

In Q1 2018, the Small Cap Core Strategy gained 0.25% while the Russell 2000 (R2) lost 0.08% for the Russell 2000.

The strategy's composite has realized a gross cumulative 10-year return of 160.14% versus 155.65% for the Russell 2000 Index.

The AlphaOne Small Cap Core strategy's objective is to achieve higher returns than the R2 with less volatility through active management. Through the years, the team has applied a consistent core (value and growth) process that targets companies that demonstrate earnings and earnings growth, return on capital, a sustainable strategy and management that exhibits an ownership mentality. Since inception, the fund has outperformed its Russell 2000 benchmark with below-average volatility compared to peers and low beta relative to the Index. The fund typically holds 50-70 domestic common stock positions and a targeted holding period of 3-5 years.

Fundamental Small Cap Core Composite	Gross Return %	Net Return % (1.0%)	Russell 2000® Index %	Relative Return %
Year-to-Date	0.25	0.01	-0.08	0.33
Cumulative (10/1/2009)	205.70	182.21	184.15	21.55
Annualized Returns				
Trailing 1-Year	11.12	10.07	11.79	-0.67
Trailing 3-Year	8.05	7.03	8.39	-0.33
Trailing 5-Year	13.58	12.51	11.47	2.11
Since AlphaOne (10/1/2009)	14.05	12.98	13.07	0.98
Composite Inception (3/31/2000)	8.94	7.91	6.95	1.99

The first quarter of 2018 felt like an episode of the popular HBO series, Game of Thrones: a few leaders remained strong and solidified gains (such as Tech and Healthcare), new territory was acquired (Cavium, Microsemi, and Oclaro received buyout offers), while cracks formed in the wall (volatility, higher interest rates, and trade war concerns). Even though the Russell 2000 ended up basically in the same place as it started the year, it was hard not to feel burned by the gyrations. Volatility reared its head in the first quarter accompanied by a large surge in the VIX. This came after volatility remained relatively subdued in 2017 as evidenced by Russell 2000 price swings hitting a 20-year low in Q417. The storyline resulted in only 25% of small cap core managers beating the benchmark in Q1.

In the first quarter of 2018 the Small Cap Core Strategy outperformed the Russell 2000 benchmark by 36 basis points, gaining 0.26% versus a loss of -0.09 in the Russell 2000 Index. In Q417 the Strategy gained 6.52% versus a 3.34% gain in the Russell 2000 Index. Negative earners drove returns in the first quarter as they did last year, which made for a challenging investment environment. Unprofitable companies drove returns in software and services as well as in the biopharma sub-sector of healthcare.

There was a large divergence last year between growth and

value styles across all size categories, with growth far outperforming value. That trend continued into Q1, with the Russell 2000 Growth Index gaining 2.3% while Value lost 2.6% and the Core average right in between at a slight loss of 0.09%. For the full year 2017, the Russell 2000 Growth Index returned 22.2% versus a return of 7.8% for the Russell 2000 Value Index. As we mentioned last quarter, valuation measures for the Russell 2000 had been running above longer-term averages by 1-2 standard deviations. Valuation multiples did eventually compress in Q1. However, earnings growth should continue due to corporate tax cuts and underlying global economic demand trends. The earnings lift may be offset somewhat by a winding down of central bank balance sheets, along with further interest rate increases and some future cost headwinds. We have been hearing from companies about rising freight costs and wage pressures. Intermodal freight rates rose 5.8% in March alone, and tight truck capacity is allowing for pricing power in the logistics space. Considering a 17-year low in unemployment, it is not surprising to see average wages rising 2.7% yr/yr in March.

Top performing sectors of the Russell 2000 Index in Q1 were Healthcare, Technology and Financials while Energy tanked nearly 10% and all other sectors were also in negativity territory. By contrast, in Q4 of last year the best

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performers were Consumer and Energy, along with Materials and Producer Durables sectors. Technology led the relative outperformance of the Strategy for the first quarter of 2018 as six of the top ten contributors were in the Technology sector. An overweighting of this sector and a few corporate takeovers also aided relative performance.

The Strategy returned 13.2% in 2017 versus a 14.7% return for the Russell 2000. Following up on a 21% gain in the Russell 2000 in 2016, the small cap rally continued to roll on and is now longer in duration than most rallies at about nine years. That compared to a nearly 22% gain in the large cap S&P 500 in 2017 and a 30% gain in large cap growth stocks. For Q1 2018, the S&P 500 declined 1.2% and large cap growth gained 1.4%. High quality names generally took it on the chin in 2017 and again in Q1 2018, while non-earners, which we tend not to own, posted better performance. The Strategy remains steadfast in its portfolio construction and philosophy. Higher quality names, which form the major focus of the Small Cap Core Strategy, we believe will outperform over longer periods.

From a bottom-up perspective, we still favor domestic growth over international exposure along with a relatively stronger U.S. consumer benefitting from improved employment conditions and tax changes. The Small Cap Core Strategy remains underweight Consumer Discretionary, Staples, Healthcare, REITS and Utilities sectors and overweight Producer Durables, Financials, Technology, and Energy sectors.

Thank you for the confidence that you have displayed in the strategy and in AlphaOne Capital.

Sincerely,



Christopher Crooks, CFA
Senior Portfolio Manager



Daniel Goldfarb, CFA
Senior Portfolio Manager

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The Fundamental Small Cap Core Composite includes every fully representative Fundamental Small Cap Core portfolio managed in the Fundamental Small Cap Core strategy. The strategy uses solid fundamental research and a bottom-up stock picking approach to seek attractively valued companies. Market capitalization of investments at time of purchase will fall within the market capitalization range of the Russell 2000 Index. Composite performance begins October 2009.

The Composite gross-of-fees returns shown include the reinvestment of income and the impact of transaction costs, but do not include the deduction of investment advisory fees or any other account expenses, such as custodial fees. Composite net-of-fee returns reflect the deduction of the maximum investment advisory fee as determined by the fee schedule. While actual portfolios incur transaction expenses, pay investment advisory fees, and may incur other account expenses, the benchmark index is shown without the impact of such charges. Annual fees for the Fundamental Small Cap Core product are 1.00% of the market value of the assets under management. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size.

Available upon request: list and description of all of AlphaOne’s composites; additional information regarding AlphaOne’s policies and procedures for calculating and reporting performance results. All data are in U.S. dollars. Realized performance results vary substantially based on the period measured. For up-to-date returns information or complete composite definitions, please contact Donald O’Hara at 1-267-597-3849.

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