FUNDS

LMCG International Small Cap Fund

4 Reasons to Consider Investing in International Small Cap

Small Cap Companies in Developed Countries are Likely Underrepresented in Most Client Portfolios

Investors first embraced American small cap stocks in the late 1970s, when small companies became recognized for their potential to grow rapidly as a result of being more nimble and able to adapt to change more quickly than larger competitors. Since their first great boom, U.S. small caps have proven to be one of the most successful asset classes, especially for talented active managers.[1]

While U.S. small cap, international large cap, and even emerging markets have all attracted significant assets over the years, small cap stocks in developed non-U.S. markets remain largely uncharted territory. We believe there are a number of reasons that investors should consider an allocation to international small cap stocks:

- *The breadth of the international small cap equity universe provides significant opportunities*
- *Inefficiency of international small cap market offers alpha potential for active managers*
- *International small cap offers diversification to mainstream equity classes*
- *International small cap investors are less impacted by currency fluctuations than other international Investors*

Reason 1: The Breadth and Depth of the International Small Cap Market Provides Opportunity

From a size standpoint, we believe the non-U.S. small cap equity market is large enough to warrant interest by U.S. investors. As the table in Exhibit A below illustrates, small/mid cap investment opportunities globally represent 66% of the investable universe, compared to 8.6% for large caps. And while *international* small and mid-sized companies constitute 41% of that investable universe, these companies provide more than 91% of the equity investment opportunities in *developed international* markets (i.e. 3,567 = 91% of (3,567 +346))

EXHIBIT A

Region / Market Cap (In $ Millions)	Number of Stocks	Percent of Total Number of stocks	Percent of Total Market Cap
U.S. Large (>$10,000)	395	4.6%	42.0%
U.S. Mid / Small (<$10,000)	2,152	24.8%	10.8%
Int'l. Developed Large (>$10,000)	346	4.0%	25.6%
Int'l. Developed Mid / Small (<$10,000)	3,567	41.2%	13.9%
Emerging Markets	2,207	25.4%	7.7%
Total	8,667	100.0%	100.0%

Source: FactSet

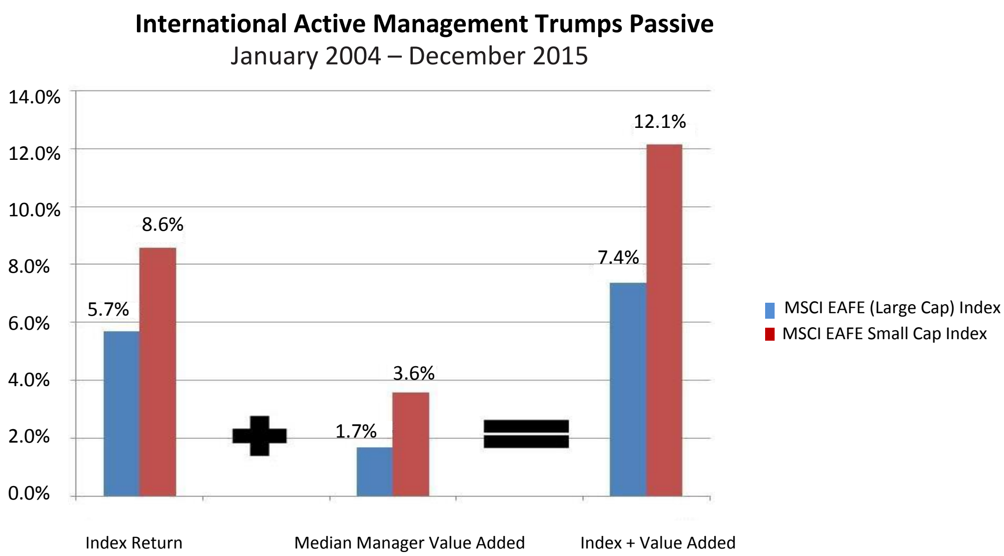
[1] *eVestment Alliance.*

Beyond the breadth of the opportunity justifying its consideration for inclusion in investors' portfolios, the vast number of companies highlights the potential advantages of active management over indexing. With so many companies to choose from, and dispersion existing between the best and worst performers in this area, stock selection can have a significant impact on returns for active managers able to capture the best opportunities and avoid the worst. With only approximately 5% of the market capitalization of international developed mid and small cap stocks being actively managed[2], there is considerable opportunity for those active managers to differentiate themselves. And the opportunity has been increasing, with 89% of the roughly 19,400 IPOs that have occurred globally since 2000 taking place outside of the U.S.[3]

Reason 2: There is Significant Potential to Capture Inefficiencies in International Small Caps

Those active managers who do operate in the international small cap arena have demonstrated a penchant for capturing inefficiencies and generating excess return compared to passive indexes. Exhibit B below shows the performance of the MSCI EAFE Large and Small cap Indexes, as well as the median value added over the indexes by active managers. Given the greater number of international small cap stocks compared to international large caps, we're not surprised to see similar information inefficiencies that have been noted between active and passive management also showing up between small caps and large caps. The breadth of the investment universe and the limited number of active managers work in tandem to provide fertile ground for investors seeking additional diversification sources and alpha generating opportunities.

EXHIBIT B



Source: eVestment Alliance

Reason 3: International Small Caps Provide Diversification to Both International Large Cap Stocks and Domestic Small Cap Stocks

International small cap investing can offer diversification to international large cap equity allocations in two key ways. First, since many large cap allocations are dominated by a small percentage of stocks relative to

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2 *eVestment Alliance as of 12/31/2015*

3 *Bloomberg data 1/1/00-12/31/15.*

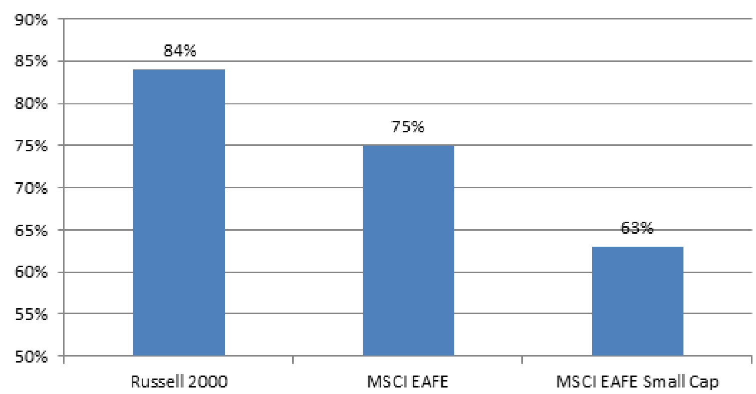
the entire investable universe (see Exhibit A), the broader universe of investment opportunities in international small cap provides a natural diversifier.

Second, as with many U.S. large cap companies, international large cap companies are generally global in nature (58.3% of their revenue is earned from foreign markets as of February 29, 2016)[4], reducing the diversifying impact of allocating to U.S. and international large caps. However, the more localized focus of EAFE small cap companies provides a more pure exposure to international investing than that of their large cap brethren, thereby increasing the diversifying effect of adding this asset class to a portfolio.

Many investors utilize various asset classes to add diversifying influences to their portfolios. As the table below in Exhibit C illustrates, international small caps have proven more effective at diversifying exposures to domestic large caps than have U.S. small caps or even international large caps.

EXHIBIT C **EAFE Small Caps Have Had Less Correlation with the Russell 1000 Index**

7/1/1989 – 12/31/2015



Source: Morningstar Direct/FactSet. Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and / or Russell ratings or underlying data and no party may rely on any Russell Indexes and / or Russell ratings and / or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

Reason 4: International Small Cap Investors are less Impacted by Currency Fluctuations than other International Investors

Many pundits have spoken of the benefits and challenges for investors from currency fluctuations in countries with significant export activity, which can lead some investors to try and capture gains by timing the markets. This approach seems more rooted in trading than investing from our perspective, so we offer an alternative view of currencies for discerning international investors. Large European corporations that earn a significant percentage of their revenue from exports could be harmed by a weakening U.S. dollar. But smaller European companies offer a purer play, by comparison, earning only 12% of their revenues from exports to the U.S., with 67% of their revenue coming from sales within Europe as of April 2016.[5] For them, a weakening or strengthening dollar has little impact on their bottom lines and

[4] *Source: FactSet.*

[5] *Multiple Sources: 67% per GSAM research, EAFE SC as of April 2016: 12% per Credit Suisse research, STOXX Europe Small Cap 200 Index as of Dec. 2014.*

valuations. This is not to say that currency poses no risks, as U.S. investors would still feel the impact of repatriating those non-dollar assets into the U.S. as dollars, but this risk exists for all U.S. investors investing overseas.

The key point here is that U.S. investors in international small caps are far less exposed to the impact on company performance from currency fluctuations than are U.S. investors in international large cap companies due to the significant inter-continental export activities of these larger companies versus smaller ones.

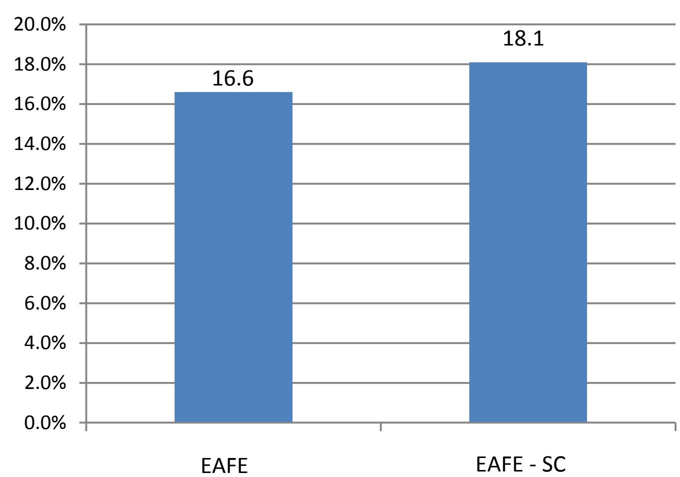
Higher Risk and Potentially Greater Rewards from International Small Caps

As with almost any investment, potentially greater rewards can come with greater risks. In the case of international small cap equities, this increased risk shows up as slightly higher standard deviation than that of their large cap counterparts according to a review of rolling ten-year periods (stepped one year apart) - Exhibit D below shows how standard deviation (read volatility) differs between EAFE large caps and EAFE small caps.

EXHIBIT D

Average 10-Year Standard Deviation EAFE vs. EAFE SC

January 1990 – December 2015



Source: Morningstar Direct

Some Closing Thoughts

The follow on question to ‘why invest in international small caps’ is naturally an inquiry of the optimal way to do so. As gleaned from our comments above, we believe active management in this space is superior to indexing. But one reason there are so few active managers and so many indexers, is that the sheer number of companies to assess and choose from is daunting.

We believe that a proven quantitative process is the most appropriate way to actively manage an international small cap portfolio. LMCG utilizes a factor-based quantitative investment methodology to sort through thousands of securities – attempting to identify those companies with the highest likelihood of upside appreciation.

Contrast our approach with that of a stock picking fundamentally-driven research process, which is much more resource-intensive. Analysts traveling to see factories, meeting management on site, interviewing suppliers and customers – all practices that are typically touted by fundamental managers – become virtually impossible without a significant investment in resources and time … all while striving to maintain objectivity.

The map in Exhibit E below, and corresponding country list to the left, show just how Herculean this challenge can be.

EXHIBIT E

International Small Cap Universe Locations

Country
Australia
Austria
Belgium
Denmark
Finland
France
Germany
Hong Kong
Ireland
Israel
Italy
Japan
Netherlands
New
Zealand
Norway
Portugal
Singapore
Spain
Sweden
Switzerland
UK

Source: FactSet

Employing quantitative methods allows the opportunity set to be as broad as possible, and we believe the broader the opportunity set, the greater the potential value added. Our quantitative models can quickly and efficiently cull thousands of companies down to a more manageable group, allowing us to focus on those companies as we build the portfolio one stock at a time.

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

Disclaimer:

Equity Risk. The Fund's equity holdings, including common stocks, may decline in value. The value of a security may decline for a number of reasons, which are detailed in the prospectus.

Foreign & Emerging Markets Investing Risks. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

Market Events Risk. Turbulence in the financial markets and reduced liquidity in equity, credit and fixed-income markets may negatively affect issuers, which could adversely affect the Fund.

Small Cap Risk. The Fund's investments in small capitalization companies may be less liquid and their securities' prices may fluctuate more than those of larger, more established companies.

There can be no guarantee that any strategy (risk management or otherwise) will be successful. All investing involves risk, including the potential loss of principal.

Investors should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. You may obtain a prospectus by calling (877) 591-4667. The prospectus should be read carefully before investing.

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