TYGH CAPITAL MANAGEMENT

# TCM SMALL CAP GROWTH

March 31, 2017

## First Quarter Performance Review

***Performance.*** The performance of our small cap growth composite, gross of fees, for the quarter ended March 31, 2017 was 7.71%. For longer term performance, please see "Performance."

***Attribution.*** The first quarter saw many reversals from what worked in the fourth quarter of 2016 – larger cap stocks beat smaller caps, growth bested value, the run in industrials following the election faded, and the healthcare sector recovered largely on the back of biopharma stocks. The top performing sectors in the Russell 2000 Growth Index for the quarter were healthcare, materials and technology, with the laggard being the energy sector by a wide margin. Even though the portfolio is underweight biopharma stocks, our stock selection in other healthcare industries, such as healthcare providers and professional services, was positive and offset that headwind. The portfolio's outperformance for the period was due to strong stock selection in technology, healthcare, industrials and energy, offset by the negative effects of our sector allocation (primarily an overweight to energy and underweight to healthcare).

The top contributor for the quarter was VCA, a diversified animal healthcare company. In early January, Mars announced that it was acquiring VCA at a 30% premium to its current valuation, adding VCA to its existing animal hospital chain and pet food division. Another strong contributor once again was Tower Semiconductor, which operates as an independent semiconductor foundry producing integrated circuits (ICs) for a diverse customer base in the consumer electronics, personal computers, communications, automotive, industrial and medical device areas. The company again continues to post positive earnings and guidance reports, attracting more interest from investors and driving valuation expansion. Lastly, Lumentum Holdings, a relatively new holding in the portfolio, was one of our top performers for the quarter. Lumentum manufactures optical and laser components for telecommunication networks and data communication centers. In addition, it is expected that higher end smartphones will use the company's laser components for new 3D sensing and imaging technologies. While the stock's strong runup in price over the first quarter has resulted in some volatility over recent weeks, we continue to maintain our position.

The largest detractor to performance for the first quarter was Cardtronics, the world's largest non-bank provider of ATM machines. Although the company's earnings release in early February met earnings expectations, the company lowered guidance for 2017 based on some of these issues. We have exited the position until we get greater clarity on replacing a significant customer (7 Eleven) and the treatment of interchange fees in Europe. Another detractor for the period was Superior Energy Services, which provides a wide range of drilling and production services to the oil and gas industry. We established this position at the beginning of the year based on company fundamentals and a recovering market for oil prices. During the quarter, the price of oil declined over 10% on a sudden bout of profit taking, as global inventories remained stubbornly high despite OPEC production cuts, the U.S. rig count and production increased faster than expected, and Saudi officials threw doubt on whether OPEC would renew for another six months the cuts that will otherwise expire at the end of June. While still overweight the sector, we have reduced our enthusiasm for the near term.

## Tygh Capital Management

- Independent, employee-owned firm
- All investment professionals have equity
- All employees invested in the firm's mutual funds

## Investment Philosophy and Process

- Investment Objective — outperform the Russell 2000 Growth Index by investing in companies with market capitalizations generally between $100 million and $2 billion at the time of purchase
- Intensive bottom-up fundamental research drives stock selection
- A focus on identifying stocks with superior revenue and earnings growth for at least the next 2 years, sustainable valuations, and a 20% upside to price target over a 12 month time horizon
- A diversified portfolio of 90-110 stocks, with maximum position size of 4%
- An effective sell discipline that forces review by the investment team of under-performing stocks

## Investment Team

**Richard J. Johnson, CFA**
BA, Geology, Occidental College, 1980
MBA, Anderson Graduate School of UCLA, 1990
27 years of investment experience

**Mitchell S. Brivic, CFA**
BA, Finance and Marketing, Baylor University, 1989
MBA, The Wharton School, 1995
22 years of investment experience

**Michael C. Coyne, CFA**
BA, Engineering Science, Dartmouth College, 1997
MBA, Anderson Graduate School of UCLA, 2005
19 years of investment experience

**Dayton E. Rodegerdts, CFA**
BS, Engineering and Mathemathics (minor),
Trinity University, 1998
19 years of investment experience

**Scott W. Haugan, CFA**
BS, Business, Montana State University, 1999
17 years of investment experience

**Thomas R. Abernethy**
BA, Denison University, 1989
27 years of investment experience

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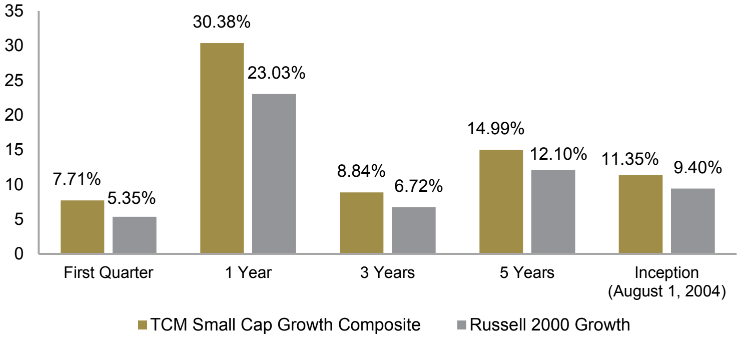
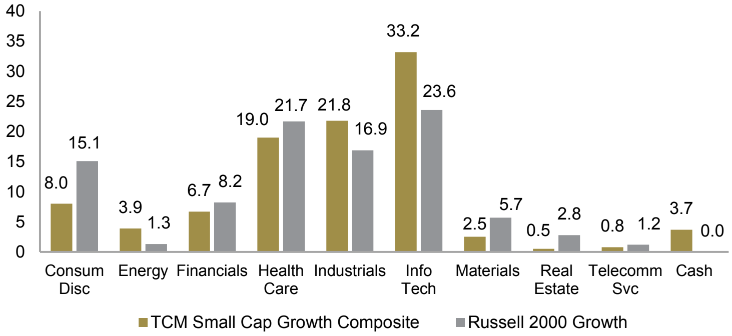
March 31, 2017

## Performance (as of March 31, 2017)




*Composite performance is gross of fees. See Performance Disclosure below. Periods over one year are annualized.*

## Sector Allocation (%)




*Sector allocations for the TCM Small Cap Growth Composite reflect a representative portfolio and are subject to change at any time.*

## Portfolio Characteristics

| | TCM Small Cap Growth | Russell 2000 Growth |
|---|---|---|
| Number of Holdings | 94 | 1,157 |
| Average Weighted Market Cap. | $3.4 B | $2.4 B |
| Forward P/E | 21.9x | 21.3x |
| Long-Term Future Growth Rate | 15.8% | 15.2% |
| Return on Equity | 12.0% | 15.0% |
| Price to Book | 3.1x | 3.8x |
| Forward P/E/LT Growth Rate | 1.4x | 1.4x |

## Top Holdings (% of net assets)

| | |
|---|---|
| Lumentum Holdings | 2.99% |
| Tower Semiconductor | 2.92% |
| Veeva Systems | 2.50% |
| Dycom Industries | 2.48% |
| Take-Two Interactive Software | 2.24% |
| MasTec | 1.93% |
| Kinsale Capital Group | 1.74% |
| Quanta Services | 1.64% |
| Evolent Health | 1.58% |
| PTC | 1.57% |

*Holdings are subject to change and are not recommendations to buy or sell any security.*

## TCM Small Cap Growth Composite - Performance Disclosure

| | | Composite Assets | | Annual Performance Results | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year End | Total Firm Assets (mil.) | USD (mil.) | Number of Accounts | Gross | Net | Russell 2000 Growth | Dispersion | Composite 3-Yr Standard Deviation | Benchmark 3-Yr Standard Deviation |
| 2016 | 414 | 413 | 7 | 16.96% | 15.90% | 11.32% | 0.24% | 15.21% | 16.67% |
| 2015 | 368 | 367 | 7 | -0.05% | -0.97% | -1.38% | 0.11% | 14.48% | 14.95% |
| 2014 | 531 | 412 | 7 | 7.38% | 6.43% | 5.60% | 0.18% | 13.58% | 13.82% |
| 2013 | 494 | 383 | 4 | 50.68% | 49.31% | 43.30% | 0.26% | 17.02% | 17.27% |
| 2012 | 822 | 340 | 6 | 13.57% | 12.57% | 14.59% | 0.09% | 20.43% | 20.72% |
| 2011 | 1,538 | 658 | 12 | -7.23% | -8.06% | -2.91% | 0.10% | 22.27% | 24.31% |
| 2010 | 2,863 | 1,369 | 41 | 22.81% | 21.72% | 29.09% | 0.40% | 26.01% | 27.69% |
| 2009 | 2,791 | 1,380 | 54 | 28.25% | 27.08% | 34.47% | 0.40% | 23.27% | 24.84% |
| 2008 | 2,011 | 1,076 | 51 | -42.53% | -43.05% | -38.54% | 0.32% | 21.76% | 21.26% |
| 2007 | 3,574 | 1,905 | 51 | 17.26% | 16.22% | 7.05% | 0.38% | 14.55% | 14.23% |
| 2006 | 2,671 | 1,399 | 36 | 19.52% | 18.43% | 13.35% | 0.16% | NA | NA |
| 2005 | 1,222 | 828 | 26 | 21.60% | 20.51% | 4.15% | 0.13% | NA | NA |

**Results shown for the year 2004 represent partial period performance from August 1, 2004 through December 31, 2004.*

***TCM Small Cap Growth Composite** contains all discretionary, fee paying, equity only accounts that invest primarily in small domestic companies that display above average growth characteristics. For comparison purposes the composite is measured against the Russell 2000 Growth Index, which is an unmanaged index generally considered representative of the market for small cap domestic stocks with higher price-to-book ratios and higher forecasted earnings growth. Index returns reflect the reinvestment of dividends but not the deduction of fees, brokerage commissions or other expenses of investing.*

*Tygh Capital Management, Inc. ("TCM") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. TCM has been independently verified for the periods August 1, 2004 through December 31, 2016.*

*Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The TCM Small Cap Growth Composite has been examined for the period August 1, 2004 through December 31, 2016. The verification and performance examination reports are available upon request. The composite was created on August 1, 2004.*

*TCM is an independent investment management firm established in 2004 and registered with the Securities and Exchange Commission. The firm maintains a complete list and description of composites, which is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are also available upon request.*

*Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated by deducting a model annual fee of 0.90% applied monthly, which represents the highest fee paid by any client in the composite during the period shown. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for calculating and reporting returns is available upon request. In 4Q 2010, 1Q 2011 and 2Q 2011, 28 related small cap accounts closed representing approximately $41.3 million in assets. The investment management fee schedule for TCM's small cap growth accounts is 0.90% on the first $25 million, 0.75% on the next $25 million, and 0.65% on assets over $50 million. Actual investment advisory fees incurred by clients may vary.*

*The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented for 2004 through 2006 because 36 monthly composite returns were not available.*

*The above information under Sector Allocation, Portfolio Characteristics and Top Holdings is supplemental information under GIPS. Investing in small cap stocks involves additional risks such as limited liquidity and greater volatility than large cap stocks. For institutional investors only.*