

FIXED INCOME STRATEGY

Denver Investments' Fixed Income investment philosophy is based on the belief that consistently strong risk-adjusted returns are best achieved through an emphasis on income rather than short-term market timing. Using a relative value strategy, the team seeks to deliver alpha primarily through security and sector selection and, secondarily, through portfolio level decisions. Using a collaborative approach grounded in proprietary research, the team constructs a diversified portfolio while adhering to its risk control measures.

HIGHLIGHTS

Relative value strategy focused on income

Over any reasonable investment horizon, the majority of return provided by fixed income investments comes from the income stream. The team believes it can add the most value by focusing on securities with attractive relative yields (typically non-Treasury sectors). While a controlled duration strategy is typically utilized, the team opportunistically uses top-down strategies when market conditions are compelling.

Proprietary fundamental research focus

Based on the belief that valuation anomalies between sectors and securities are most effectively captured through proprietary fundamental research and a long-term investment orientation, rigorous credit analysis defines the investment process. The process also leverages the resources of the firm's equity research teams, providing diverse perspectives and added knowledge about the securities the Fixed Income team analyzes.

Risk-managed investment approach

Risk management is an integral part of the team's approach. The team builds portfolios based on the quantification of risks using proprietary financial modeling and risk analytics. It seeks securities that will add value while broadly diversifying by issuer to minimize credit risk. The team also uses top-down strategies to manage risk when warranted by market conditions.

Collaborative team approach

While analysts drive the research process, the team thoroughly discusses and debates each investment idea before the analyst makes the final decision, subject to client guidelines and portfolio construction considerations. Decisions regarding duration and yield curve positioning are also discussed with the entire team. This approach is designed to take full advantage of both individual insights and the collective expertise of the group and helps ensure clients receive the team's best ideas.

INVESTMENT PROCESS

IDEA GENERATION

Identify securities with attractive yields and total return potential relative to their risk and to similarly-rated securities.

- The Fixed Income team evaluates the value framework of the market daily (security's spread relative to rating and spread relative to like securities).
- Employ proprietary screening tools to help identify securities that are relatively undervalued.
- For new idea generation, the team also leverages relationships with its extensive network of market participants and industry contacts.
- Analysts opportunistically consider smaller issues that may be overlooked by other markets participants; liquidity considerations eliminate issues of less than \$100 million.
- While analysts have industry "point" responsibilities, they remain generalists to allow for overall market-wide valuation assessment.

FUNDAMENTAL RESEARCH

Analyze a security to gain conviction in the quality and stability of income, and the assets that support the security.

- Analysts conduct rigorous, proprietary credit analysis with the goal of identifying undervalued or mispriced securities. Their research combines qualitative investigation and financial analysis, and typically focuses on (1) financial, (2) legal/structural, and (3) macro factors.
- In the corporate sector, analysts go beyond traditional credit analysis and conduct in-depth, equity style fundamental analysis that reflects a long-term investment horizon. They assess the underlying fundamentals of the business including financials, competitive advantage, management, and long-term profitability. At a security level, analysts assess the collateral, subordination, and covenants.
- In the mortgage-backed sector, analysts conduct scenario analysis and look at option-adjusted spreads in evaluating potential performance of these issues. Analysts seek to invest in mortgage-backed securities more insulated from market volatility (e.g., lower prepayment risk).
- Analysis on asset-backed issues is centered on credit and prepayment risk, the issuer/servicer and collateral, and legal and structural aspects of the security. As with mortgage-backed securities, analysts typically avoid negative convexity in favor of stable cash flow.

SECURITY SELECTION

Leveraging the expertise of the entire team, analysts select securities with the most attractive risk/return potential.

- Analysts present security recommendations to the Fixed Income team.
- The team has a collaborative discussion of the investment thesis.
- Analysts make the final decision, subject to client guidelines and portfolio construction consideration.
- Portfolio managers assess portfolio impact, including use of CMS BondEdge if necessary.
- Duration and sector allocation decisions are made by portfolio managers.

PORTFOLIO CONSTRUCTION

Construct diversified portfolio to achieve client objectives.

- Security weighting is based on relative value assessment.
- Diversification guideline: target position size of 1% and maximum position size of <5% (non-Treasury/Agency).
- Sector or industry targets are used to avoid an over-concentration of risk.
- Typical duration guideline: +/- .5 years of benchmark.
- No credit derivatives or index swaps are used.

SELL DECISION

Approach sell decision with same rigor as buy decision.

- Fundamental research identifies a deteriorating financial situation.
- Debt is found to be fairly valued and a more attractive candidate for purchase has been identified.

FIXED INCOME PRODUCTS

Representative portfolio guidelines:

■ INTERMEDIATE

- Benchmark: Bloomberg Barclays Intermediate U.S. Government/Credit Index
- Securities: Approximately 100 - 150
- Credit quality: Typically <10% in non-investment grade securities

■ CORE

- Benchmark: Bloomberg Barclays U.S. Aggregate Bond Index
- Securities: Approximately 100 - 150
- Credit quality: Typically <10% in non-investment grade securities

■ CORE PLUS

- Benchmark: Bloomberg Barclays U.S. Aggregate Bond Index
- Securities: Approximately 100 - 150
- Credit quality: Typically <25% in non-investment grade securities

■ HIGH YIELD

- Benchmark: Bloomberg Barclays U.S. Corporate High Yield Ba Index
- Securities: Approximately 60 - 75
- Credit quality: No limit on non-investment grade securities

■ LIABILITY- DRIVEN INVESTING

- Benchmark: Customized

■ LONG-TERM

- Benchmark: Bloomberg Barclays U.S. Long Government/Credit Bond Index
- Securities: Approximately 70 - 85
- Credit quality: Investment grade securities

Our Core Plus and High Yield strategies are available through our family of mutual funds.

The guidelines listed are representative of each product, but are not considered restrictions. Specific client guidelines may differ.

FIRM OVERVIEW

Denver Investments is a research-driven organization founded on the belief that independent research is the key driver of value-added management. Since the inception of our investment management services in 1958, proprietary fundamental research has been at the core of our investment approach. Our approach is implemented across value, core, growth, and international equities, as well as core and non-core fixed income strategies.

As a firm, we are in one business: serving our clients as a fiduciary in the management of their investment assets. This allows the firm to focus its resources on one goal: the pursuit of superior investment returns for our clients. We believe that our independence (100% employee-owned) helps align our interests with our clients which enhances our ability to promote their investment success.

INVESTMENT TEAM

Kenneth A. Harris, CFA

Partner, Director of Fixed Income Portfolio Management,
Portfolio Manager

2000 to Present: Denver Investments
1985 to 1999: Blue Cross and Blue Shield of Colorado, Treasurer
Education: BBA – University of Arizona; MBA – University of Colorado at Denver
Member of CFA Institute and CFA Society Colorado

Drew D. Conrad, CFA

Vice President, Fixed Income Trader

2010 to Present: Denver Investments
2006 to 2008: SCM Advisors, High Yield / Loan Trader and Analyst
2001 to 2006: AIG Investment Management, Analyst, High Yield Trader
Education: BA – Rice University
Member of CFA Institute and CFA Society Colorado

Nicholas J. Foley

Vice President, Portfolio Manager, Municipal Credit Analyst/Trader

2012 to Present: Denver Investments
2010 to 2011: Bank of the West / BNP Paribas Group, Associate Portfolio Manager, Lead Fixed Income Trader
2009 to 2010: Janus Capital Group, Financial Analyst
2004 to 2008: Washington Mutual Bank, Senior Analyst
Education: BA – Gonzaga University

Darren G. Hewitson, CFA

Partner, Portfolio Manager

2008 to Present: Denver Investments
2008: 180 Connect, Accountant
2007: Munro & Noble Solicitors and Estate Agents, Accountant
Education: BAcc – University of Glasgow, Scotland
Member of CFA Institute and CFA Society Colorado

Steven G. Kindred, CFA, CPA

Vice President, Credit Research Analyst

2009 to Present: Denver Investments
2008 to 2009: Janus Capital Group, Equity Research Analyst
2007: Wasatch Advisors, Equity Analyst Intern
2003 to 2006: Deloitte & Touche, LLP, Senior Auditor
Education: BS and MAcc – Utah State University; MBA – Dartmouth College
Member of CFA Institute and CFA Society Colorado

Troy A. Johnson, CFA

Partner, Director of Fixed Income Research,
Portfolio Manager, Credit Research Analyst

2007 to Present: Denver Investments
2002 to 2007: Quixote Capital Management, Portfolio Manager, Analyst
1993 to 2002: Invesco Funds Group, Inc., Senior Analyst
Education: BS – Montana State University; MS – University of Wisconsin
Member of CFA Institute and CFA Society Colorado

William S. Oh, CFA, FRM

Vice President, Securitized Debt Analyst/Trader

2011 to Present: Denver Investments
2010 to 2011: Nationwide Insurance, Finance Leadership Program
2009 to 2010: AEGON USA Investment Management, Intern
2004 to 2008: One West Bank (Formerly Indymac Bank), Assistant VP, Buy-Side MBS & Whole Loan Trader
2002 to 2004: Bear Stearns Residential Mortgage, Business Analyst
Education: BA – Claremont McKenna College; MBA – University of Chicago
Member of CFA Institute and CFA Society Colorado

Daniel T. Schniedwind, CFA

Vice President, Credit Research Analyst

2014 to Present: Denver Investments
2011 to 2014: AMI Asset Management, Credit Analyst
2010 to 2011: Mars Hill Partners, Analyst
2009: Oppenheimer & Co., Sales and Trading Intern
Education: BA – Whittier College; MS – Indiana University
Member of CFA Institute and CFA Society Colorado

Gregory M. Shea, CFA

Partner, Portfolio Manager, Credit Research Analyst

2008 to Present: Denver Investments
2004 to 2008: Lehman Brothers Asset Management, Credit Analyst
2003 to 2004: Banc of America Securities, Investment Banking Analyst
2001 to 2003: Bank of America, Bank Credit Analyst
Education: BS and MSBA – Washington University
Member of CFA Institute and CFA Society Colorado

Nick Yu, CFA

Vice President, Credit Research Analyst

2016 to Present: Denver Investments
2013 to 2016: Great West Financial, Credit Analyst/Portfolio Manager
2012 to 2013: Western Union, Foreign Exchange Trader
2011 to 2012: D.A. Davidson and Company, Research Associate
2006 to 2009: Oppenheimer Funds, Business Analyst-Operations
Education: BS – University of Colorado; MS and MBA – University of Colorado at Denver
Member of CFA Institute and CFA Society Colorado

FOR MORE INFORMATION ABOUT OUR INSTITUTIONAL OFFERING, PLEASE CONTACT:

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