, end of period	\$ 10.07	\$ 10.11	\$ 10.12
Total return	(9.85)%	(14.61)%	(8.66)%
Ratio to average net assets:			
Net investment income	0.49% ⁽³⁾	1.05% ⁽³⁾	0.97%
Expenses without reimbursement	0.71% ⁽³⁾	0.18% ⁽³⁾	0.16%
Expenses with reimbursement	0.65% ⁽³⁾	0.18% ⁽³⁾	0.16%

⁽¹⁾ For the period January 2, 2018 (inception date) to December 31, 2018.

⁽²⁾ For the period June 18, 2018 (re-inception date) to December 31, 2018. Class R-INT shares had previously liquidated on January 25, 2018, and resumed operations on June 18, 2018, upon shareholder investment.

⁽³⁾ Annualized

Note 4: Participant Unit Transactions

	ClearBridge Small Cap CIF	
	Units	Dollars
Class R1⁽¹⁾:		
Proceeds from sales of units	895,703	\$ 10,005,000
Net increase in Class R1 from participant transactions	895,703	10,005,000
Class R-INT⁽²⁾:		
Proceeds from sales of units	462,023	5,391,954
Cost of units redeemed	(357,698)	(4,159,938)
Net increase in Class R-INT from participant transactions	104,325	1,232,016
Class R-LM:		
Proceeds from sales of units	220,013	2,521,900
Cost of units redeemed	(601,216)	(6,903,820)
Net increase in Class R-LM from participant transactions	(381,203)	(4,381,920)
Net increase in net assets from participant unit transactions		\$ 6,855,096

⁽¹⁾ For the period January 2, 2018 (inception date) to December 31, 2018.

⁽²⁾ For the period June 18, 2018 (re-inception date) to December 31, 2018. Class R-INT shares had previously liquidated on January 25, 2018, and resumed operations on June 18, 2018, upon shareholder investment.

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Notes to Financial Statements

December 31, 2018

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 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 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, 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)
ClearBridge Small Cap CIF				
Financial Instruments - Assets:				
Short Term Investment	\$ 1,307,967	\$ 1,307,967	\$ -	\$ -
Common Stocks	<u>49,716,406</u>	<u>49,716,406</u>	-	-
 Total Financial Instruments - Assets	 <u>\$ 51,024,373</u>	 <u>\$ 51,024,373</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
Year Ended December 31, 2018

Purchases	
Investment Class	Cost
Common Stocks	\$ 37,503,148
Total Investments Purchased	\$ 37,503,148

Sales			
Investment Class	Proceeds	Cost	Gain
Common Stocks	\$ 31,008,320	\$ 27,485,098	\$ 3,523,222
Total Investments Sold	\$ 31,008,320	\$ 27,485,098	\$ 3,523,222