



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 Russell 3000 Index returned 3.02% in the second quarter, adding to gains from earlier in the year. The rally was fueled by robust corporate earnings, steady US economic growth, and low volatility in the financial markets. US equities performed broadly in line with international stock markets in local currencies; however, weakness in the US dollar (USD) caused them to lag in USD terms. The MSCI ACWI ex US (Net) rose 3.29% in local currencies and 5.78% in USD terms.

During the quarter, large US companies reported their best year-over-year quarterly earnings growth in over five years, and earnings for smaller firms were also generally strong. Economic news was mixed but, overall, suggested that US growth remained near the 2% trend that has defined the current expansion—a growth rate viewed as solid but not strong enough to prompt the Federal Reserve to quicken its pace of monetary tightening. The Fed raised interest rates 0.25% in June, as was widely expected, and maintained its projections for one more rate hike this year and three next year. The central bank also announced plans to begin shrinking the size of its balance sheet. Optimism that near-term fiscal stimulus would compensate for reduced monetary stimulus faded amid political discord and uncertainty in Washington DC.

Growth stocks continued to outperform value stocks across capitalization ranges, despite value having led in late June when there was a pullback in Technology and a rotation into Financials. Health Care was the best-performing sector in the Russell 3000 Index, followed by Technology, Industrials, and Financials. In a repeat of the first quarter, Energy and Telecommunication Services were the weakest sectors and the only negative performers. Returns by capitalization segment did not vary significantly, with micro-cap stocks modestly outperforming large-cap stocks, and large caps narrowly leading mid- and small-cap names.

## Performance Summary\*

Ativo US Large Cap and Ativo US Micro Cap outperformed their respective benchmarks in the second quarter, net of fees. These positive results were consistent with the strong predictive ability of our multi-factor model. The model was effective at forecasting individual US stock returns, with all of the component factors adding value.

Given the challenging performance year we had in 2016, we are very pleased that the model worked so well in the second quarter, as it also did in the first quarter of 2017. We believe the model's strong, year-to-date skill is confirmation that 2016 results were an anomaly. Once again, the model and factors are working as intended.

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

## Performance and Positioning by Strategy

### Ativo US Large Cap\*

	Q2 2017	YTD
<b>Ativo US Large Cap Composite</b>		
Gross	4.22%	11.27%
Net	4.09%	11.00%
Russell 1000	3.06%	9.27%
Excess Return (net of fees)	1.03%	1.73%

In the second quarter, Ativo's Large Cap strategy outperformed the Russell 1000 Index by 1.03%, net of fees, on the strength of sector exposures and stock selection. With respect to sector exposures, relative results benefited from overweights in Health Care and Industrials and an underweight in Energy. At the individual stock level, a position in Bard was our top contributor, as this medical supply manufacturer announced it was being acquired. FedEx was our next top contributor, driven by better-than-expected operating results. In contrast, Simon Property Group and Spectrum Brands were two of the biggest detractors. Simon Property Group, a shopping mall REIT, was hurt by retail store closures. Spectrum Brands, a consumer products company, missed earnings estimates, in part because cold weather delayed customer orders of seasonal home and garden items. We sold Simon Property Group near the end of the quarter. With 39 stocks in the representative portfolio, this strategy is relatively concentrated. Therefore, discussing specific stocks is important.

We eliminated four stocks during the quarter and initiated positions in five names, with the goal of reducing volatility while preserving expected alpha. In aggregate, these trades did not have a material impact on portfolio positioning. On June 30th, the primary sector overweights continued to be in Industrials, Health

Care, and Technology; the primary underweights remained in Real Estate, Financials, Consumer Staples, and Energy. Assets in the Large Cap strategy totaled \$32.7 million at quarter-end, and Active Share was 82%.

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### Ativo US Micro Cap\*

	Q2 2017	YTD
<b>Ativo US Micro Cap Composite</b>		
Gross	4.85%	5.87%
Net	4.65%	5.46%
Russell Microcap	3.83%	4.23%
Excess Return (net of fees)	0.81%	1.23%

Ativo's Micro Cap Strategy outperformed the Russell Microcap Index by 0.81%, net of fees, during the second quarter. The outperformance was driven by stock selection, which was strongest in the Health Care sector. Within Health Care, the portfolio's tilt toward service providers and away from biotechnology companies was beneficial, as service-oriented stocks generally posted strong gains, while biotechnology stocks declined overall. Stock selection in the Industrials, Materials, and Consumer Discretionary sectors also produced a significant amount of excess return, helping to counter unfavorable stock selection in Financials and Consumer Discretionary. In aggregate, the impact of sector allocations was minimal, as the positive effect of an underweight in Energy was largely offset by the negative effect of an underweight in Telecommunication Services.

During the quarter, portfolio trading was focused solely on increasing exposure to stocks that are highly ranked by our model while, at the same time, minimizing risk—there were no big strategic changes with regard to sectors or industries. The largest overweights at quarter-end remained in the Industrials, Technology, and Financials sectors; the largest underweights remained in Health Care and Energy. Assets in the Micro Cap strategy totaled \$127.7 million on June 30th, 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. Please contact Michael Brooks (312-229-5208) or Kelly O'Malley (312-229-5204), if you would like more information about Ativo's proprietary quantitative model and/or its performance.

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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