

In Q2 2018, the Small Cap Core Strategy gained 3.06% while the Russell 2000 (R2) 7.75% for the Russell 2000.

The strategy's composite has realized a gross cumulative 10-year return of 174.32% versus 173.87% 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	3.32	2.83	7.66	-4.34
Cumulative (10/1/2009)	215.06	190.17	206.19	8.88
Annualized Returns				
Trailing 1-Year	14.39	13.31	17.57	-3.17
Trailing 3-Year	9.08	8.05	10.96	-1.88
Trailing 5-Year	13.96	12.88	12.46	1.50
Since AlphaOne (10/1/2009)	14.01	12.95	13.64	0.37
Composite Inception (3/31/2000)	8.99	7.96	7.29	1.70

While the first quarter of 2018 felt like an episode of the popular HBO series Game of Thrones, with most sectors posting negative returns and a narrow leadership landscape, the second quarter seemed more like the series Westworld. Most sectors woke up and gained significant ground, lifting returns from negative to positive. However, the Q2 narrative resulted in only 16.7% of small cap core managers beating the benchmark, and only 14.1% beating year to date. Like Westworld, we will look back briefly to gauge our position and to chart a path forward. For perspective, this small cap rally is now the second longest in duration at about nine years.

In the first quarter of 2018 the Small Cap Core Strategy outperformed the Russell 2000 benchmark by 36 basis points. However, this trend reversed in Q2 as the Strategy gave up relative ground, rising 3.4% vs 7.6% for the Russell 2000. Negative earners and lower quality names drove returns in the first and second quarters in the Russell 2000 index as they did last year, which made for a challenging relative investment environment. Loss-making companies drove returns in software and services as well as in the biopharma sub-sector of healthcare. The first half return contributions were narrow as well, with only 6 of 24 Russell industries (e.g. biopharma, healthcare equipment/services)

posting outperformance. Autos, transports and capital goods industries had the worst performance within the index.

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 1H18, with the Russell 2000 Growth Index gaining 9.7% while Value gained 5.4%. Valuation measures for the Russell 2000 had been running above longer-term averages by 1-2 standard deviations. However, earnings growth is projected to continue in the second half at double digit rates 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, a potentially inverted yield curve, trade tariff effects and future cost headwinds. Rising freight costs and wage pressures, which we noted last quarter, were borne out by subsequent quarterly reports. With a 17-year low in unemployment, it is not surprising to see average wages up 2.9% so far in the first half over the prior year.

Top performing sectors of the Russell 2000 Index in Q2 were Energy (up nearly 20%), Consumer Staples and

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REITS. That contrasts starkly with Q1 when the Energy sector tanked nearly 10% and many other sectors were in negative territory. Technology led the relative outperformance of the Strategy for the first quarter of 2018, and an overweighting of this sector and corporate takeovers aided relative performance. In the second quarter, however, a few technology names reversed and dragged down performance, including GTT and Presidio, names we have trimmed. Year to date, the Healthcare sector of the Russell 2000 has been crushing every other sector on an absolute and relative basis, up 17%. Based on our research about 80% of the top performing healthcare names in the Russell 2000 YTD were non-earners, which are names we tend not to own due to our quality bias for the Strategy.

Looking ahead, we still favor domestic growth over international exposure, especially considering trade tariff effects, along with a relatively stronger U.S. consumer benefitting from improved employment conditions and tax law changes. The Small Cap Core Strategy remains underweight Consumer Discretionary, Staples, Healthcare, REITS and Utilities sectors and overweight Financials, and Technology sectors. 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.

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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