

Q & A with Dan Goldfarb and Chris Crooks, Portfolio Managers for AlphaOne's Small Cap Opportunities fund

ALPHAONE
CAPITAL PARTNERS



Dan Goldfarb
Sr. Portfolio Manager



Chris Crooks
Sr. Portfolio Manager

We are interviewing the AlphaOne Small Cap Portfolio Managers, Dan Goldfarb, CFA and Chris Crooks, CFA to get their thoughts on the themes they see playing out in the market in 2017 as well how they will address this with their particular style of small cap investing.

Q Dan and Chris, congratulations on another terrific year. 2016 was a strong year in absolute and relative terms. The Strategy was up 27.3% and the benchmark, the Russell 2000 gained 21.3%. That followed 2015, where the strategy was up 3.8% but the benchmark was down 4.4%, for a significant outperformance of 8.2%. The outperformance was excellent in both years but the marketplace changed from 2015 to 2016. How did you create that level of outperformance?

DG Yes, 2016 was very different than 2015. In 2015, growth outperformed value by over 600 basis points and we relied on great stock selection within Healthcare and Technology to lead performance. As the calendar changed, Q1 2016 saw a correction in the growth winners. Eventually, investors rotated into value stocks. From there, our more value-oriented holdings in Financials and Producer Durables led performance. The good news is that, even though the markets were different, our style was unchanged and alpha generation was strong again even in Healthcare, which went from market hero to market goat.

Q Small cap volatility was high in 2016. What do you do differently during times of volatility?

DG The small cap benchmark sold off 14% in the first quarter of 2016. As has been customary for the last 8 years, growth scares have kept investors on edge, creating temporary air pockets in stock prices. Because we know our investments for years, we rarely get shaken out of an idea. In fact, our annual portfolio turnover is quite low. The Portfolio usually has a beta below 1, so the strategy hangs in there on dips. We almost always have some cash ready to deploy, so we believe market-related drops give us an opportunity to add to our highest conviction ideas.

Q During times of opportunity, how are you able to come up with the names you add to your portfolio?

DG We are always looking for companies that fit our quality criteria. These criteria include low leverage, above average profitability and strong cash flow. When valuation makes sense to purchase shares, we do.

Q Looking back, the strategy typically has a significant interest in Banks and Durables. What is it about these segments that is so appealing versus other mature industries?

DG We look for opportunities to buy companies who may benefit from long running cycles. For banks lower interest rates and steady loan growth for the past several years have allowed banks to drive strong returns.

CC In Producer Durables we find a disparate group of companies engaged in transportation, consulting, manufacturing, and distribution that do not fit a homogenous categorization. Within this sector we have historically found many unique companies exhibiting the return on capital and growth characteristics that meet our investment criteria.

Q Dan and Chris, most investors often ask how you go about buying individual names for your portfolio but I am curious as to how you go about deciding to sell a company from your portfolio?

DG *The sell decision may occur from many different stimuli. An investment may reach our target price. M&A is frequent in small caps. We could have a holding acquired or maybe the company we own is involved in a deal that we view as too expensive.*

Q We had a couple big events in 2016. Brexit and then the US Presidential election. Both outcomes surprised the majority of investors. Was there a recent name you added to the portfolio due to either of these events?

DG *We are not a macro driven fund. We are stock pickers. We buy good companies.*

CC *As bottom-up stock investors, we often discover opportunities that emerge as a theme by evaluating individual companies and sub-sectors rather than utilizing a top-down overlay to drive our investment process. Multiple attractive investments may drive an overweight or underweight in a particular sector based on the number of opportunities and analysis of potential forward valuations resulting from our research.*

Q How do you think small cap equity valuations fair relative to other potential investment classes? Is there still room to run in small cap?

DG *We do not have a view as on small cap relative to other asset classes. But regarding whether the asset class is over/under-valued, should significant corporate tax reform impact 2018 earnings, small cap stocks are undervalued.*

Q As 2017 gets under way and the new administration takes office, is there a specific theme or sector that you could see as a potential investment opportunity going forward?

DG *We continue to believe in financials as a group that may benefit from an improving economy and a reduction in corporate tax rates. A lower regulatory burden would be an unexpected positive in terms of lower cost and potential M&A optionality.*

Thank you Dan and Chris. Let's find out what you are thinking again in a few weeks.

Managers: Christopher M. Crooks
Daniel Goldfarb
Steven A. Dray

**All three portfolio managers have been with the fund since inception – 3.31.2011.*

Strategy: The Alpha One Micro Cap Core fund seeks to provide long term risk adjusted relative returns greater than that of the Russell 2000 Index. With an average market capitalization of just over \$900 million and modest concentration with 65 securities held in the portfolio, the portfolio combines the price inefficiencies of small cap equities with lower volatility of returns from long term ownership of quality companies.

The fund invests in the common stock of US domestic companies and is almost always fully invested. As the market for small cap stocks moves from lower quality or non-earnings companies to companies with earnings visibility and less debt on their balance sheets, fund manager Dan Goldfarb feels now is an opportunistic time to locate names for future long term investment opportunities.

Alpha One Capital is pleased with the recognition bestowed upon our team by Morningstar. We remain committed to investing in quality companies with above average profitability for the long term. We thank our investors and look forward to welcoming others.

About AlphaOne Capital Partners

AlphaOne Capital Partners is an asset management firm located in suburban Philadelphia with offices in Boston and San Francisco. The firm specializes in specialty equity investment solutions. AlphaOne Capital Partners' goal is to deliver superior results to valued institutions, advisors and individual clients by providing quality, small cap, and sector-oriented long/short investment products that are managed by seasoned talent.

About Morningstar Rating for Funds

An overall rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) Morningstar Metrics as of the date stated. The number of funds in the Small Blend category tracked by Morningstar was 641 for the 3 year period and Overall Ranking; 561 for the 5 year period; and 368 for the 10 year period. Past performance is no guarantee of future results.

Mutual fund investing involves risk including possible loss of principal. In addition to the normal risks associated with investing, investments in smaller companies typically exhibit higher volatility. There can be no assurance that the Fund will achieve its stated objectives. AlphaOne Funds are distributed by SEI Investments Distribution Co., which is not affiliated with AlphaOne Investment Services, LLC or any of its affiliates. AlphaOne mutual funds are available to U.S. investors only.