



INTERNATIONAL  
SMALL CAP FUND  
ISMIX | ISMRX



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as of June 30, 2019

## International Small Cap Fund Quarterly Commentary

### FUND OVERVIEW

The LMC International Small Cap Fund seeks to deliver long-term capital appreciation by capturing the growth potential of international small cap stocks through active management and a bottom-up quantitative approach.

### MARKET OVERVIEW

International small caps were modestly positive for the quarter, lagging their US peers but outpacing emerging market small cap peers. The MSCI EAFE Small Cap Index returned 1.71% versus 2.10% for the Russell 2000 and -0.98% for the MSCI Emerging Market Small Cap Index. Global markets were mostly positive for the period though the pace slowed versus the start of the year. Investors continued to focus on trade discussions between China and the US and were optimistic earlier in the quarter when it looked like a deal was progressing. But hopes were dashed in May after President Trump announced he would dramatically increase tariffs on Chinese imports and negotiations stalled. Markets retreated on the news.

As equity market returns swung wildly from month to month, so did investors' appetite for risk - favoring high beta stocks in the up market months (April and June) and less risky stocks in down periods like May. This effect was stronger among small cap stocks. In terms of our stock selection factors, they typically work quite differently in risk-on and risk-off environments, particularly *Value*. In risk-on periods, *Value* tends to work well as cheapness is generally considered more risky. However, in the *first* quarter this was not the case. Higher beta, risky stocks did outperform but cheap stocks actually underperformed. The second quarter was more in line with what we would expect and *Value* was effective in April and June during strong up markets and negative when markets fell in May. We were encouraged that *Value* behaved more in line with what we would expect and showed some signs of life in two out of the three months. However, we noted that several of the different *Value* metrics that we use to evaluate stocks behaved quite differently depending on how defensive they were. You will recall that our quantitative model ranks stocks by quintiles depending on attractiveness, with Quintile 1 being the most attractive. Figure 1 below shows the month-by-month performance for the MSCI EAFE Small Cap benchmark and the differential between the returns for

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**FIGURE 1:**  
**MSCI-EAFE SMALL CAP INDEX**  
**RETURN COMPARED TO**  
**QUINTILE 1-QUINTILE 5 EXCESS**  
**RETURN FOR VALUATION**  
**METRICS**  
 (APRIL 1, 2019 - JUNE 30, 2019)  
 SOURCE: LMCG INVESTMENTS

Month	MSCI EAFE				
	Small Cap	Value	Fwd E/P	B/P	D/P
April	3.0%	0.8%	2.0%	0.6%	0.9%
May	-5.3%	-4.8%	-4.7%	-3.5%	-0.4%
June	4.2%	1.4%	1.7%	0.7%	2.9%
2Q19	1.7%	-0.8%	-0.3%	-0.7%	1.1%

Note: Index returns are published returns.

Quintile 1 and Quintile 5 stocks for the overall group of *Value* factors and three different valuation metrics; Forward-Earnings-to-Price (Fwd E/P), Book-to-Price (B/P) and Dividend-to-Price (D/P).

For the quarter, the payoff to the valuation metrics varied greatly from month to month depending on the market environment. In April, the MSCI-EAFE Small Cap Index was up 3.0% and our overall *Value* group as well as the three individual value measures worked well, but it was Forward Earnings-to-Price that worked best as it is a less defensive measure and tends to work well in risk-on periods. In May, the benchmark fell 5.3% and the Quintile 1-Quintile 5 excess return for Forward Earnings-to-Price and Book-to-Price were quite negative at -4.7 and -3.5 as they both tend to be less defensive and don't work as well in risk-off periods. However, Dividend-to-Price, which can be characterized as a more defensive measure was substantially less negative at -0.4. In June, the MSCI-EAFE Small Cap benchmark reversed direction and was up strongly. In this case, our *Value* factors were very effective as we would expect in a risk-on environment. We were encouraged to see that *Value* was positive on average and behaved more in line with what we expect in up and down markets. We believe this contributed to improved performance for the strategy. However, we believe it is important to stay diversified across different valuation characteristics such as Forward Earnings-to-Price, Book-to-price and Dividend-to-Price.

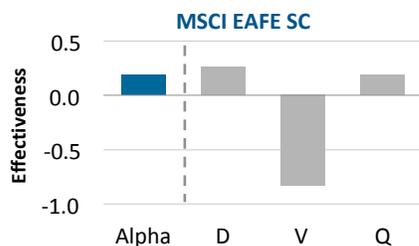
**PERFORMANCE DISCUSSION**

In the second quarter, the LMCG International Small Cap Fund returned 2.29% versus 1.71% for the MSCI EAFE Small Cap Index. Since its inception (8/26/2010) the Fund has generated a 10.14% return versus 9.00% for the Index, both on an annualized basis.

The LMCG International Small Cap Fund modestly outperformed its benchmark for the quarter, consistent with slightly positive results for the overall stock selection model (*Alpha*) and two out of the three composite factors (see Figure 2). *Market Dynamics (D)*, which includes *Earnings Revision* and *Price Momentum Earnings* and *Quality (Q)* worked modestly

well on average but were both largely driven by very strong results in May. The two component factors had mixed results in April and June. *Value (V)* was the least effective factor and was negative on average as poor results in May more than offset positive performance in April and June.

**FIGURE 2:**  
**FACTOR PAYOFFS**  
**FOR THE QUARTER**  
**ENDING 6/30/19**  
 SOURCE: LMCG INVESTMENTS



Stock selection within countries was positive, led by selections in several countries including Japan, the United Kingdom and Belgium. The worst stock selection was in Australia. Country allocation was slightly positive. Within sectors, stock selection was positive led by selections in Industrials, Financials and Energy. The worst stock selection was in Communication Services and Utilities. Allocation to sectors neither added nor detracted from performance.

## OUTLOOK

We expect the China and US trade discussions could go on for the foreseeable future and volatility is likely to remain elevated while negotiations play out. We are cautious on value as a standalone style but maintain exposure to different types of valuation metrics as they tend to work well in different risk environments. We continue to see investors as more defensive, which tends to favor Price Momentum and more growth-oriented characteristics such as earnings and sales growth. 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 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 attractively valued stocks 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.

<b>NET PERFORMANCE AS OF 6/30/19</b>	<b>Q2 2019</b>	<b>YTD 2019</b>	<b>ONE YEAR</b>	<b>THREE YEAR*</b>	<b>FIVE YEAR*</b>	<b>SINCE INCEPTION**</b>
LMCG INTERNATIONAL SMALL CAP FUND INSTITUTIONAL SHARES (ISMIX)	2.29%	11.92%	-7.17%	7.54%	4.68%	10.14%
LMCG INTERNATIONAL SMALL CAP FUND INVESTOR SHARES (ISMIX)	2.20%	11.84%	-7.33%	7.27%	4.52%	10.04%
MSCI EAFE SMALL CAP INDEX	1.71%	12.54%	-6.35%	9.06%	4.40%	9.00%

+ Annualized. \* Inception: 8/26/2010. The Fund has adopted the historical performance of LMCG International Small Cap Collective Fund, a separate collective investment fund of LMCG Collective Trust (the "Predecessor Fund") managed by LMCG Investments, LLC as the result of a reorganization in which the Fund acquired all of the assets, subject to liabilities, of the Predecessor Fund, effective as of the close of business on April 1, 2016. The returns presented for the Fund prior to this date reflect the performance of the Predecessor Fund. The Predecessor Fund commenced operations on August 26, 2010. The Predecessor Fund was not registered as an investment company under the Investment Company Act of 1940, and therefore the Predecessor Fund was not subject to certain investment limitations, diversification requirements, liquidity requirements, and other restrictions imposed by the Investment Company Act of 1940 and the Internal Revenue Code of 1986 which, if applicable, may have adversely affected its performance. The Predecessor Fund had an investment objective and strategies that were, in all material respects, equivalent to those of the Fund.

The Fund's performance for periods prior to the commencement of operations is that of the Predecessor Fund and is based on calculations that are different from the standardized method of calculations adopted by the Securities and Exchange Commission (the "SEC"). The performance of the Predecessor Fund was calculated net of the Predecessor Fund's fees and expenses. The performance of the Predecessor Fund is not the performance information of the Fund, and has not been restated to reflect the fees, estimated expenses and fee waivers and/or expense limitations of the Fund. If the performance of the Predecessor Fund had been restated to reflect the applicable fees and expenses of the Fund, the performance may have been higher or lower than the performance shown.

**Performance data provided represents past performance. Past performance does not guarantee future results. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than what is stated. For current month-end performance call 1-877-591-4667. See prospectus for other fees and expenses that apply to a continued investment in the Fund. Fees (Institutional Shares ISMIX/Investor Shares ISMRX): Gross Expense Ratio 2.09%/5.02% equal to the Fund's total annual operating expense before reimbursement as set forth in the Fund's most recent prospectus dated August 1, 2018. Net Expense Ratio 0.86%/1.11% reflects the reduction of expenses from fee reimbursements.** LMCG Investments, LLC (the "Adviser") has contractually agreed to waive its fee and/or reimburse Fund expenses to limit Total Annual Fund Operating Expenses (Institutional Shares ISMIX /Investor Shares ISMRX) to 0.85%/ 1.10% through July 31, 2019 ("Expense Cap"), excluding all taxes, interest, portfolio transaction expenses, dividend and interest expenses on short sales, acquired fund fees and expenses, proxy expenses and extraordinary expenses. It is the Adviser's intention to maintain the Expense Cap indefinitely. The Expense Cap may only be raised or eliminated with the consent of the Board of Trustees. Elimination of the Expense Cap at current asset levels will result in higher expenses and lower performance. Performance includes operating expenses and reinvested distributions. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly in an index. The MSCI EAFE Small Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure developed market equity performance of small cap stocks in European, Australasian and Far Eastern Markets.

**IMPORTANT RISKS & INVESTMENT CONSIDERATIONS**

**Beta** Beta represents the systematic risk of a portfolio and measures its sensitivity to a benchmark. A beta of 1 implies that you can expect movement of a manager's return series to match that of the benchmark used to measure beta.

**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.

**Forward Earnings-to-Price** Calculated by taking the weighted average of the invested portfolio's 12-month forward Earnings to Price ratios - the earnings per share estimates for the next 12 months divided by the security price per share at the end of the recent quarter end.

**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.

**Price to Book Ratio (P/B Ratio)** A ratio used to compare a stock's market value to its book value.

**Price to Equity Ratio (P/E Ratio)** The ratio of a company's share price to its per-share earnings.

**Quintile** The International Small Cap Fund Team uses a quantitative model that segments stocks into groupings called "quintiles." Quintile 1 is the highest ranking stocks according to our model and Quintile 5 is the lowest ranking.

**Return on Equity (ROE)** A measure of profitability that calculates how many dollars of profit a company generates with each dollar of shareholders' equity.

**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 and SAI contain this and other information about the Fund. You may obtain a prospectus and SAI by calling (877) 591-4667. The prospectus should be read carefully before investing.

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