

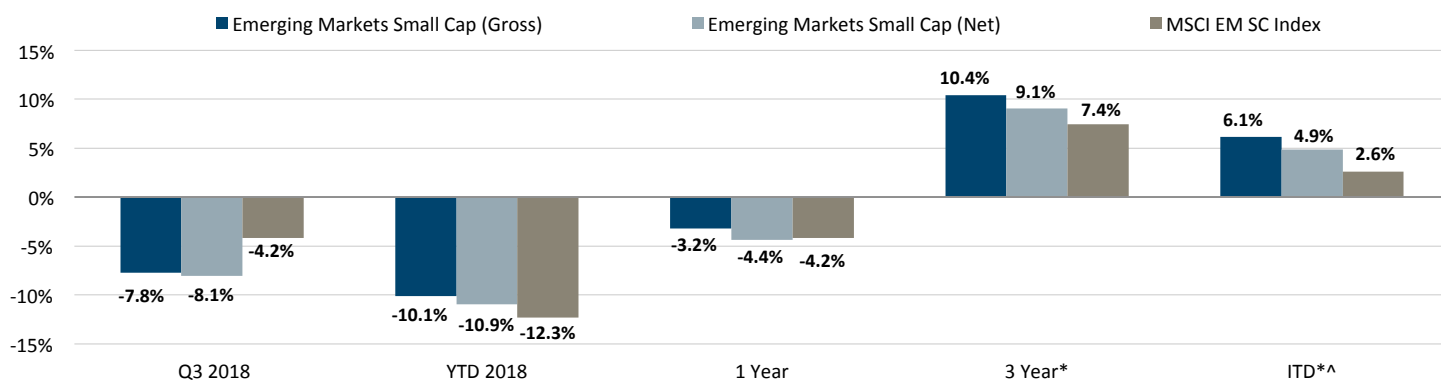
### INVESTMENT RESULTS

The LMC Emerging Markets Small Cap Strategy returned -7.8% versus -4.2% for the MSCI Emerging Market Small Cap Index during the third quarter. Since its January 1, 2014 inception, the strategy has returned an annualized +6.1% versus +2.6% for the MSCI Emerging Market Small Cap Index.

The performance detail for the LMC Emerging Markets Small Cap Composite is as follows:

### COMPOSITE PERFORMANCE

As of 9/30/2018, U.S. Dollar



\*Annualized. ^ Inception: January 1, 2014.

Past performance is not indicative of future results. Investment advisory fees are described in Part 2A of LMC's Form ADV. Gross performance returns presented above are net of transaction costs and include the reinvestment of dividends and other earnings but do not reflect the deduction of investment management fees which would reduce returns. Net returns are calculated by applying the investment management fee schedule noted in the composite disclosure to the gross returns of the accounts included in the composite. For information regarding the impact of investment management fees on performance, please refer to the attached composite disclosure. Shown as supplemental information only and complements the Emerging Markets Small Cap composite disclosure attached.

The LMC Emerging Markets Small Cap Strategy underperformed its benchmark for the quarter despite modestly positive performance for the overall stock selection model (*Alpha*), as shown in Figure 1. While the overall model worked on average during the quarter, the effectiveness was a third of what it was in the first six months of the year. In addition, the individual factor components had mixed results and varied greatly from month to month. *Earnings Quality (Q)* worked best but only worked in July and September. *Value* also worked modestly well but was very volatile from month to month. It was effective in July and September but did not work in August. *Market Dynamics (D)*, which consists of *Price Momentum* and *Earnings Revision*, was the least effective of the three major alpha components. It worked well in August but did not work in the other two months.

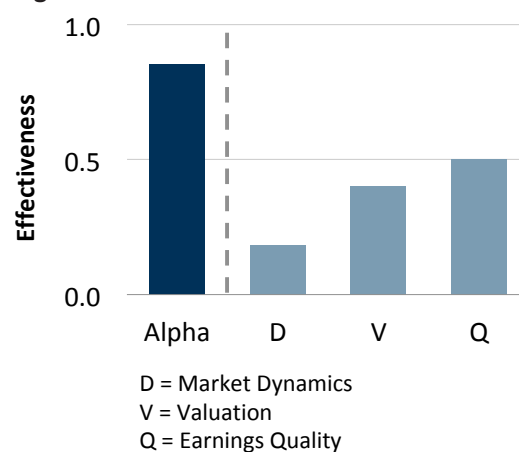
The market environment shifted from risk-on to risk-off throughout the quarter in emerging market small caps as investors continued to focus on trade discussions between the US and China as well as economic turmoil in Turkey. Volatility ticked up and correlations among stocks in the MSCI EM Small Cap benchmark increased in August and remained elevated for the remainder of the quarter. Our process, which seeks to add value by selecting stocks that have a better likelihood of outperforming based on their company fundamentals, struggled to add value in this environment as stock prices moved more on macro events in the news than company specific information.

Overall stock selection within countries was negative led by selections in China, Korea and India. The best selection was in Brazil. Country allocation was also a drag on performance led by an underweight in Thailand and an overweight in Turkey. Within sectors, negative stock selection in Consumer Discretionary, Healthcare and Financials detracted most from performance and more than offset positive stock selection in Information Technology and Consumer Staples. The contribution from sector allocation was essentially flat for the quarter.

### MARKET REVIEW

Emerging market small cap stocks continued their downward trend this quarter and substantially underperformed their US and developed market peers. The MSCI Emerging Market Small Cap Index returned -4.2% versus +3.4% for the Russell 2000 and

Figure 1: Factor Performance



Source: LMC Investments

-0.8% for the MSCI EAFE Small Cap Index. The investing environment in emerging markets continued to be risk averse during the quarter as market volatility increased in response to worries over trade talks between the US and China and economic turmoil in Turkey. Turkey's currency plunged in August on news that the US would increase tariffs on steel and aluminum. Tension between the two countries has been escalating over Turkey's decision to detain an American pastor suspected of terrorism. While Turkey's economic woes seem to be isolated to that country, some worry that other debt-laden emerging market countries could also be vulnerable.

Third quarter 2018 was a particularly challenging period for the strategy. In our analysis of performance, we found that it was a combination of things that contributed to the underperformance including stock selection model performance, country allocation and stock specific events. Our stock selection model worked weakly during the three months. By comparison, it was roughly one-third as effective on average as it was in the first six months of the year. Consistent with the model, the strategy performed quite well during the first six months and then faltered when the stock selection model did not work as well. Country allocation also contributed negatively and by a bigger magnitude than is typical. We keep our country weights fairly close to the benchmark so we expect the contribution from country allocation to be minimal. Two countries, Turkey and Thailand, accounted for the majority of the underperformance from allocation. We were modestly overweight Turkey, which underperformed the benchmark by over 15% due to the economic uncertainty there. A slight underweight to Thailand also hurt performance as that country outperformed and was up over 20%. In both cases our country bets were small but were unfortunately on the wrong side. Lastly, we had a couple of stocks that underperformed the benchmark on company-specific news and were a drag on performance.

We did a lot analysis on the performance and we believe the three categories above can explain part of the underperformance, but not all. The conclusion that we came to is that some of the underperformance was also due to the increase in market volatility, which negatively impacted our process. The uncertainty in emerging markets related to the trade talks between the US and China and the economic conditions in Turkey seem to have impacted emerging small caps more than their large cap peers. The MSCI EM Small Index underperformed the MSCI EM Index by over 3% during the quarter. Our investment process did not work as well in small caps either. The three categories of factors – *Market Dynamics*, *Value* and *Quality* – were all less effective in emerging small cap stocks than emerging large caps. Generally, our factors work better in small caps because they are less efficient. We believe this is a short-term anomaly that is due to the current market conditions and will likely normalize as some of the macro uncertainty dissipates.

## OUTLOOK

Volatility increased during the quarter as negotiations on trade tariffs between the US and China continue and the economic situation in Turkey worsened. We are hopeful that as some of the uncertainty related to these macro events subsides, emerging market volatility will also come down. We continue to employ a balanced approach with respect to our major stock selection components: *Value*, *Market Dynamics* and *Quality*. We believe it is important to invest in stocks with good *Valuations* that also have a catalyst such as *Estimate Revision* or *Price Momentum*.

## STRATEGY

Our investment philosophy is based on a bottom-up quantitative approach to investing. We believe inefficiencies in the market create opportunities and a quantitative process is well suited to capture these inefficiencies and outperform. Our stock selection model groups factors into three major categories: *Market Dynamics*, *Value* and *Quality*. Our *Market Dynamic* factors are designed to exploit short-term trends, as we believe investors under react in the short term. Our *Value* factors are intended to capture mean reversion, as investors tend to overreact in the longer term. Our *Quality* factors incorporate information about the quality of earnings that investors tend to overlook. Over time, we believe this style of management will generate positive relative returns.

This publication is designed to provide general information about economics, asset classes and strategies. The opinions herein are those of LMCG portfolio management, are made as of the date of this material, and are subject to change without notice. There is no guarantee the views and opinions expressed in this communication will come to pass. It is for discussion purposes only, since the availability and effectiveness of any strategy depends on each client's facts and circumstances. The information in this commentary was obtained from sources believed to be accurate, but we do not guarantee that it is accurate or complete. It is provided for informational purposes only and was not issued in connection with any proposed offering of securities.

### EMERGING MARKETS SMALL CAP COMPOSITE

#### Schedule of Annual Returns

January 1, 2014 (date of inception)  
through December 31, 2017

	Gross Returns (%)	Net Returns (%)	Benchmark Returns <sup>1</sup> (%)	Dispersion <sup>2</sup> (bps)	Composite 3yr Ex Post Standard Deviation <sup>3</sup> (%)	Benchmark 3yr Ex Post Standard Deviation <sup>3</sup> (%)	Number of Accounts	Assets at End of Period (\$ millions)	Total Firm Assets (\$ millions)	Non-Fee Paying Assets (%)
2017	36.8	35.2	33.8	NA	14	14	1	144.6	7,551.3	0.0
2016	9.6	8.2	2.3	NA	14	14	1	24.2	7,367.5	0.0
2015	-5.8	-6.9	-6.9	NA	-	-	1	22.2	6,786.9	0.0
2014	4.5	3.2	1.0	NA	-	-	2	24.8	6,370.5	4.3

<sup>1</sup> Benchmark returns have been obtained from an independent source and have not been examined by independent accountants.

<sup>2</sup> Not statistically significant due to insufficient number of accounts in the composite for the entire year.

<sup>3</sup> The three-year annualized standard deviation is not presented from December 31, 2014 through December 31, 2015 because the composite did not have 36 monthly returns in that time period.

**Emerging Markets Small Cap Composite** consists of accounts managed in the Emerging Markets Small Cap strategy ("EMS"). EMS seeks to achieve long-term capital appreciation through investments in emerging market small cap equity securities with market capitalizations that generally fall within the range of capitalizations of the MSCI Emerging Markets Small Cap Index. The MSCI Emerging Markets Small Cap Index (net) calculates dividend reinvestment net of taxes from a U.S. perspective, which is similar to how the portfolios in the composite reinvest current income. For comparison purposes, the composite is measured against MSCI Emerging Markets Index (net). The composite was created in April 2014.

Royal Bank of Canada ("RBC") became LMCG's indirect majority owner in November 2015 when RBC acquired City National Corporation ("CNC"). Effective January 1, 2015, Lee Munder Capital Group, LLC is known as LMCG Investments, LLC ("LMCG"), an investment adviser registered with the Securities and Exchange Commission. In July 2009, the firm was reorganized as an affiliate of CNC and took the name of Lee Munder Capital Group, LLC., prior to which it was known as Lee Munder Investments Ltd. ("LMIL"), which itself was an investment adviser registered with the Securities and Exchange Commission. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Account performance is calculated on a total return basis including income, realized and unrealized gains and losses, and net of foreign withholding taxes. Composite performance is presented gross and net of management fees. Net returns are calculated by applying the investment management fee schedule noted below to the gross returns of the accounts included in the composite. The annual composite dispersion presented is an asset weighted standard deviation calculated for the accounts in the composite the entire year. The U.S. Dollar is the currency used to express performance. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule is 1.25% on all assets. Actual investment advisory fees incurred by clients may vary.

LMCG claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. LMCG has been independently verified for the periods October 1, 2000 through December 31, 2017. 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 Emerging Markets Small Cap Composite has been examined for the periods January 1, 2014 through December 31, 2017. The verification and performance examination reports are available upon request. Past performance is not indicative of future results.