

MICRO-CAP

FACT SHEET | December 31, 2017

STRATEGY

- Focus on micro-cap companies with less than \$500 million market capitalization
- Multi-factor sector-specific quantitative models developed in conjunction with fundamental analyst team
- Emphasize strict adherence to style and risk control measures
- Mathematical approach allows for repeatability within the process

Top Ten Holdings^{2,3} (%)

Medifast Inc (Consumer Staples)	1.2
Schnitzer Steel Industries Inc (Materials)	1.2
Sucampo Pharmaceuticals Inc (Health Care)	1.2
Universal Insurance Holdings Inc (Financials)	1.1
Exactech Inc (Health Care)	1.1
Allied Motion Technologies Inc (Industrials)	1.1
Bristow Group Inc (Energy)	1.1
Bancorp Inc/The (Financials)	1.1
Continental Building Products Inc (Industrials)	1.0
ANI Pharmaceuticals Inc (Health Care)	1.0
Total (% of portfolio)	11.1%

¹Data is based on firm's Micro-Cap 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 specific securities identified and described do not represent all the securities purchased, sold or recommended for clients in the composite and no assumption should be made that such securities or future recommendations will be profitable in the future.

⁴Source: FactSet

⁵Tracking error, Standard deviation and Beta statistics based on monthly data. Three years. Source: eVestment Alliance.

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Performance¹

Periods Ended 12/31/17 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
Micro-Cap (gross)	1.32	6.83	6.83	9.04	14.80	-
Micro-Cap (net)	1.01	5.51	5.51	7.69	13.38	-
Russell Microcap [®] Index ⁴	1.80	13.17	13.17	8.91	14.29	-
Calendar Year (%)	2017	2016	2015	2014	2013	2012
Micro-Cap (gross)	6.83	26.05	-3.72	3.86	48.06	17.11
Micro-Cap (net)	5.51	24.51	-4.92	2.57	46.46	15.94
Russell Microcap [®] Index ⁴	13.17	20.37	-5.16	3.65	45.62	19.75

Portfolio Characteristics^{2,5}

	Micro-Cap	Russell Microcap [®] Index ⁴
Weighted Average Market Capitalization (\$ Mil)	\$704	\$602
Median Market Capitalization (\$ Mil)	\$646	\$236
Price/Book Value	2.6x	2.7x
Return on Assets	4.8%	-2.2%
Long-Term Debt/Capital	22.7%	23.9%
Dividend Yield (1 year trailing)	1.1%	0.6%
Beta (3 Years)	0.81	-
Standard Deviation (3 Years)	13.30%	15.53%
Tracking Error (3 Years)	5.37%	-
Turnover (3 year average)	66%	-
Number of Holdings	144	-

Sector Allocation²

	Micro-Cap	Russell Microcap [®] Index ⁴	Relative Weights
Consumer Discretionary	12.0	12.4	-0.4
Consumer Staples	2.6	1.8	0.8
Energy	4.9	4.9	
Financials	26.0	23.8	2.2
Health Care	20.3	23.4	-3.1
Industrials	12.3	11.8	0.5
Information Technology	11.5	12.9	-1.4
Materials	4.1	3.3	0.8
Real Estate	2.5	3.8	-1.3
Telecommunication Services	0.0	0.8	-0.8
Utilities	1.3	1.2	0.1
Cash	2.5	0.0	2.5

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Market Overview

Micro-cap stocks posted their third straight quarter of positive results, with the Russell Microcap® Index up 1.80% for the three months ended December 31, 2017. For the first time in 2017, stocks that we view as expensive underperformed companies with high cash flow to price and other positive valuation metrics. Stocks with solid return on equity slightly outperformed, as did those with higher quality (as measured by the Piotroski score). Stocks with higher volatility and higher historical trading volume outperformed those that were less volatile and less liquid.

Portfolio Commentary

For the fourth quarter, the return of the Denver Investments' Micro-Cap portfolio underperformed the 1.80% return of its benchmark, the Russell Microcap® Index. The models used to help manage and select stocks for the portfolio delivered mixed results for the quarter. On an absolute basis, the portfolio provided positive returns in 7 of 11 sectors for the quarter. The benchmark's returns were positive in 9 out of 11 sectors on an absolute basis. The portfolio outperformed the benchmark in 3 out of the 11 sectors.

Contributors to Portfolio

The portfolio's best-performing sectors, relative to the benchmark, were utilities and industrials. Among the portfolio's best-performing holdings this quarter was Spectrum Pharmaceuticals Inc., a commercial-stage biotechnology company with fully integrated commercial and drug development operations that specializes in hematology and oncology. The company's Pozotinib drug has continued to perform well in lung cancer studies. Sucampo Pharmaceuticals Inc. was another significant contributor to the portfolio's performance in the quarter. It was announced in December that this biotechnology firm has entered into an agreement to be acquired by Mallinckrodt plc. Another strong performer was Florida-based Exactech Inc. This leading manufacturer and distributor of orthopedic implant devices entered into an agreement to be acquired by TPG Capital during the quarter.

Detractors from Portfolio

The portfolio's weakest sectors relative to the benchmark were financials and health care. Among the portfolio's detractors in the quarter was Cytokinetics Inc., a biopharmaceutical company which develops muscle activators as potential treatments for debilitating diseases. The company's drug Tiraseptiv, primarily used for the treatment of ALS, disappointed in clinical studies. Another detractor from the portfolio's performance in the quarter was Roadrunner Transportation Systems Inc., an asset-light transportation and supply chains solutions provider. The firm has been troubled by accounting issues. Genetic testing company Natera Inc. also hampered the portfolio's performance in the quarter. Its stock underperformed after management lowered guidance for earnings estimates following policy changes by two large insurance firms, which could create headwinds for the company.

Outlook and Positioning

The passage of tax reform has added to the continuing improvement in global economic growth and rising corporate earnings. The combination of still-low interest rates, a relatively stable monetary policy, and domestic regulatory relief suggests a promising outlook for 2018. With more job openings in the retail industry than at any time since the turn of the century, companies like Wal-Mart Stores Inc. have increased starting wages by over 20% and have handed out bonuses to existing employees. Long-term nominal wage growth will likely go a long way towards establishing broad-based economic growth. While valuations are historically high for many large-cap stocks, we believe micro-cap stocks, particularly those inexpensive based on the cash flow to enterprise value, remain relatively attractive.

Top 5 Contributors/Detractors (By Stock)^{2,6}

Top 5 Contributors	Average Weight	Absolute Contribution to Return	Top 5 Detractors	Average Weight	Absolute Contribution to Return
Spectrum Pharmaceuticals, Inc.	1.46	0.49	Cytokinetics, Incorporated	0.61	-0.35
Exactech, Inc.	1.05	0.40	Roadrunner Transportation Systems, Inc.	0.95	-0.20
Sucampo Pharmaceuticals, Inc. Class A	0.77	0.39	Natera, Inc.	0.54	-0.19
Bristow Group Inc.	0.91	0.33	OraSure Technologies, Inc.	0.82	-0.15
H&E Equipment Services, Inc.	0.70	0.25	Seres Therapeutics Inc	0.24	-0.14

⁶The securities identified on this chart were determined after consistently calculating the weight of each holding in the representative account multiplied by the rate of return for that holding during the period. The securities identified do not represent all of the securities purchased, sold or recommended for advisory clients. You may obtain a complete list showing the contribution of each holding in the representative account to the overall account performance during the period presented by emailing marketing@denvest.com or calling 303.312.5000.

The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will vary, and initial investments may be worth more or less than their original investment. To obtain current performance as of the most recent month-end and for important performance disclosures, please see the strategy's composite performance at www.denvest.com.

The Manager Commentaries contain certain forward-looking statements about the factors that may affect future performance. These statements are based on portfolio management's predictions and expectations concerning certain future events and their expected impact on the strategy, such as performance of the economy as a whole and of specific industry sectors, changes in the levels of interest rates, the impact of developing world events, and other factors that may influence the future performance of the strategy. Portfolio management believes these forward-looking statements to be reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed.

Performance Disclosure: Micro-Cap Composite

Year	— Composite Assets—			Composite Gross of Fees Annual Return (%)	Composite Net of Fees Annual Return (%)	Russell Microcap® 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	13	<1.0	1	26.05	24.51	20.37	15.18	17.08	-	7.476	7.169
2015	21	<1.0	1	-3.72	-4.92	-5.16	14.61	15.04	-	7.606	7.382
2014	37	<1.0	1	3.86	2.57	3.65	14.83	14.51	-	9.596	9.373
2013	21	<1.0	1	48.06	46.46	45.62	17.17	17.33	-	10.009	9.794
2012	3	<1.0	1	17.11	15.94	19.75	20.53	21.50	-	9.565	9.343
2011	2	<1.0	1	-2.26	-3.25	-9.27	25.38	26.47	-	9.389	9.101
2010	2	<1.0	1	35.23	33.50	28.89	-	-	-	8.989	8.711
2009	2	<1.0	1	17.07	15.55	27.48	-	-	-	8.038	7.837
2008 (7/1/08)	1	<1.0	1	-19.49	-20.04	-28.71	-	-	-	7.008	6.867

*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 July 2008. The composite is defined to include all fee paying, discretionary, actively-managed equity accounts that are managed to the Russell Microcap® Index. The composite primarily invests in the stocks of micro-cap companies that appear to be undervalued. The Russell Microcap® Index measures the performance of the microcap segment of the U.S. equity market. It makes up less than 3% of the U.S. equity market. It includes 1,000 of the smallest securities in the small-cap Russell 2000® Index based on a combination of their market capitalization and current index membership and it includes the next 1,000 securities. FTSE Russell is the source and owner of the Russell Index data contained in this material and all trademarks and copyrights related thereto. Any further dissemination or redistribution is strictly prohibited. FTSE Russell is not responsible for the formatting or configuration of this material or for any inaccuracy in Denver Investments' presentation thereof. Index returns are not covered by the report of the independent verifiers.
- 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 Micro-Cap composite has been examined for the periods 7/1/08 – 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 1.25%. 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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