

**Hand Composite Employee Benefit Trust**  
**ClearBridge Value Equity 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 Value Equity 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 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 Value Equity 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**

	<b>ClearBridge Value Equity CIF</b>
<b>Assets</b>	
Investments, at cost	\$ 14,022,127
Investments, at fair value	\$ 13,394,644
Cash	242
Receivable for:	
Capital shares sold	3,384
Dividends and interest	9,267
Investment advisor waived fees	2,695
Total assets	\$ 13,410,232
<b>Liabilities</b>	
Payable for investment securities purchased	\$ 4,162
Management fee payable	336
Accounts payable and accrued liabilities	24,239
Total liabilities	\$ 28,737
Net assets held for participants:	
Class R-INT	\$ 2,433,808
Class R-LM	10,947,687
Total net assets held for participants	\$ 13,381,495
Units outstanding:	
Class R-INT	128,201
Class R-LM	576,504
Total units outstanding	704,705
Net asset value per unit:	
Class R-INT	\$ 18.98
Class R-LM	\$ 18.99

**Hand Composite Employee Benefit Trust**  
**Schedule of Investments**  
**ClearBridge Value Equity CIF**  
**December 31, 2018**

Number of Shares		Cost	Fair Value
<b><u>Short Term Investment</u></b>			
1,424,075	State Street Institutional Investment Trust Treasury Money Market Fund, 2.25%	\$ 1,424,075	\$ 1,424,075
	<b>Total Short Term Investment</b>	<b>10.63%</b>	<b>1,424,075</b>
<b><u>Common Stocks</u></b>			
<b><u>Consumer Discretionary</u></b>			
399	AutoZone, Inc.	250,926	334,498
4,653	General Motors Co.	170,777	155,643
3,270	Lennar Corp. Class A	137,199	128,020
6,866	Melco Resorts & Entertainment Ltd. ADR	163,120	120,979
690	Volkswagen AG (Preference Shares)	117,456	109,825
	Total Consumer Discretionary	<b>6.34%</b>	<b>839,478</b>
<b><u>Consumer Staples</u></b>			
2,950	Anheuser-Busch InBev S.A. ADR	217,633	194,139
7,065	Mondelez International, Inc. Class A	289,349	282,812
	Total Consumer Staples	<b>3.56%</b>	<b>506,982</b>
<b><u>Energy</u></b>			
7,763	Devon Energy Corp.	279,878	174,978
21,550	Encana Corp.	182,971	124,559
3,950	Halliburton Co.	137,546	104,991
30,924	Kinder Morgan, Inc.	550,548	475,611
1,480	Pioneer Natural Resources Co.	246,428	194,650
	Total Energy	<b>8.03%</b>	<b>1,397,371</b>
<b><u>Financials</u></b>			
10,802	American International Group, Inc.	580,413	425,707
3,652	Brighthouse Financial, Inc.	200,061	111,313
5,016	Citigroup, Inc.	244,239	261,133
3,968	Intercontinental Exchange, Inc.	236,262	298,909
5,807	MetLife, Inc.	238,811	238,435
13,507	Synchrony Financial	370,584	316,874
4,382	Voya Financial, Inc.	173,847	175,894
9,884	Wells Fargo & Co.	434,073	455,455
	Total Financials	<b>17.05%</b>	<b>2,478,290</b>
<b><u>Health Care</u></b>			
4,597	Alexion Pharmaceuticals, Inc.	558,514	447,564
3,545	Allergan PLC	704,133	473,825
307	Biogen, Inc.	114,547	92,382
2,554	Bristol-Myers Squibb Co.	139,362	132,757
3,245	Celgene Corp.	321,757	207,972
3,652	Merck & Co., Inc.	219,049	279,049
11,492	Mylan N.V.	418,706	314,881
2,491	Universal Health Services, Inc. Class B	277,843	290,351
	Total Health Care	<b>16.71%</b>	<b>2,753,911</b>

**Hand Composite Employee Benefit Trust**  
**Schedule of Investments (Continued)**  
**ClearBridge Value Equity CIF (Continued)**  
**December 31, 2018**

Number of Shares		Cost	Fair Value
<b><u>Common Stocks (Continued)</u></b>			
<b><i>Industrials</i></b>			
3,834	ABB Ltd. ADR	\$ 81,183	\$ 72,884
4,080	AECOM	148,768	108,120
2,143	CH Robinson Worldwide, Inc.	146,074	180,205
4,987	Delta Air Lines, Inc.	247,310	248,851
4,386	Fluor Corp.	165,361	141,229
2,472	Owens Corning	151,475	108,719
	Total Industrials	6.42% <u>940,171</u>	<u>860,008</u>
<b><i>Information Technology</i></b>			
788	Alphabet, Inc. Class C	647,736	816,061
5,530	Cisco Systems, Inc.	150,611	239,615
940	Facebook, Inc. Class A	134,381	123,225
1,764	International Business Machines Corp.	285,492	200,514
5,288	Microsoft Corp.	232,690	537,102
2,879	NetApp, Inc.	227,325	171,790
12,397	Oracle Corp.	520,972	559,724
3,440	QUALCOMM, Inc.	194,704	195,770
	Total Information Technology	21.23% <u>2,393,911</u>	<u>2,843,801</u>
<b><i>Materials</i></b>			
4,184	Royal Gold, Inc.	302,076	358,360
	Total Materials	2.68% <u>302,076</u>	<u>358,360</u>
<b><i>Real Estate</i></b>			
8,934	American Homes 4 Rent Class A, REIT	165,537	177,340
9,841	Realogy Holdings Corp.	293,747	144,466
	Total Real Estate	2.40% <u>459,284</u>	<u>321,806</u>
<b><i>Utilities</i></b>			
21,743	AES Corp.	271,052	314,404
7,738	Exelon Corp.	255,526	348,984
	Total Utilities	4.95% <u>526,578</u>	<u>663,388</u>
	<b>Total Common Stocks</b>	<b>89.37% <u>12,598,052</u></b>	<b><u>11,970,569</u></b>
	<b>Total Investments</b>	<b>100.00% <u>\$ 14,022,127</u></b>	<b><u>\$ 13,394,644</u></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 Value Equity CIF</b>
<b>Income</b>	
Interest	\$ 38,715
Dividends (net of foreign withholding taxes of \$13,614)	712,881
Total income	751,596
<b>Expenses</b>	
Trustee and administrative	87,675
Total expenses	87,675
<b>Net Investment Income</b>	663,921
<b>Net Realized Gains (Losses) on Investments and Foreign Currency</b>	
Net realized gains on investments	6,281,017
Net realized losses on foreign currency transactions	(21,743)
Net realized gains	6,259,274
<b>Change in Net Unrealized Appreciation (Depreciation)</b>	
Investments	(7,889,780)
Net realized and unrealized losses on investments and foreign currency	(1,630,506)
<b>Net Decrease in Net Assets Resulting From Operations</b>	\$ (966,585)



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

	<b>ClearBridge Value Equity CIF</b>
<b>Operations</b>	
Net investment income	\$ 663,921
Net realized gains	6,259,274
Change in net unrealized appreciation (depreciation)	(7,889,780)
Net decrease in net assets from operations	(966,585)
<b>Net Decrease in Net Assets From Participant Unit Transactions</b>	(47,226,190)
<b>Decrease in Net Assets</b>	(48,192,775)
<b>Net Assets</b>	
Beginning of year	61,574,270
End of year	\$ 13,381,495

# 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 Value Equity 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.

On January 25, 2018, the R-INT class was liquidated. On July 2, 2018, the R-INT class was re-incepted upon shareholder investment.

The Fund was closed on April 15, 2019.

#### *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.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

### December 31, 2018

#### ***Foreign Currency***

Investment securities and other assets and liabilities denominated in, or expected to settle in, foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Fund isolates that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held.

Reported net realized foreign exchange gains or losses arise from sales of portfolio securities, sales and maturities of short term securities, sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, including investments in securities at December 31, 2018, resulting from changes in the exchange rates.

#### ***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 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.

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

**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 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 Value Equity CIF:				
Class R-INT	0.04%	0.00%	0.18%	0.22%
Class R-LM	0.04%	0.00%	0.18%	0.22%

**Note 3: Financial Highlights**

	ClearBridge Value Equity CIF	
	Class R-INT <sup>(1)</sup>	Class R-LM
Net asset value, beginning of period	\$ 20.70	\$ 20.97
Net investment income	0.16	0.31
Net realized and unrealized gains	(1.88)	(2.29)
Net increase from investment operations	(1.72)	(1.98)
Net asset value, end of period	\$ 18.98	\$ 18.99
Total return	(8.31)%	(9.44)%
Ratio to average net assets:		
Net investment income	1.31% <sup>(2)</sup>	1.47%
Expenses	0.37% <sup>(2)</sup>	0.19%

<sup>1</sup>For the period July 2, 2018 (re-inception date) to December 31, 2018. Class R-INT shares had previously liquidated on January 25, 2018, and resumed operations on July 2, 2018, upon shareholder investment.

<sup>2</sup>Annualized

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

**Note 4: Participant Unit Transactions**

	<b>ClearBridge Value Equity CIF</b>	
	<b>Units</b>	<b>Dollars</b>
<b>Class R-INT<sup>(1)</sup>:</b>		
Proceeds from sales of units	144,481	\$ 3,058,927
Cost of units redeemed	<u>(375,246)</u>	<u>(8,326,245)</u>
Net change in Class R-INT from participant transactions	<u>(230,765)</u>	<u>(5,267,318)</u>
<b>Class R-LM:</b>		
Proceeds from sales of units	92,796	1,915,799
Cost of units redeemed	<u>(2,090,420)</u>	<u>(43,874,671)</u>
Net change in Class R-LM from participant transactions	<u>(1,997,624)</u>	<u>(41,958,872)</u>
Net decrease in net assets from participant transactions		<u>\$ (47,226,190)</u>

<sup>1</sup>For the period July 2, 2018 (re-inception date) to December 31, 2018. Class R-INT shares had previously liquidated on January 25, 2018, and resumed operations on July 2, 2018, upon shareholder investment.

**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.
- 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 year ended December 31, 2018.

# Hand Composite Employee Benefit Trust

## Notes to Financial Statements

### 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 and liabilities recognized in the accompanying statement of assets 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:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>ClearBridge Value Equity CIF</b>				
Financial Instruments - Assets:				
Short Term Investment	\$ 1,424,075	\$ 1,424,075	\$ -	\$ -
Common Stocks	11,970,569	11,970,569	-	-
Total Financial Instruments - Assets	<u>\$ 13,394,644</u>	<u>\$ 13,394,644</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**

<b>Purchases</b>	
<b>Investment Class</b>	<b>Cost</b>
Common Stocks	\$ 15,515,513
Total Investments Purchased	\$ 15,515,513

<b>Sales</b>			
<b>Investment Class</b>	<b>Proceeds</b>	<b>Cost</b>	<b>Gain</b>
Common Stocks	\$ 60,689,876	\$ 54,408,859	\$ 6,281,017
Total Investments Sold	\$ 60,689,876	\$ 54,408,859	\$ 6,281,017