



Ativo Capital Management, LLC is an investment advisor focused on delivering both top-quartile performance and exceptional service to institutional clients. We follow a rules-based process that combines quantitative methodologies with a fundamental overlay to build long-only equity portfolios with high Active Share. Central to our approach is a proprietary multi-factor model that scores stocks based on our assessment of their intrinsic value and other internally developed factors, which have low correlation with one another over time.

Market Overview

The post-election rally in the broad US stock market continued into 2017, with the Russell 3000 Index rising 5.74% in the first quarter. The period was characterized by low volatility and widespread gains across styles, capitalization segments, and sectors. Despite posting its best quarterly performance in more than a year, the Russell 3000 Index trailed the MSCI EAFE + Canada Net and the MSCI Emerging Net, which climbed 6.81% and 11.45%, respectively, in US dollar terms.

Gains in US equities were concentrated in January and February, when investors anticipated the prospect of lower taxes, reduced regulation, and higher levels of infrastructure spending. Stocks paused in March as a lack of progress on health care reform raised concerns that President Trump's pro-growth agenda might not happen as quickly or easily as expected. On the economic front, data suggested that the third-longest expansion in US history remained on track, although soft indicators, such as consumer and business confidence, were stronger than hard measures of activity, such as retail sales and capital spending. Nonetheless, with the economy on solid footing and inflation picking up, the Fed raised rates 0.25% in March and signaled two more increases by year-end.

Growth stocks outperformed value stocks by a wide margin across capitalization ranges—a reversal of the fourth quarter, when value stocks significantly outperformed. Consistent with growth's leadership, Technology and Health Care were the best-performing sectors in the Russell 3000 Index. Energy was the worst performer and the only sector other than Telecommunication Services to post a loss, hurt by falling oil prices. The Financials sector advanced but was relatively weak after its dramatic, fourth-quarter surge. Several factors weighed on Financials, including concerns about the pace of regulatory reform and a slowdown in business-loan growth. In another leadership change, large-cap stocks outperformed small and micro caps after having trailed in the fourth quarter.

Performance Summary*

Ativo US Large Cap and Ativo US Micro Cap outperformed their respective benchmarks in the first quarter, net of fees. These results were consistent with the performance of our multi-factor model, which was skillful at forecasting stock returns. While a few component factors were flat to slightly negative, the heavily weighted Valuation factor worked well, driving the model's overall positive performance.

**Please refer to the last page of this report for important disclosure information.*

Performance and Positioning by Strategy

*Ativo US Large Cap**

	Q1 2017
Ativo US Large Cap Composite	
Gross	6.57%
Net	6.44%
Russell 1000	6.03%
Excess Return (net of fees)	0.41%

Ativo's Large Cap strategy outperformed the Russell 1000 Index by 0.41% in the first quarter, net of fees. Relative performance benefited from top contributors Synopsys, a maker of semiconductor design software, and Lam Research, a producer of semiconductor capital equipment. Both companies reported better-than-expected operating results, supported by the increasing use of semiconductors in cars, medical devices, and many other products. Outside of Technology, credit-ratings agency Moody's Corporation was the third top contributor, with robust issuance of debt securities adding to strong fourth-quarter revenue growth. The top three detractors from relative results were AutoZone, an auto parts retailer; Discover Financial Services, a credit card company; and Simon Property Group, a mall REIT. A delay in IRS tax refunds hurt sales at AutoZone, while Discover Financial Services gave back a portion of its dramatic post-election gain, despite reporting double-digit earnings growth. Announcements of store closings by major retail chains negatively affected Simon Property Group. This strategy is relatively concentrated, therefore discussing specific stocks is important.

We added six new names to the portfolio during the quarter to reduce some of the active sector exposures we had coming into the year within Financials and Energy. To fund the six additions, we eliminated stocks from various sectors that the portfolio was overweight. At quarter-end, the biggest overweights were in the Industrials, Technology, and Health Care sectors; the biggest underweights were in Consumer Staples, Energy, and Financials. Assets in the Large Cap strategy totaled \$32.3 million on March 31st, and active share was 84%.

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Ativo US Micro Cap*

	Q1 2017
Ativo US Micro Cap Composite	
Gross	0.97%
Net	0.77%
Russell Microcap	0.38%
Excess Return (net of fees)	0.39%

In the first quarter, Ativo's Micro Cap Strategy outperformed the Russell Microcap Index by 0.39%, net of fees, driven by positive stock selection in most sectors. Stock selection was strongest in Consumer Discretionary, led by holdings in the Household Durables and Specialty Retail industries. Selection in the Materials and Energy sectors made the next-largest contributions to relative return. These favorable effects were dampened by negative stock selection in the Health Care, Financials, and Real Estate sectors. Selection in Health Care was the primary detractor, mainly due to positioning in the Biotechnology and Pharmaceuticals industries. Overall, sector allocations had a modestly positive impact on relative results, led by an overweight in Technology and an underweight in Energy.

There were no major changes to portfolio positioning during the quarter. On March 31st, the biggest overweights remained in the Industrials and Technology sectors; the biggest underweights remained in Health Care and Energy. Assets in the Micro Cap strategy totaled \$121.7million at quarter-end, and active share was 90%.

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Disclosures:

Performance results will vary based upon the period measured, and past performance is not indicative of future results. Results are based upon currently available information and subject to change. The US Dollar is the currency used to express performance. Returns are presented gross and net

of fees and include the reinvestment of all income and other earnings. From January 1, 2014 to April 27, 2015, and March 1, 2016 to present, all calculated returns included dividend accruals. Net of fee performance was calculated using the highest applicable annual management fee applied monthly. Gross returns are shown net of transaction costs and gross of all other fees; net returns are reduced by all management fees and transaction costs incurred. Composite performance is presented net of foreign withholding taxes, where applicable. This commentary candidly discusses a number of individual companies. These opinions are current as of the date of this commentary but are subject to change. The information provided in this commentary does not provide information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security.

Information about indices is provided to allow for comparison of the performance of the Adviser to that of certain well-known and widely recognized indices. There is no representation that such index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of indices may be materially different from the performance of the Adviser. In addition, the Adviser's recommendations may differ significantly from the securities that comprise the indices.

The Ativo Large Cap Composite is measured against the Russell 1000 index. The Russell 1000 index is defined as an unmanaged total return index of the largest 1,000 companies in the Russell 3000 Index, as ranked by total market capitalization, and represents approximately 90% of the total market capitalization of the Russell 3000 index.

The Ativo Micro Cap Composite is measured against the Russell Microcap index. The Russell Microcap Index measures the performance of the microcap segment of the U.S. equity market. It makes up less than 3% of the U.S. equity market. It includes 1,000 of the smallest securities in the Russell 2000 Index based on a combination of their market cap and current index membership plus 1,000 smaller U.S. Stocks.

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