

CORE PLUS FIXED INCOME

FACT SHEET | December 31, 2017

STRATEGY

- Use relative value strategy for security and sector selection
- Focus on income rather than market timing of interest rates
- Conduct proprietary, equity-like fundamental research
- Emphasize disciplined, risk-managed investment approach

Performance¹

Periods Ended 12/31/17 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
Core Plus Fixed Income (gross)	0.86	5.23	5.23	3.33	3.12	4.72
Core Plus Fixed Income (net)	0.79	4.91	4.91	2.95	2.71	4.27
BBgBarc U.S. Aggregate Index ⁴	0.39	3.54	3.54	2.24	2.10	4.01

Calendar Year (%)	2017	2016	2015	2014	2013	2012
Core Plus Fixed Income (gross)	5.23	4.27	0.56	6.48	-0.74	6.24
Core Plus Fixed Income (net)	4.91	3.89	0.11	6.00	-1.18	5.77
BBgBarc U.S. Aggregate Index ⁴	3.54	2.65	0.55	5.97	-2.02	4.22

Portfolio Characteristics²

	Core Plus Fixed Income	BBgBarc U.S. Aggregate ⁴
Effective Duration	5.7 years	6.0 years
Effective Maturity	8.3 years	8.3 years
Effective Yield	3.1%	2.7%
Coupon	4.2%	3.1%
Average Credit Quality	A	AA
Turnover (3 year average)	36%	-
Standard Deviation	2.74%	2.81%

Sector Allocation²

	Core Plus Fixed Income	BBgBarc U.S. Aggregate ⁴	Relative Weights
CLO	1.5	0.0	1.5
Treasury	15.6	37.0	-21.4
U.S. Agencies	0.0	3.3	-3.3
Other Government-Related	8.5	3.5	5.0
Corporate Credit	37.1	25.7	11.4
Agency Mortgage-Backed Securities	20.9	28.1	-7.2
Residential Mortgage-Backed Securities	3.3	0.0	3.3
Commercial Mortgage-Backed Securities	6.4	1.9	4.5
Asset-Backed Securities	5.8	0.5	5.3
Other	0.0	0.1	-0.1
Cash & Equivalents	0.8	0.0	0.8

Corporate Allocation²

	Core Plus Fixed Income	BBgBarc U.S. Aggregate ²	Relative Weights
Financial	14.4	8.1	6.3
Industrial	20.4	15.8	4.6
Utility	2.3	1.8	0.5

¹Data is based on firm's Core Plus Fixed Income composite. Past performance does not guarantee future results and future performance may be lower or higher than the performance presented. See Performance Disclosure for additional performance information.

²Information presented is for a representative portfolio which is an account in the composite that we believe most closely reflects current portfolio management style for the strategy. Performance is not a consideration in the selection of the representative portfolio. The information of the representative portfolio shown may differ from that of the composite and of the other accounts in the composite. Information on this page is considered supplemental information to the Performance Disclosure. Weights may not sum to 100% due to rounding.

³The rating information reflects the Standard & Poor's equivalent rating category for the highest credit-quality rating assigned by either Standard & Poor's or Moody's ratings.

⁴Source: CMS BondEdge

⁵Standard Deviation statistic based on monthly data. Three years. Source: eVestment Alliance.

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Quality Detail^{2,3}

% of portfolio	Core Plus Fixed Income	BBgBarc U.S. Aggregate ⁴
AAA	50.0	71.2
AA	5.8	3.8
A	13.3	11.5
BBB	19.9	13.5
BB & Below	9.0	0.0
Not Rated	2.0	0.0

Duration Distribution^{2,4}

% of securities	Core Plus Fixed Income	BBgBarc U.S. Aggregate ⁴
0 - 1 year	8.5	0.1
1 - 3 years	22.8	22.8
3 - 4 years	11.6	16.7
4 - 6 years	26.2	32.1
6 - 8 years	10.6	9.9
8+ years	20.3	18.4

Manager commentary for the quarter ended December 31, 2017²

Market Overview

As was widely expected, the Federal Reserve raised short-term interest rates in December. This was the third increase in 2017 and the fifth in this rate hiking cycle, which began in December 2015. History informs us that during Federal Reserve rate hiking cycles, the yield curve typically flattens, as short-term and long-term interest rates compress. That is exactly what happened this time around. The ten-year U.S. Treasury rate was virtually unchanged in 2017, while the thirty-year U.S. Treasury rate declined by 32 basis points (0.32%) during the year. The Federal Reserve continues to express expectations that economic growth will lead to labor market tightening, then to wage increases, and ultimately to rising inflation, as fulfillment of its extraordinary easing measures over the last nine years since the Great Recession. The bond market seems to have a much different view, with expectations of only modest growth and low inflation continuing for several years. The combination of an assertive Federal Reserve raising rates pre-emptively to head off the forecasted rise in inflation, while inflation remains persistently low has, in our view, been the driving force keeping long-term rates lower than many have been forecasting over the last several years.

In this environment of solid corporate profits, modestly positive economic growth, and low inflation corporate bonds, mortgage backed securities, equities, and other risk assets have all performed extremely well over the entire year, including the fourth quarter.

Portfolio Commentary

The Denver Investments' Core Plus portfolio's return for the fourth quarter exceeded the 0.39% return of its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index. The portfolio benefited from the positive income effect of its typical heavier weighting of sectors which offer yield in excess of Treasuries (spread), such as corporate, taxable municipal, and securitized bonds. While the "spread" sectors also generally benefited from tightening through the quarter, the portfolio's maintenance of exposure to longer maturity corporate and taxable municipal securities particularly enhanced its performance due to their longer duration characteristics and the flattening of the yield curve teamed with this tightening. Our effort to maintain the portfolio's enhanced yield, while limiting volatility within the portfolio through targeting shorter duration securities with higher yields, was not as beneficial as the portfolio's longer duration exposure.

Outlook and Positioning

The recent passage of tax reduction legislation has us reassessing our forecast. We believe there will likely be a slight increase in growth over the next two to three years as the impact of corporate tax cuts has the potential for expanded business capital investment and wage increases being passed on to workers. The Federal Reserve's reaction will be the key to managing the current extended recovery cycle. Growth created by tax reductions may well be offset by an increase in interest rates if the Federal Reserve follows through on its planned rate expectations. We will be watching closely to monitor the balance between expansive fiscal policies and tightening monetary policies and the resultant impact to growth and inflation. An overly aggressive Federal Reserve, which is not our forecast, could well short circuit the recovery that would otherwise become the longest in U.S. history eclipsing the 1991-2001 expansion of 120 months. On the other hand, if the Federal Reserve doesn't react quickly enough to any growth spurt that leads to inflation, we could finally see the rise in rates that has been so widely, and wrongly, anticipated.

U.S. fixed income securities continue to look attractive versus those available elsewhere in today's global marketplace, particularly the significantly lower, and even negative rates, offered in European and Japanese bond markets. We have constructed the portfolio with overweighted positions in shorter maturity "spread" sectors offering what we believe are good yield opportunities and durations that are slightly shorter than their benchmarks, reflecting the low interest rate environment. We currently have maintained exposure to longer maturity Treasuries that we believe are likely to perform well as the yield curve flattens further in this rate hiking cycle. This positioning is intended to capture higher income levels while also being slightly more protective if we do see modest interest rate increases. Recognizing that we are late in an already extended credit cycle, we have positioned the portfolio with overweighted positions in carefully selected income-producing securities, including mortgage-backed securities and corporate and municipal bonds. These tactics are designed to enable performance over multiple interest rate and economic scenarios. We have increased our focus on quality and liquidity to mitigate negative credit events and market dislocations that could adversely impact the portfolio. We believe our rigorous credit selection process is particularly valuable at this point in the credit cycle when it is critically important to assess valuations, as well as differentiate creditworthiness and long-term stability, of each of our holdings. While we are concerned about increased volatility and the recent rise in short-term rates, we are still not convinced the market is quickly headed to significantly higher long-term interest rates.

Performance Disclosure: Core Plus Fixed Income Composite

Year	— Composite Assets—			Composite Gross of Fees Annual Return (%)	Composite Net of Fees Annual Return (%)	BBgBarc U.S. Aggregate Bond Index (%)	Composite 3 Year Standard Deviation (%)	Index 3 Year Standard Deviation (%)	Composite Dispersion (%)	Total Firm Assets (Incl. Model Portfolios)* (\$Bil)	Total Firm Assets (\$Bil)
	Dollars (\$ millions)	% of Firm Assets	Composite Accounts								
2016	1,215	17.0	3	4.27	3.89	2.65	2.99	3.02	0.28	7.476	7.169
2015	1,955	26.5	8	0.56	0.11	0.55	2.97	2.92	0.23	7.606	7.382
2014	1,767	18.9	6	6.48	6.00	5.97	2.80	2.66	0.19	9.596	9.373
2013	1,640	16.7	6	-0.74	-1.18	-2.02	2.77	2.75	0.35	10.009	9.794
2012	1,810	19.4	6	6.24	5.77	4.22	2.36	2.42	0.38	9.565	9.343
2011	1,712	18.8	6	8.21	7.73	7.84	2.60	2.82	0.55	9.389	9.101
2010	1,721	19.8	6	7.81	7.32	6.56	-	-	0.30	8.989	8.711
2009	1,570	20.0	6	10.71	10.22	5.93	-	-	1.94	8.038	7.837
2008	1,245	18.1	6	-0.90	-1.36	5.24	-	-	1.72	7.008	6.867
2007	1,266	13.3	6	6.07	5.53	6.96	-	-	0.29	9.715	9.502

*Number includes a portion of assets where Denver Investments does not have discretionary trading authority. This information is supplemental to fully compliant presentation.

- 1) Denver Investment Advisors LLC (dba Denver Investments) is an independent investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Denver Investments provides fundamental investment management services to various institutional and private investors and mutual funds.
- 2) This composite was created in January 1992 (style inception was 1/1/1992). All returns are computed using a time-weighted total rate of return. The composite is defined to include all fee-paying, discretionary accounts that are managed according to the Core Plus strategy. From 1992-1997, the accounts in the Core Plus Fixed Income composite were also included in the Core Investment Grade Fixed Income and Core Fixed Income composites. The composite is being shown as a subset of the larger composite due to its being managed against a different benchmark. The composite includes all actively managed fixed income accounts that are managed to the Bloomberg Barclays U.S. Aggregate Bond Index and primarily invest in both investment and below-investment grade securities with maturities less than 30 years. The Bloomberg Barclays U.S. Aggregate Bond Index benchmark is an unmanaged, fixed income, market-value-weighted index generally representative of intermediate-term government bonds, investment grade corporate debt securities and mortgage-backed securities. Index returns are not covered by the report of the independent verifiers. The name of the composite was changed on 1/1/2007 from Core Plus Bond. Bloomberg Barclays is the source and owner of the Bloomberg Barclays Index data contained in this material and all trademarks and copyrights related thereto. Any further dissemination or redistribution is strictly prohibited. Bloomberg Barclays is not responsible for the formatting or configuration of this material or for any inaccuracy in Denver Investments' presentation thereof.
- 3) Gross of fee returns are calculated gross of management and custodial fees and net of transaction costs. Net of fee returns are calculated net of management fees and transaction costs and gross of custodian fees. As of 1/1/15, net of fee returns were calculated by deducting the maximum applicable advisory fee in effect, pro-rated on a monthly basis. From 1/1/08 to 12/31/14, net of fee returns were calculated by deducting the maximum applicable advisory fee in effect, pro-rated on a quarterly basis. Prior to this date, net of fees returns were calculated using actual annual client fees, pro-rated on a quarterly basis.
- 4) The dispersion of annual returns is measured by the standard deviation across unweighted portfolio gross returns represented within the composite for the full year. Dispersion is not shown for years in which only one account is present for the entire year.
- 5) Valuations and returns are computed and stated in U.S. dollars. Performance is calculated net of withholding taxes on foreign dividends and interest. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Total returns for accounts are presented using the accrual basis of accounting for all fixed income and equity investments and on a cash basis for all cash equivalents.
- 6) Denver Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Denver Investments has been independently verified for the periods 1/1/84 – 12/31/16. Verification assesses whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Core Plus Fixed Income composite has been examined for the periods 1/1/99 – 12/31/16. The verification and performance examination reports are available upon request. A complete list and description of all firm composites is available upon request.
- 7) The maximum fee rate is 0.30%. As of 3/31/2016, the maximum fee was decreased from 0.45% to 0.35%. Additionally, as of 1/31/17, the maximum fee was decreased from 0.35% to 0.30. Please reference Denver Investments' ADV for full fee schedule.
- 8) Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- 9) Past performance does not guarantee future results and future performance may be lower or higher than the performance presented.

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