LMCG INVESTMENTS Emerging Markets Small Cap

Q4 2018 REVIEW

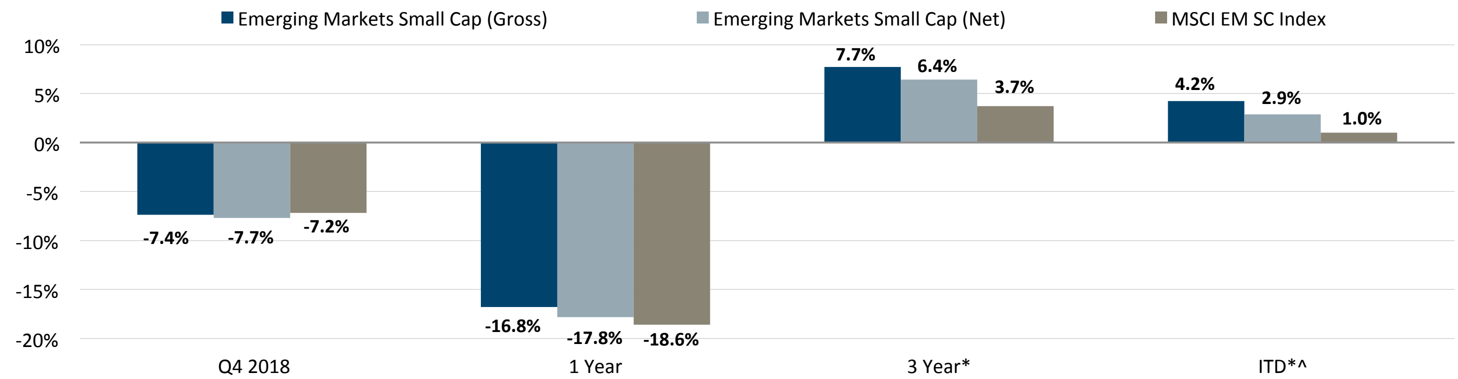
INVESTMENT RESULTS

The LMCG Emerging Markets Small Cap Strategy returned -7.4% versus -7.2% for the MSCI Emerging Market Small Cap Index during the fourth quarter and -16.8% versus -18.6% for the year. Since its January 1, 2014 inception, the strategy has returned an annualized +4.2% versus +1.0% for the MSCI Emerging Market Small Cap Index.

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

COMPOSITE PERFORMANCE

As of 12/31/2018, U.S. Dollar



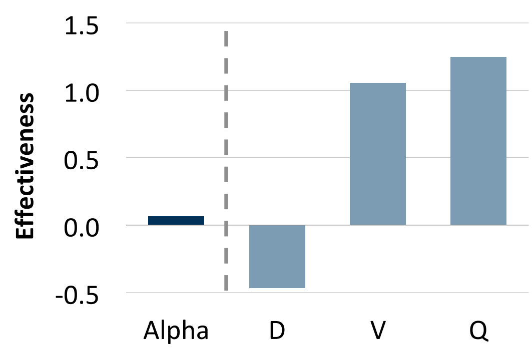
*Annualized. ^ Inception: January 1, 2014.

Past performance is not indicative of future results. Investment advisory fees are described in Part 2A of LMCG'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 LMCG Emerging Markets Small Cap Strategy slightly lagged its benchmark for the quarter consistent with lackluster performance for the overall stock selection model (Alpha) and mixed results for the individual factor components (see Figure 1). *Earnings Quality* (Q) worked best and was particularly strong in October and November. *Value* (V) worked on average but was not effective in December. *Market Dynamics* (D), which consists of *Price Momentum* and *Earnings Revision*, was the least effective of the three major alpha components. It worked very well in December and modestly well in October but was quite negative in November.

In October and November, investors embraced risk and higher beta stocks outperformed lower beta stocks. In December there was a dramatic shift away from risk as tariff discussions between the US and China heated back up and worries of a global economic slowdown dampened investor sentiment. Correlations among emerging market equities spiked in December and stocks traded more together. 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.

Figure 1: Factor Performance



D = Market Dynamics
V = Valuation
Q = Earnings Quality

Source: LMCG Investments

Overall stock selection within countries was negative, led by selections in Brazil and China. The best selection was in Mexico and Malaysia. Country allocation added to performance primarily due to an overweight position in Brazil, which dramatically outperformed the broader market. Within sectors, stock selection was slightly positive as positive stock selection in Information Technology, Real Estate and Utilities offset negative stock selection in Consumer Discretionary and Materials. The contribution from sector allocation was slightly negative for the quarter led by underweights in Utilities and Consumer Discretionary.

MARKET REVIEW

Emerging market small cap stocks continued their downward trend this quarter but outperformed both US and developed market small-cap peers. The MSCI Emerging Market Small Cap Index returned -7.2% versus -20.2% for the Russell 2000 and -16.1% for the MSCI EAFE Small Cap Index. The first three quarters of 2018 were fairly calm in terms of market volatility. Correlations among stocks in the emerging market universe spiked in February but then drifted back down. In August, volatility picked up again and stock correlations rose as Turkey's currency plunged on news the US would increase tariffs on steel and aluminum. Worries over trade talks between the US and China as well as fears over slowing economic growth only added to investor concerns. Given this backdrop, our active approach worked better in the earlier part of the year.

We use a core approach to investing that combines value and growth characteristics. For the last couple of years, this approach has experienced periods of volatility as the performance of the value and growth styles have been extreme and often pulling in different directions. For the first six months of 2018, the two styles were performing similarly with the MSCI Emerging Markets Small Cap Growth Index returning -5.3% and the MSCI EM Small Cap Value Index returning -3.1%. Our core style worked well during this time and outperformed its benchmark by close to 6%. In the July–December 2018 period, the MSCI EM Small Cap Growth Index underperformed, returning -13.4% versus -8.8% for the MSCI EM Small Cap Value Index. In terms of our investment process, our *Value* factors also worked better during the latter part of the year but our *Market Dynamics* factors, which include some more growth-oriented characteristics, underperformed and offset positive contributions from *Value* factors and the strategy struggled. For the year, the strong performance in the first half of the year was enough to offset the difficult period from July through December and the strategy outperformed its benchmark for 2018.

Going into 2019, we are hopeful that emerging markets will outperform US markets and that the difference between the value and growth styles will moderate. To evaluate the attractiveness of emerging markets versus US equities, we compared valuation levels using the Price-to-Earnings ratio for the MSCI Emerging Markets Small Cap Index and the Russell 2000 from December 2006–December 2018 (see Figure 2). While emerging markets usually trade at a discount to the US, the average since 2006 has been around -40%. In October 2018, the discount reached -55%, the biggest we've seen since December 2008 when it hit -62%. Following 2008, emerging markets substantially outperformed US markets in 2009 and 2010. In 2018, the discount seems to have bottomed in October and emerging markets outperformed in November and December. In addition, during the last two months of the year the performance between the value and growth styles moderated and the strategy had an easier time adding value.

Figure 2: Price-to-Earnings Comparison – MSCI-EM Small Cap vs. Russell 2000

	Price-to-Earnings Ratio		MSCI EM-SC PE Discount
Month	MSCI EM-SC	Russell 2000	to Russell 2000
Dec-06	10.6 x	25.1 x	-58%
Dec-07	18.1	23.0	-21%
Dec-08	6.0	16.0	-62%
Dec-09	27.5	53.1	-48%
Dec-10	17.9	26.0	-31%
Dec-11	11.3	20.3	-44%
Dec-12	17.1	20.3	-16%
Dec-13	16.6	28.8	-42%
Dec-14	16.3	27.5	-41%
Dec-15	17.3	25.1	-31%
Dec-16	20.5	28.5	-28%
Dec-17	20.6	32.1	-36%
Oct-18	14.1	31.4	-55%
Nov-18	15.3	29.6	-48%
Dec-18	14.2	25.8	-45%

Source: LMCG Investments. Discount calculated as (P/E for MSCI EM Small Cap divided by P/E for Russell 2000) - 1.

OUTLOOK

Given the uncertainty related to trade negotiations between the US and China and concerns over global economic growth, we expect equity market volatility to remain elevated in the near-term. So far in January, we have seen this to be the case. When markets are jittery, we tend to see investors become more defensive and more risk averse. In the past, we have observed that investors also favor growth over value in this environment as value is perceived as more risky. However, given the declines that we have already seen and the relative attractiveness of emerging markets, we are hopeful that much of the bad news is priced in and investors will start to look through the macro events and focus on company fundamentals again. As this happens, we would expect the value style to do well. We have designed the strategy to combine elements of value and growth so that it can do well in either of these environments as long as neither style is underperforming dramatically. 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.

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[1] (%)	Dispersion[2] (bps)	Composite 3yr Ex Post Standard Deviation[3] (%)	Benchmark 3yr Ex Post Standard Deviation[3] (%)	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

1 Benchmark returns have been obtained from an independent source and have not been examined by independent accountants.
2 Not statistically significant due to insufficient number of accounts in the composite for the entire year.
3 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.