

INTERMEDIATE 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
Intermediate Fixed Income (gross)	0.84	2.95	0.95	2.55	2.21	4.28
Intermediate Fixed Income (net)	0.76	2.72	0.64	2.17	1.80	3.84
BBgBarc Intern. U.S. G/C Index ⁴	0.60	2.34	0.23	2.13	1.61	3.64

Calendar Year (%)	2016	2015	2014	2013	2012	2011
Intermediate Fixed Income (gross)	2.92	1.01	3.93	-0.12	5.06	6.47
Intermediate Fixed Income (net)	2.59	0.55	3.47	-0.57	4.61	6.00
BBgBarc Intern. U.S. G/C Index ⁴	2.08	1.07	3.13	-0.86	3.89	5.80

Portfolio Characteristics²

	Intermediate Fixed Income	BBgBarc Intermediate U.S. G/C
Effective Duration	3.8 years	4.0 years
Effective Maturity	5.2 years	4.4 years
Effective Yield	2.4%	2.1%
Coupon	4.0%	2.5%
Average Credit Quality	A	AA
Turnover (3 year average)	37%	-
Standard Deviation	1.99%	2.17%

Sector Allocation²

	Intermediate Fixed Income	BBgBarc Intermediate U.S. G/C	Relative Weights
Treasury	24.0	57.4	-33.4
U.S. Agencies	0.0	5.5	-5.5
Other Government-Related	6.9	4.6	2.3
Corporate Credit	53.9	32.5	21.4
Agency Mortgage-Backed Securities	3.8	0.0	3.8
Commercial Mortgage-Backed Securities	3.5	0.0	3.5
Asset-Backed Securities	7.8	0.0	7.8
Cash & Equivalents	0.1	0.0	0.1

¹Data is based on firm's Intermediate 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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Corporate Allocation²

	Intermediate Fixed Income	BBgBarc Intermediate U.S. G/C	Relative Weights
Financial	18.9	12.3	6.6
Industrial	27.3	18.7	8.6
Utility	7.7	1.5	6.2

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Quality Detail^{2,3}

% of portfolio	Intermediate Fixed Income	BBgBarc Intermediate U.S. G/C
AAA	39.6	63.8
AA	7.2	5.5
A	26.2	13.5
BBB	21.7	17.2
BB & Below	4.0	0.0
Not Rated	1.3	0.0

Duration Distribution^{2,4}

% of securities	Intermediate Fixed Income	BBgBarc Intermediate U.S. G/C
0 - 1 year	16.3	0.3
1 - 3 years	26.1	38.7
3 - 4 years	12.7	15.6
4 - 6 years	26.4	24.4
6 - 8 years	13.5	16.0
8+ years	5.1	5.1

Manager commentary for the quarter ended September 30, 2017²

Market Overview

The Federal Reserve has now raised short-term interest rates three times in the last 10 months and seems poised for a fourth this December. The June 2017 interest rate hike of 25 basis points (0.25%) had a minimal impact on the two-year US Treasury bond's yield that increased only 10 basis points (0.10%) in the subsequent quarter; long-term rates as reflected by the thirty-year US Treasury rate increased a mere 2 basis points (0.02%) in the quarter. The Federal Reserve continues to anticipate the fruition of their efforts to spur growth and boost inflation that the last eight years of extraordinary monetary policy has failed so far to accomplish. The latest Real Gross Domestic Product 12-month growth rate through the second quarter was 2.2% and the latest year over year change to the Core Personal Consumption Expenditure Deflator was only 1.4%. So, while Janet Yellen and the Federal Open Market Committee are declaring victory having achieved their goals the bond market is seeing monetary tightening in the face of only modest growth and contained inflation. The absence of rapid growth, increasing wages and ultimately inflation leads the bond market to conclude that long-term interest rates will continue to remain range bound as they have over the last nine years. Corporate credit quality remains strong in this environment and even saw some marginal improvement in the recent quarter.

With interest rates relatively range bound and credit sectors performing well broad bond market indices posted solid positive returns for the quarter.

Portfolio Commentary

For the quarter, the portfolio outperformed, returning 0.84% versus 0.60% for the Bloomberg Barclays Intermediate U.S. G/C Index. Interest rate effects were positive contributors in light of the portfolio's modestly short duration positioning amid rising interest rates. A flatter yield curve was also a slight positive due to an underweight to the short end of the curve. Additional income was earned from an overweighted allocation to non-Treasury securities, including corporate bonds, taxable municipal bonds and asset-backed securities. Sector spread effects were positive as credit continued to outperform Treasuries. Further, the continued outperformance of BBB-rated securities, relative to higher rated investment grade, was a positive contributor. Excess returns from high yield in turn outperformed investment grade, to the benefit of relative returns. Security selection was positive in the quarter as the credit securities owned in the portfolios outperformed their respective peer groups in the benchmark; including in the energy, REIT and taxable municipal sectors.

Outlook and Positioning

Our economic outlook is for the continuation of modest, but positive growth, and slowly rising inflation. At quarter end, unemployment remained at cycle lows even as the labor force increased with displaced workers slowly returning to the workforce. The synchronized global expansion continues at a moderate pace with inflation remaining quite low across all developed markets. There is very little evidence to indicate a near-term recession with few excesses visible. Absent an overly aggressive Federal Reserve, which is not our forecast, the recovery could continue to become the longest in U.S. history eclipsing the 1991-2001 expansion of 120 months.

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 portfolios with overweighted positions in shorter maturity "spread" sectors offering good yield opportunities and durations that are slightly shorter than their benchmarks reflecting the low interest rate environment. This positioning is intended to capture higher income levels while also being slightly more protective if we do see modest interest rate increases. We are also cognizant that a fall in interest rates is plausible if the pendulum of economic data swings back to the weaker side, a flight to quality is caused by another global crisis, or there is a sudden decline in stock prices. Recognizing that we are late in an already extended positive credit cycle, we have positioned the portfolios 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 in an effort to mitigate negative credit events and market dislocations that could adversely impact portfolios. 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 the volatility and the recent rise in short-term rates, we are not convinced the market is quickly headed to significantly higher long-term interest rates.

Performance Disclosure: Intermediate Fixed Income Composite

Year	— Composite Assets—			Composite Gross of Fees Annual Return (%)	Composite Net of Fees Annual Return (%)	BBgBarc Intermediate U.S. Gov/Credit 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	177	2.5	5	2.92	2.59	2.08	2.12	2.26	0.52	7.476	7.169
2015	210	2.8	7	1.01	0.55	1.07	2.08	2.13	0.15	7.606	7.382
2014	210	2.2	7	3.93	3.47	3.13	2.03	1.97	0.30	9.596	9.373
2013	152	1.6	5	-0.12	-0.57	-0.86	2.15	2.14	0.32	10.009	9.794
2012	318	3.4	7	5.06	4.61	3.89	2.12	2.19	0.36	9.565	9.343
2011	301	3.3	7	6.47	6.00	5.80	2.37	2.59	0.14	9.389	9.101
2010	304	3.5	8	6.90	6.42	5.89	-	-	0.47	8.989	8.711
2009	169	2.2	6	7.72	7.23	5.24	-	-	1.17	8.038	7.837
2008	153	2.2	3	3.40	2.93	5.07	-	-	1.44	7.008	6.867
2007	153	1.6	3	6.80	6.52	7.40	-	-	0.40	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 1983 (style inception was 5/1/1977). 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 Intermediate Fixed Income strategy. The composite includes all actively managed fixed income accounts that are managed to the Bloomberg Barclays Intermediate U.S. Gov/Credit Index and primarily invest in investment-grade securities with maturities less than 10 years. The Bloomberg Barclays Intermediate U.S. Gov/Credit Index benchmark is an unmanaged index that includes fixed rate debt issues rated investment grade or higher by Moody's Investors Services, Standard & Poor's Corporation or Fitch Investor's Service. Index returns are not covered by the report of the independent verifiers. The name of the composite was changed from Intermediate Bond to Intermediate Fixed Income on 1/1/2007. 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.
- 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 Intermediate Fixed Income composite has been examined for the periods 1/1/84 – 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 0.30%. 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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