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 US stock market posted a steep decline in what was a volatile fourth quarter for global equities. The MSCI USA IMI Net fell 14.45%, while the MSCI EAFE + Canada Net and the MSCI Emerging Net lost 12.80% and 7.47%, respectively, in US dollar terms (USD). Losses in the US erased strong gains from earlier in the year, and the MSCI USA IMI Net finished 2018 down 5.72%. Annual returns for international stocks were substantially lower, with the MSCI EAFE + Canada Net and MSCI Emerging Net declining 14.10% and 14.58%, respectively, in USD.

The fourth-quarter selloff began in early October, driven by hawkish comments from the Federal Reserve, worries the US economy might be overheating, and rising Treasury yields. However, as the period progressed, data suggested that the US economy was losing some of its positive momentum following above-trend growth in the second and third quarters. In addition, earnings estimates pointed to more moderate profit growth ahead. Despite the softening macro backdrop, the Fed continued reducing its balance sheet and raised rates another 0.25% in December. The US-China trade conflict, slowing growth in China and Europe, and falling oil prices contributed to the negative market sentiment.

During the quarter, losses in US equities were widespread across styles, capitalization ranges, and sectors. Value stocks were more resilient than growth stocks in all major size segments, and large caps outperformed smaller stocks, reflecting the "risk-off" environment. Further evidence of the market's defensive tone, Utilities was the only sector in the MSCI USA IMI Net to post a gain, and Consumer Staples and Real Estate were the next-best performers. Energy was the weakest sector, as oil prices fell approximately 40% between early October and late December on fears of oversupply. Technology also underperformed, impacted by worries about valuations, slowing global demand, and US-China trade tensions.

Performance Summary and Factor Model Review*

Ativo US Large Cap modestly underperformed its benchmark, net of fees, in the fourth quarter. This result was consistent with the overall performance of our multi-factor model, which lacked positive predictive ability in our large-cap US equity universe. Among the model's component factors, Low Volatility and Operating Momentum worked well. However, the heavily weighted Valuation factor was negative, and Price Momentum was negative as well.

The model added a modest amount of value in 2018, as strength in Operating Momentum offset weakness in the other factors. However, the Ativo US Large Cap strategy underperformed it benchmark because of certain specific stock exposures resulting from the portfolio construction process.

Volatility returned to the equity market in 2018, making it easier to generate tracking error in the portfolio. The portfolio's tracking error has increased as a result, although it still remains modestly lower than normal following 2017's exceptionally muted volatility. We continue to let tracking error rise naturally with volatility rather than forcing it higher and, by doing so, altering other risk parameters.

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

Performance and Positioning

*Ativo US Large Cap**

	Q4 2018	2018
Ativo US Large Cap Composite		
Gross	-13.42%	-6.90%
Net	-13.54%	-7.37%
MSCI USA Large Cap	-13.29%	-3.67%
Excess Return (Net of Fees)	-0.25%	-3.70%

Ativo's Large Cap strategy underperformed the MSCI USA Large Cap Index by 0.25%, net of fees, in the fourth quarter. The modest underperformance was driven by positioning in the Consumer Staples sector, where both an underweight and stock selection detracted. The portfolio's one Consumer Staples stock, beverage producer Constellation Brands, was the portfolio's largest detractor. Constellation lagged on concerns that a sizeable investment it made in another company would dampen near-term growth. Positive stock selection in the Consumer Discretionary and Communication Services sectors helped offset this negative effect. The top contributor in the portfolio was restaurant company Yum Brands, which beat third-quarter earnings estimates.

Turnover was in line with long-term averages, with five buys and five sells during the quarter. As a result of these transactions, the portfolio's exposure to the Industrials and Utilities sectors increased, and its exposure to the Technology and Materials sectors decreased. The biggest overweights on December 31st were in Technology and Industrials; the biggest underweights remained in Consumer Staples and Consumer Discretionary. Assets in the Large Cap strategy totaled $33.7 million at year-end, and active share was 79%.

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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.

MSCI USA Large Cap

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