

## MICRO-CAP

FACT SHEET | September 30, 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<sup>2,3</sup> (%)

<b>Spectrum Pharmaceuticals Inc</b> (Health Care)	1.6
<b>IXYS Corp</b> (Information Technology)	1.1
<b>Neff Corp</b> (Industrials)	1.1
<b>OraSure Technologies Inc</b> (Health Care)	1.0
<b>Lantheus Holdings Inc</b> (Health Care)	1.0
<b>Roadrunner Transportation Systems Inc</b> (Industrials)	1.0
<b>Schnitzer Steel Industries Inc</b> (Materials)	1.0
<b>McGrath RentCorp</b> (Industrials)	1.0
<b>Anika Therapeutics Inc</b> (Health Care)	0.9
<b>Exactech Inc</b> (Health Care)	0.9
<b>Total (% of portfolio)</b>	<b>10.6%</b>

<sup>1</sup>Data 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.

<sup>2</sup>Information 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.

<sup>3</sup>The 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.

<sup>4</sup>Source: FactSet

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

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### Performance<sup>1</sup>

Periods Ended 9/30/17 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
Micro-Cap (gross)	4.64	5.43	22.29	12.62	14.75	-
Micro-Cap (net)	4.32	4.45	20.80	11.24	13.34	-
Russell Microcap <sup>®</sup> Index <sup>4</sup>	6.65	11.16	22.33	12.16	13.89	-
Calendar Year (%)	2016	2015	2014	2013	2012	2011
Micro-Cap (gross)	26.05	-3.72	3.86	48.06	17.11	-2.26
Micro-Cap (net)	24.51	-4.92	2.57	46.46	15.94	-3.25
Russell Microcap <sup>®</sup> Index <sup>4</sup>	20.37	-5.16	3.65	45.62	19.75	-9.27

### Portfolio Characteristics<sup>2,5</sup>

	Micro-Cap	Russell Microcap <sup>®</sup> Index <sup>4</sup>
Weighted Average Market Capitalization (\$ Mil)	\$723	\$557
Median Market Capitalization (\$ Mil)	\$651	\$233
Price/Book Value	2.9x	2.7x
Return on Assets	4.7%	-2.3%
Long-Term Debt/Capital	27.4%	25.5%
Dividend Yield (1 year trailing)	1.1%	0.6%
Beta (3 Years)	0.83	-
Standard Deviation (3 Years)	14.13%	15.99%
Tracking Error (3 Years)	5.44%	-
Turnover (3 year average)	76%	-
Number of Holdings	152	-

### Sector Allocation<sup>2</sup>

	Micro-Cap	Russell Microcap <sup>®</sup> Index <sup>4</sup>	Relative Weights
Consumer Discretionary	10.8	11.7	-0.9
Consumer Staples	2.3	1.8	0.5
Energy	4.2	4.7	-0.5
Financials	24.4	24.7	-0.3
Health Care	24.2	22.9	1.3
Industrials	13.3	11.5	1.8
Information Technology	12.8	13.5	-0.7
Materials	3.6	3.1	0.5
Real Estate	2.3	3.9	-1.6
Telecommunication Services	0.0	0.9	-0.9
Utilities	1.1	1.2	-0.1
Cash	0.9	0.0	0.9

FOR MORE INFORMATION ABOUT OUR INSTITUTIONAL OFFERING, PLEASE CONTACT:

Denver Investments | Republic Plaza | 370 17<sup>th</sup> Street | Suite 5000 | Denver, Colorado 80202  
p: 303.312.5000 | f: 303.312.4900 | e: marketing@denvest.com | www.denvest.com

## Market Overview

Micro-cap stocks posted their second straight quarter of positive results, with the Russell Microcap® Index up 6.65% for the three months ended September 30, 2017. For the third consecutive quarter, stocks that we view as expensive outperformed companies with high cash-flow-to-price and other positive valuation metrics. Stocks with solid return on equity continued to show mixed results, but those with higher quality (as measured by the Piotroski score) outperformed. Stocks with low volatility and higher historical trading volume underperformed less-volatile and less-liquid stocks.

## Portfolio Commentary

For the third quarter of 2017, the Denver Investments' Micro-Cap portfolio underperformed its benchmark, the Russell Microcap® Index, which returned 6.65%. 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 8 of 11 sectors for the quarter. The benchmark's returns were positive in 10 out of 11 sectors on an absolute basis. The portfolio outperformed the benchmark in 4 out of the 11 sectors.

## Contributors to Portfolio

The portfolio's best-performing sectors, relative to the benchmark, were industrials, utilities, and real estate. Among the portfolio's best-performing holdings this quarter was Spectrum Pharmaceuticals Inc., a biotechnology company that primarily focuses on treatments for cancer and blood-based disorders. The company's new lung cancer drug candidate, Pozitotinib, performed well in preclinical and clinical studies. IXYS Corp. was another significant contributor to the portfolio's performance in the quarter. This power semiconductor manufacturer was acquired by Littelfuse Inc. during the quarter. Another strong performer was Maryland-based Medifast Inc. This manufacturer and distributor of weight management and healthy living products and programs reported better-than-expected results for the second quarter.

## Detractors from Portfolio

The portfolio's weakest sectors relative to the benchmark were information technology, consumer discretionary, and health care. Among the portfolio's detractors in the quarter was MiMedx Group Inc., a biopharmaceutical company that delivers innovative bioactive healing products for tissue regeneration. The company has been mired in a civil litigation case against former employees. Another detractor from the portfolio's performance in the quarter was Ingles Markets Inc., a regional chain of grocery stores based in the southeast. The stock reacted poorly to the news of Amazon.com Inc. purchasing Whole Foods Market Inc. Big 5 Sporting Goods Corp. also hindered the portfolio's performance in the quarter. This sporting goods retailer's stock underperformed after its second quarter results fell short of estimates.

## Outlook and Positioning

While the timing of pro-growth policy changes proposed by the new administration has become increasingly murky, the tax reform proposals have had a positive impact on micro-cap stocks. Additionally, we see continued signs of optimism for small companies. While nominal wage growth is still short of target levels, its long-term trend has been improving. U.S. consumer confidence has also remained high and stock market volatility remains at an extremely low level. While valuations are historically high for many stocks, micro-cap stocks, particularly those that are inexpensive based on the cash-flow-to-enterprise-value, remain relatively attractive, in our opinion.

## Top 5 Contributors/Detractors (By Stock)<sup>2,6</sup>

Top 5 Contributors	Average Weight	Absolute Contribution to Return	Top 5 Detractors	Average Weight	Absolute Contribution to Return
Spectrum Pharmaceuticals, Inc.	1.06	0.78	Big 5 Sporting Goods Corporation	0.47	-0.29
IXYS Corporation	0.95	0.40	Francesca's Holdings Corporation	0.45	-0.21
Medifast, Inc.	0.81	0.32	Unisys Corporation	0.44	-0.21
Neff Corp.	1.09	0.31	Ingles Markets, Incorporated Class A	0.62	-0.20
RadNet, Inc.	0.66	0.30	MiMedx Group, Inc.	0.88	-0.19

<sup>6</sup>The 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](mailto: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](http://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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