

HIGH YIELD FIXED INCOME

FACT SHEET | September 30, 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 9/30/17 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
High Yield Fixed Income (gross)	1.81	6.48	7.49	6.91	6.42	5.92
High Yield Fixed Income (net)	1.69	6.12	7.01	6.43	5.95	5.44
BBgBarc U.S. Corporate High Yield Ba ⁴	2.01	6.90	7.36	6.39	6.31	8.28

Calendar Year (%)	2016	2015	2014	2013	2012	2011
High Yield Fixed Income (gross)	13.64	-0.69	5.89	5.20	11.41	9.04
High Yield Fixed Income (net)	13.13	-1.13	5.42	4.73	10.94	8.57
BBgBarc U.S. Corporate High Yield Ba ⁴	12.78	-1.00	5.37	5.05	14.59	6.86

Portfolio Characteristics²

	High Yield Fixed Income	BBgBarc U.S. Corp High Yield Ba ⁴
Effective Duration	3.8 years	4.4 years
Effective Maturity	6.3 years	6.9 years
Effective Yield	4.0%	4.0%
Coupon	5.6%	5.7%
Average Credit Quality	BB	BB
Turnover (3 year average)	26%	-
Standard Deviation	4.72%	4.72%

Sector Allocation²

	High Yield Fixed Income	BBgBarc U.S. Corp High Yield Ba ⁴	Relative Weights
Corporate Credit	93.8	100.0	-6.2
Residential Mortgage-Backed Securities	0.8	0.0	0.8
Commercial Mortgage-Backed Securities	3.5	0.0	3.5
Cash & Equivalents	2.0	0.0	2.0

Corporate Allocation²

	High Yield Fixed Income	BBgBarc U.S. Corp High Yield Ba ⁴	Relative Weights
Financial	7.0	15.4	-8.4
Industrial	85.0	82.4	2.6
Utility	1.8	2.3	-0.5

¹Data is based on firm's High Yield 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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Denver Investments | Republic Plaza | 370 17th Street | Suite 5000 | Denver, Colorado 80202
p: 303.312.5000 | f: 303.312.4900 | e: marketing@denvest.com | www.denvest.com

Quality Detail^{2,3}

% of portfolio	High Yield Fixed Income	BBgBarc U.S. Corp High Yield Ba ⁴
AAA	2.0	0.0
BBB	21.8	0.0
BB & Below	74.1	100.0
Not Rated	2.1	0.0

Duration Distribution^{2,4}

% of securities	High Yield Fixed Income	BBgBarc U.S. Corp High Yield Ba ⁴
0 - 1 year	12.9	8.2
1 - 3 years	25.5	26.4
3 - 4 years	15.9	14.2
4 - 6 years	31.0	31.8
6 - 8 years	10.8	11.0
8+ years	3.8	8.5

Manager commentary for the quarter ended September 30, 2017²

Market Overview

The high-yield market's ability to shake off negative headlines and move higher continued in the third quarter. The Bloomberg Barclays U.S. Corporate High Yield Index posted another strong quarter, returning 1.83%. However, its returns by month did not follow a smooth trajectory as it posted solidly positive results in July and September, but took a breather in August. The new issue market remained generally accommodative and year-to-date issuance was up 15% versus the same period last year. The openness of the capital markets and stable fundamentals helped drive the trailing twelve-month high-yield issuer default rate down further in the quarter from 4.43% to 4.00%. Interestingly, when looking at how the different high-yield credit quality indexes performed in the quarter, the difference between the best-performing credit cohort, the Bloomberg Barclay's U.S. Corporate High Yield Caa Index, and the worst-performing credit cohort, the Bloomberg Barclay's U.S. Corporate High Yield B Index, was only 0.59%. This was the lowest differential since the second quarter of 2014 when the high-yield credit spreads reached their post-2008 low. The sector that underperformed most notably this quarter was telecommunications, while the top performer was energy, which was buoyed by the double-digit increase in oil prices during the quarter. Two individual credit stories worth highlighting in the quarter, although the portfolio was not invested in them, were Tesla and Toys 'R' Us. Tesla raised \$1.8 billion in the quarter in its inaugural high-yield bond offering. The capital raised will help in funding its continued disruption of the conventional gasoline powered automobile market and, potentially, the power markets in the future. This is noteworthy as Tesla remains in a heavy investment phase and does not currently generate positive free cash flow, which is not the typical profile for a new debt issuer. Toys 'R' Us abruptly filed for bankruptcy in September 2017. To us, this is a cautious reminder that it doesn't take much volatility to push some companies over the edge. To better illustrate this, Toys 'R' Us had a 7.375% coupon bond that was due October 15, 2018, or about 13 months from the beginning of September. It started the month priced at 97.25 (a slight discount to par) and ended the month priced at 32.00, or down a shocking 67%. In our view, robust credit analysis remains critical in the high-yield market.

Portfolio Commentary

The Denver Investments' High-Yield portfolio lagged the 2.01% return recorded by its benchmark, the Barclays U.S. Corporate High Yield Ba Index. The portfolio benefited from its positions in the energy sector and single B-rated bonds. These benefits were more than offset by the portfolio's positions in investment grade rated bonds, short callable high-yield securities and the telecommunications sector, which ultimately led to its underperformance.

Outlook and Positioning

As investors required less additional yield over Treasuries for credit risk, high-yield credit spreads continued to march tighter in the quarter and are about 0.25% from the post-2008 lows established in mid-2014. Our market view has not meaningfully changed since last quarter. We believe the key drivers of market valuations from here will likely be (1) the speed with which the Federal Reserve normalizes policy, (2) global investor appetite for fixed income assets, (3) results out of Washington D.C., and (4) the pace at which corporate America re-leverages balance sheets. We still generally expect moderate outcomes on each of these fronts, but are positioned appropriately to go on the offensive if dislocations occur and the situation warrants.

We position the portfolio with a longer-term investment orientation and an emphasis on higher-quality high-yield bonds, the goal of which is reducing the portfolio's volatility while providing solid risk-adjusted returns over time. Our process entails intensive credit analysis by which we evaluate yield versus risk through business cycles, and it follows that a larger weighting of higher-rated, high-yield issues is a logical result. Most importantly, we believe this strategy is suitable over the long term for investors who want comparative yield from a high-yield portfolio, but who are also more sensitive to volatility and more focused on capital preservation.

Performance Disclosure: High Yield Fixed Income Composite

Year	— Composite Assets —			Composite Gross of Fees Annual Return (%)	Composite Net of Fees Annual Return (%)	BBgBarc U.S. Corporate High Yield Ba 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	75	1.1	1	13.64	13.13	12.78	4.86	5.16	-	7.476	7.169
2015	58	1.0	1	-0.69	-1.13	-1.00	4.37	5.05	-	7.606	7.382
2014	65	1.0	1	5.89	5.42	5.37	3.58	4.41	-	9.596	9.373
2013	66	1.0	1	5.20	4.73	5.05	4.25	5.45	-	10.009	9.794
2012	81	1.0	1	11.41	10.94	14.59	4.61	5.95	-	9.565	9.343
2011	90	1.0	1	9.04	8.57	6.86	8.39	8.45	-	9.389	9.101
2010	67	1.0	1	13.66	13.20	14.55	-	-	-	8.989	8.711
2009	74	1.0	1	41.25	40.66	46.08	-	-	-	8.038	7.837
2008	66	1.0	1	-29.38	-29.72	-17.53	-	-	-	7.008	6.867
2007	224	2.4	2	-2.57	-3.38	1.74	-	-	0.72	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) The High-Income Corporate Management composite was created in October 2000 (style inception was 10/1/2000). 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 High Yield Fixed Income strategy. The composite includes all actively managed fixed income accounts that are managed to the Bloomberg Barclays U.S. Corporate High Yield Ba Index and invest in high-income producing securities, primarily corporate bonds, concentrated in below-investment grade securities with maturities less than 30 years. The Bloomberg Barclays U.S. Corporate High Yield Ba Index is an unmanaged index that measures the performance of intermediate (1 to 10 year) U.S. high yield issues. It includes fixed-rate, noninvestment grade debt issues rated Ba1 or lower by Moody's, rated BB+ or lower by S&P, rated below investment grade by Fitch Investor's Service or if unrated previously, held a high yield rating or have been associated with a high yield issuer, and must trade accordingly. Index returns are not covered by the report of the independent verifiers. The name of the composite was changed from High Income Corporate to High Yield Fixed Income on 1/1/2007.
- 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 High Yield Fixed Income composite has been examined for the periods 12/31/03 – 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 0.45%. 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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