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. We invest globally with an emphasis on international markets. 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 global equity market suffered a steep decline in the fourth quarter, with the MSCI ACWI Net losing 12.75% in US dollar (USD) terms. To a large extent, the selloff was driven by worries that the Federal Reserve was tightening US monetary policy too aggressively. Slowing global growth, falling oil prices, and geopolitical issues — mainly US-China trade tensions — were additional concerns. The fourth-quarter losses pushed the MSCI ACWI Net into negative territory for the year, down 9.42% in USD. The MSCI EAFE + Canada Net and MSCI Emerging Net posted annual losses of 14.09% and 14.58%, respectively, in USD, while the MSCI USA Net fell 5.04% in 2018.

The fourth quarter was characterized by heightened volatility and broad weakness across regions, although developed markets bore the brunt of the decline. The MSCI USA Net lost 13.81%, a result set in motion in early October by hawkish comments from the Federal Reserve, worries the US economy might be overheating, and rising Treasury yields. As the quarter 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 MSCI EAFE + Canada Net (USD) fell 12.05% in local currencies and 12.78% in USD during the quarter. Canada was one of the weakest markets, as oil prices fell approximately 40% between early October and late December on fears of oversupply. UK equities modestly outperformed the Index, even in the face of heightened Brexit uncertainty. Pacific ex Japan was the most resilient region, led by Hong Kong, which has a heavy weighting in the defensive Real Estate and Utilities sectors.

Emerging markets outperformed developed markets after having lagged in the first nine months of the year. The MSCI Emerging Net fell 7.43% in local currencies and 7.47% in USD, with gains in several countries tempering double-digit losses in China, South Korea, and Taiwan — the three largest markets. China's economy continued to slow as consumers reined in spending and US tariffs dampened manufacturing activity. Weakness in the Technology sector was another challenge, not only for China but for South Korea and Taiwan, both tech-heavy markets. In contrast, Brazilian equities rallied on optimism that the newly elected president would implement investor-friendly reforms. Lower oil prices contributed to stock market gains in India and other oil-importing countries.

Globally, large-cap stocks outperformed small-cap stocks in the fourth quarter, and value outperformed growth after having trailed in each of the previous seven quarters. The best-performing sectors in the MSCI ACWI Net were Utilities (the sole positive performer), Real Estate, and Consumer Staples. Energy was the worst-performing sector, followed by Technology. Several factors weighed on the Technology sector, including concerns about valuations, slowing global demand, and the US-China trade conflict.

Performance Summary*

In the volatile fourth quarter, all six of the Ativo strategies covered in this report either outperformed or performed broadly in line (-0.22% to -1.00%) with their benchmarks, net of fees. The fourth quarter capped a year of strong relative returns for the Ativo strategies. In 2018, five of the six strategies covered in this report outperformed their benchmarks, net of fees. During both Q4 and 2018, our model was skillful at forecasting stock returns in the developed markets universe but lacked positive predictive ability in the emerging markets universe.

Please see the "Performance and Positioning by Strategy" section of this report for more information about each strategy's results. As you review this section, you may notice that the geographic regions we reference have different labels than they had in the past. We recently redesigned the Ativo regional classifications to more closely align them with MSCI regional classifications. In addition, we split the largest countries out of certain regions and made them into their own, standalone regions. Those countries are the USA, the UK, Japan, and China.

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

Factor Model Review and Positioning

In the fourth quarter, our model was skillful within the developed markets universe due to positive results from the Valuation, Low Volatility, and Operating Momentum factor groups. The model's overall score in our emerging markets universe was flat, with strength in Valuation and Low Volatility offsetting weakness in Price Momentum and Operating Momentum. During the full year of 2018, the model had strong predictive ability in our developed markets universe, with all component factors adding value. The model lacked skill in our emerging markets universe, where the negative effects of Price Momentum and Valuation outweighed the positive effects of Low Volatility and Operating Momentum.

Portfolio turnover was below average in the fourth quarter, since we felt it was prudent to refrain from heavy trading given the high levels of market volatility. However, turnover for the full year was consistent with long-term averages. In 2018, our model tended to favor core and value stocks over growth stocks. Thus, over the course of the year, portfolios generally gained exposure to stocks in cyclical sectors, including Energy and Financials, and moved away from stocks in growthier sectors, including Technology and Consumer Discretionary.

The return of volatility in 2018 made it easier to generate tracking error in the portfolios. As a result, the portfolios' tracking error increased during the year, 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.

Performance and Positioning by Strategy*

*Ativo Global Institutional**

	Q4 2018	2018
Ativo Global Institutional Composite		
Gross	-11.78%	-5.35%
Net	-11.95%	-6.05%
MSCI World (Net)	-13.42%	-8.71%
Excess Return (Net of Fees)	1.47%	2.66%

In the fourth quarter, Ativo's Global Institutional strategy outperformed the MSCI World Net by 1.47%, net of fees. The outperformance was driven by stock selection, which was particularly strong in the USA and the Consumer Discretionary and Technology sectors. Stock selection in China, Pacific ex Japan, and the Industrials sector also added a significant amount to performance versus the benchmark. An overweight in Real Estate and an underweight in Energy were helpful; however, the positive impact was offset by an overweight in Technology and an underweight in Consumer Staples. Other areas of relative weakness included an underweight in Emerging Asia ex China and stock selection in the Energy and Financials sectors.

The only major change to positioning during the quarter was reducing the portfolio's underweight in the Communication Services sector; all other changes to active regional and sector exposures were less than 2%. The largest active regional exposures at quarter-end remained an overweight in the UK and an underweight in Developed Europe/Middle East ex UK. The largest active sector exposures were overweights in Technology, Real Estate, and Industrials and underweights in Financials, Consumer Staples, and Energy. Assets in the Global Institutional strategy totaled $114.1 million on December 31st, and active share was 84%.

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*Ativo International Developed**

	Q4 2018	2018
Ativo International Developed Composite		
Gross	-12.86%	-12.42%
Net	-13.01%	-13.01%
MSCI EAFE + Canada (Net)	-12.78%	-14.09%
Excess Return (Net of Fees)	-0.23%	1.09%

Ativo's International Developed strategy underperformed the MSCI EAFE + Canada Net by 0.23%, net of fees, during the fourth quarter. The modest underperformance was due to stock selection, as regional and sector exposures contributed to relative returns. From a geographic standpoint, negative stock selection in Japan and Canada offset positive stock selection in other regions, mainly Pacific ex Japan. Stock selection was weakest in Health Care, Energy, and Communication Services. However, stock selection in the Consumer Staples sector was strong, and relative results also benefited from overweights in Real Estate, Utilities, and Pacific ex Japan.

There were no major changes to the portfolio's regional allocations during the quarter. There were a few notable changes to sector allocations; specifically, adding to exposure in Financials and Communication Services and reducing exposure to Industrials and Technology. The biggest overweights on December 31st were in Pacific ex Japan and the Real Estate and Industrials sectors. The biggest underweights were in Developed Europe/Middle East ex UK, Materials, and Health Care. At quarter-end, assets in the International Developed strategy totaled $627.4 million, and active share was 80%.

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*Ativo International All Country ex US**

	Q4 2018	2018
Ativo International All Country ex US Composite		
Gross	-11.75%	-12.47%
Net	-11.90%	-13.05%
MSCI ACWI ex US (Net)	-11.46%	-14.20%
Excess Return (Net of Fees)	-0.44%	1.15%

During the fourth quarter, Ativo's International All Country ex US strategy underperformed the MSCI ACWI ex US Net by 0.44%, net of fees. The modest underperformance was due to stock selection, which was weakest in Japan and the Financials sector. Stock selection also detracted in Emerging Americas, Emerging Asia ex China, Energy, and Communication Services. These and other negative effects were largely offset by areas of relative strength, including stock selection in China, Developed Europe/Middle East ex UK, and the Materials sector. Overall, regional allocations did not have a meaningful impact on results versus the benchmark; however, sector allocations added value. An overweight in Real Estate was especially helpful.

The only significant changes to portfolio positioning during the quarter were increasing exposure to Japan and decreasing exposure to Industrials. On December 31st, the largest overweights remained in Emerging Asia ex China, the UK, and the Real Estate and Industrials sectors. The largest underweights were in Developed Europe/Middle East ex UK, Emerging Americas, and the Health Care, Financial, and Consumer Discretionary sectors. Assets in the International All Country ex US strategy totaled $576.7 million at quarter-end, and active share was 81%.

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*Ativo International Emerging**

	Q4 2018	2018
Ativo International Emerging Composite		
Gross	-8.37%	-16.77%
Net	-8.47%	-17.13%
MSCI Emerging (Net)	-7.47%	-14.58%
Excess Return (Net of Fees)	-1.00%	-2.55%

In the fourth quarter, Ativo's International Emerging strategy underperformed the MSCI Emerging Net by 1.00%, net of fees. The underperformance was due to a combination of stock selection and regional allocations. At the regional level, stock selection detracted in Emerging Asia ex China, Emerging Americas, and Emerging EMEA. Looking at sectors, stock selection was weakest in Financials and Energy. An underweight in Emerging EMEA and an overweight in Emerging Asia ex China further detracted. Key areas of relative strength included stock selection in China and the Communication Services and Real Estate sectors. An overweight in Utilities also benefited performance versus the benchmark.

There were several changes to portfolio positioning during the quarter. The most significant were adding exposure to China and the Industrials sector and reducing exposure to Emerging Asia ex China and Technology. At the end of the period, the biggest overweights were in China and the Utilities and Communication Services sectors. The biggest underweights were in Emerging Asia ex China, Consumer Staples, and Consumer Discretionary. Assets in the International Emerging strategy totaled $76.1 million at quarter-end, and active share was 67%. Active share remained lower than normal because we are now weighting larger-cap holdings on a market-cap basis to account for the benchmark's high level of concentration. Out of 1,125 total index constituents on December 31st, the top 10 constituents represented nearly 25% of the total index weight.

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*Ativo International Small Cap**

	Q4 2018	2018
Ativo International Small Cap Composite		
Gross	-13.12%	-13.58%
Net	-13.22%	-13.97%
MSCI EAFE + Canada Small Cap (Net)	-16.16%	-18.08%
Excess Return (Net of Fees)	2.94%	4.11%

Ativo's International Developed Small Cap strategy outperformed the MSCI EAFE + Canada Small Cap Net by 2.94%, net of fees, in the fourth quarter. The outperformance was mainly due to stock selection, although regional and sector exposures also added value. From a geographic perspective, stock selection was positive in every region but Japan and particularly strong in Developed Europe/Middle East ex UK. An overweight in Pacific ex Japan further boosted results versus the benchmark. In terms of sectors, stock selection generated the most alpha in Industrials, Energy, and Health Care, offsetting negative selection in the Consumer Discretionary, Consumer Staples, and Real Estate sectors. An overweight in Real Estate was another plus.

During the quarter, the only significant changes to positioning were at the regional level. Specifically, we reduced the portfolio's underweight in Developed Europe/Middle East ex UK and increased its underweight in Japan. The largest overweights on December 31st were in Pacific ex Japan and the Real Estate, Materials, and Energy sectors. The largest underweights were in Japan, Health Care, Consumer Staples, and Consumer Discretionary. Assets in the International Developed Small Cap strategy totaled $34.9 million at quarter-end, and active share was 95%.

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*Ativo International ADR**

	Q4 2018	2018
Ativo International ADR Composite		
Gross	-12.20%	-13.16%
Net	-12.35%	-13.73%
MSCI ACWI ex US (Net)	-11.46%	-14.20%
Excess Return (Net of Fees)	-0.89%	0.47%

Ativo's International ADR strategy underperformed the MSCI ACWI ex US Net by 0.89%, net of fees, in the fourth quarter. The underperformance was driven by stock selection and an underweight in emerging markets. During the quarter, the top two detractors were Momo, a Chinese internet-services provider, and Fresenius, a German health care company. Momo, a volatile stock that had performed well earlier in the year, was impacted by negative comments from two short-selling firms. Fresenius issued disappointing earnings guidance for 2019. The quarter's top two contributors were Autohome, a provider of online car information to Chinese consumers, and Iberdrola, a Spanish utility company. Autohome, which we purchased during the quarter, rebounded from third-quarter weakness. Iberdrola showed positive results from its strategy of international diversification while investing heavily in renewable energy sources.

During the quarter, the portfolio added 13 names and dropped 13 names. Despite these trades, the only meaningful changes to portfolio positioning were an increase in exposure to Canada and a decrease in exposure to Japan and Developed Europe/Middle East ex UK. The largest overweights on December 31st were in Canada and the Industrials and Communication Services sectors. The largest underweights were in Emerging Asia ex China, Financials, and Materials. Assets in the International ADR strategy totaled $86.3 million at quarter-end, and active share was 86%.

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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 include 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 Global Institutional Composite is measured against the MSCI ACWI index. The MSCI ACWI index is a market-capitalization index designed to capture large and mid-cap representation across developed and emerging market countries. The index covers approximately 85% of the global investable equity opportunity set. The net total return index reinvests dividends after the deduction of withholdings taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

The Ativo International Developed Composite is measured against the MSCI EAFE + Canada index. The MSCI EAFE + Canada index is an equity index which is designed to capture large and mid-cap representation across developed market countries around the world including Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The net total return index reinvests dividends after the deduction of withholdings taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

The Ativo International All Country ex US Composite is measured against the MSCI ACWI ex USA Index. The MSCI ACWI ex USA index is a market-capitalization index designed to capture large and mid-cap representation across developed and emerging market countries. The index covers approximately 85% of the global equity opportunity set outside the US. The net total return index reinvests dividends after the deduction of withholdings taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

The Ativo International Emerging Composite is measured against the MSCI Emerging index. The MSCI Emerging index is and equity index which is designed to capture large and mid-cap representation across emerging market countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The net total return index reinvests dividends after the deduction of withholdings taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

The Ativo International Small Cap Developed Composite is measured against the MSCI EAFE + Canada Small Cap index. The MSCI EAFE + Canada Small Cap index is an equity index which is designed to capture small-cap representation across developed market countries around the world including Canada. The index covers approximately 15% of the free float-adjusted market capitalization in each country. The net total return index reinvests dividends after the deduction of withholdings taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

The Ativo International ADR Composite is measured against the MSCI ACWI ex USA Index. The MSCI ACWI ex USA index is a market-capitalization index designed to capture large and mid-cap representation across developed and emerging market countries. The index covers approximately 85% of the global equity opportunity set outside the US. The net total return index reinvests dividends after the deduction of withholdings taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.