

# SMALL-CAP GROWTH

FACT SHEET | December 31, 2017

## STRATEGY

- Seek to invest in growth companies with enduring competitive advantages, improving fundamentals and potential for positive earnings revisions
- Use proprietary fundamental research to identify and understand key value-creating drivers
- Employ bottom-up decision-making process

## Top Ten Holdings<sup>2,3</sup> (%)

|  |              |
|--|--------------|
| <b>Evercore Inc</b><br>(Financials)                              | 2.6          |
| <b>EPAM Systems Inc</b><br>(Information Technology)              | 2.5          |
| <b>Investnet Inc</b><br>(Information Technology)                 | 2.4          |
| <b>Live Nation Entertainment Inc</b><br>(Consumer Discretionary) | 2.2          |
| <b>Globus Medical Inc</b><br>(Health Care)                       | 2.1          |
| <b>PolyOne Corp</b><br>(Materials)                               | 2.0          |
| <b>Hexcel Corp</b><br>(Industrials)                              | 2.0          |
| <b>Vail Resorts Inc</b><br>(Consumer Discretionary)              | 1.9          |
| <b>Zendesk Inc</b><br>(Information Technology)                   | 1.8          |
| <b>MGP Ingredients Inc</b><br>(Consumer Staples)                 | 1.8          |
| <b>Total (% of portfolio)</b>                                    | <b>21.3%</b> |

<sup>1</sup>Data is based on firm's Small-Cap Growth 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>Standard Deviation, Beta and Tracking Error statistics based on monthly data. Three years. Source: eVestment Alliance.

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## Performance<sup>1</sup>

| Periods Ended 12/31/17 (%)                          | QTD   | YTD   | Annualized Returns |         |         |          |
|---|-------|-------|--------------------|---------|---------|----------|
|   |       |       | 1 Year             | 3 Years | 5 Years | 10 Years |
| Small-Cap Growth (gross)                            | 3.58  | 28.74 | 28.74              | 10.93   | 17.09   | -        |
| Small-Cap Growth (net)                              | 3.32  | 27.48 | 27.48              | 9.83    | 15.93   | -        |
| Russell 2000 <sup>®</sup> Growth Index <sup>4</sup> | 4.59  | 22.17 | 22.17              | 10.28   | 15.21   | -        |
| Calendar Year (%)                                   | 2017  | 2016  | 2015               | 2014    | 2013    | 2012     |
| Small-Cap Growth (gross)                            | 28.74 | 9.81  | -3.45              | 5.23    | 53.21   | 12.09    |
| Small-Cap Growth (net)                              | 27.48 | 8.72  | -4.41              | 4.18    | 51.74   | 11.00    |
| Russell 2000 <sup>®</sup> Growth Index <sup>4</sup> | 22.17 | 11.32 | -1.38              | 5.60    | 43.30   | 14.59    |

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

|   | Small-Cap Growth | Russell 2000 <sup>®</sup> Growth <sup>4</sup> |
|---|------------------|---|
| Weighted Average Market Capitalization (\$ Mil) | \$3,711          | \$2,638                                       |
| EPS Growth (3-5 year forecast)                  | 17.5%            | 14.3%   |
| Price/Earnings (1 year forecast)                | 31.7x            | 27.7x   |
| Dividend Yield (1 year trailing)                | 0.3%             | 0.5%  |
| Beta (3 Years)                                  | 0.95             | -   |
| Standard Deviation (3 Years) <sup>1,5</sup>     | 14.60%           | 14.80%  |
| Tracking Error (3 Years) <sup>1,5</sup>         | 4.05%            | -   |
| Turnover (3 year average)                       | 54%              | -   |
| Number of Holdings                              | 73               | -   |

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

|                            | Small-Cap Growth | Russell 2000 <sup>®</sup> Growth <sup>4</sup> | Relative Weights |
|----------------------------|------------------|---|------------------|
| Consumer Discretionary     | 15.9             | 14.0  | 1.9              |
| Consumer Staples           | 2.8              | 2.8   |                  |
| Energy                     | 4.2              | 1.4   | 2.8              |
| Financials                 | 9.9              | 6.1   | 3.8              |
| Health Care                | 19.6             | 23.8  | -4.2             |
| Industrials                | 10.6             | 18.4  | -7.8             |
| Information Technology     | 30.9             | 23.8  | 7.1              |
| Materials                  | 2.0              | 4.6   | -2.6             |
| Real Estate                | 1.7              | 3.3   | -1.6             |
| Telecommunication Services | 1.8              | 1.0   | 0.8              |
| Utilities                  | 0.0              | 0.8   | -0.8             |
| Cash                       | 0.7              | 0.0   | 0.7              |

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## Market Overview

Equity markets continued to push higher in the fourth quarter, with nearly all broad U.S. indexes closing 2017 at, or near, all-time highs. Underneath the strength of the overall markets, there was significant divergence in the type of stock that performed well in 2017. The Russell 2000® Growth Index's return was 22.17% in 2017 (up 4.59% for the fourth quarter) versus the Russell 2000® Value Index's 7.84% return in 2017 (up 2.05% for the fourth quarter). This was the mirror opposite of 2016 when small-cap value stocks trounced small-cap growth stocks by over 20%. Taking a step back, the Russell 2000® Growth Index has outperformed the Russell 2000® Value Index by over 2% annualized for the last five years and over 1% annualized during the last decade.

## Portfolio Commentary

For the fourth quarter of 2017, the Denver Investments' Small-Cap Growth portfolio underperformed its benchmark, the Russell 2000® Growth Index, which returned 4.59%.

## Contributors to Portfolio

The three sectors that contributed most to the portfolio's performance relative to its benchmark in the quarter were information technology, financials, and industrials. The portfolio's best-performing stock in the quarter was Globus Medical Inc., a medical device company that develops products to promote healing in patients with spinal disorders. The stock outperformed during the quarter primarily due to the prospects for the company's recent Excelsius robot-assisted surgery platform launch. We remain excited about the opportunity for robotics in the spinal surgery products market. Another strong performer was MGP Ingredients Inc., a high-quality spirits producer. The company experienced strong demand for its products in the recent quarter and continues to build aged product inventory to satisfy future demand. We believe the growth outlook for MGP remains strong. Proto Labs Inc., a leading provider of rapid molding and printing technologies for prototypes and on-demand production parts, outperformed in the quarter as its industrial end markets remained healthy. We believe Proto Labs' services offer significant efficiencies within the product development process.

## Detractors from Portfolio

The three sectors that detracted most from the portfolio's performance relative to its benchmark in the quarter were health care, consumer discretionary, and telecommunication services. The portfolio's worst performing stock in the quarter was Acadia Healthcare Co. Inc., a provider of behavioral healthcare services. The stock underperformed in the quarter after the company struggled with staffing issues in its U.K. segment. Although increased labor costs are likely to linger over the coming quarters, we believe that long-term growth trends remain intact, as evidenced by a solid U.S. outlook. Nevro Corp., a leading provider of spinal cord stimulation implants for the treatment of chronic pain, underperformed during the quarter due to a modestly slowing end market. We believe the slowdown to be more transient in nature and that growth should begin to accelerate based on the potential for new applications for Nevro's products through 2018 and beyond. Glaukos Corp., an ophthalmic medical device company focused on the treatment of glaucoma, underperformed during the quarter over concerns surrounding the competitive environment. Although projections for the next two quarters have been reduced given competitive issues, we continue to be constructive on the company's next generation offering scheduled to be launched later this year.

## Outlook and Positioning

As of the end of 2017, the portfolio was overweighted primarily in the information technology and financial sectors and underweighted primarily in the industrials and health care sectors.

The current economic expansion is the third longest ever recorded in the United States. It now sits at eight and half years, setting the backdrop for what has been a remarkable bull market. While we believe we are in the later stages of the economic cycle, tax reform likely improves the short-term economic outlook in 2018. As always, we are focused on companies that we believe can thrive by offering innovative and disruptive products or services. Ultimately, we believe these companies are less sensitive to economic cycles and are a strong foundation for our growth portfolios. Happy New Year and we wish you a prosperous 2018.

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

| Top 5 Contributors           | Average Weight | Absolute Contribution to Return |
|------------------------------|----------------|---------------------------------|
| Globus Medical, Inc. Class A | 1.76           | 0.58                            |
| LendingTree, Inc.            | 1.46           | 0.49                            |
| EPAM Systems, Inc.           | 2.36           | 0.48                            |
| MGP Ingredients, Inc.        | 1.65           | 0.38                            |
| Proto Labs, Inc.             | 1.42           | 0.36                            |

| Top 5 Detractors                          | Average Weight | Absolute Contribution to Return |
|---|----------------|---------------------------------|
| Acadia Healthcare Company, Inc.           | 1.33           | -0.60                           |
| Nevro Corp.                               | 1.54           | -0.43                           |
| Glaukos Corp                              | 1.42           | -0.39                           |
| Prothena Corp. Plc                        | 0.61           | -0.36                           |
| MACOM Technology Solutions Holdings, Inc. | 0.96           | -0.33                           |

<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: Small-Cap Growth Composite

| Year | — Composite Assets—   |                  |                    | Composite Gross of Fees Annual Return (%) | Composite Net of Fees Annual Return (%) | Russell 2000® Growth 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 | 10                    | <1.0             | 2                  | 9.81                                      | 8.72                                    | 11.32                          | 17.39                                   | 16.91                               | 0.13                     | 7.476   | 7.169                     |
| 2015 | 13                    | <1.0             | 3                  | -3.45                                     | -4.41                                   | -1.38                          | 15.96                                   | 15.16                               | 0.05                     | 7.606   | 7.382                     |
| 2014 | 10                    | <1.0             | 2                  | 5.23                                      | 4.18                                    | 5.60                           | 15.31                                   | 14.02                               | 0.15                     | 9.596   | 9.373                     |
| 2013 | 2                     | <1.0             | 2                  | 53.21                                     | 51.74                                   | 43.30                          | 18.04                                   | 17.52                               | -                        | 10.009  | 9.794                     |
| 2012 | 0.5                   | <1.0             | 1                  | 12.09                                     | 11.00                                   | 14.59                          | -                                       | -                                   | -                        | 9.565   | 9.343                     |
| 2011 | 0.5                   | <1.0             | 1                  | -1.80                                     | -2.74                                   | -2.91                          | -                                       | -                                   | -                        | 9.389   | 9.101                     |

\*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 Small-Cap Growth composite was created in January 2011. There was one non-fee paying account in the composite which represented 38.3% of total composite assets as of December 31, 2013.
- 3) 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 Small-Cap Growth strategy. The composite includes actively managed equity accounts that are managed to the Russell 2000® Growth Index and primarily invest in select small-capitalization U.S. growth equities. The Russell 2000® Growth benchmark is an unmanaged, market-capitalization weighted index of those firms in the Russell 2000 with higher price-to-book ratios and higher forecasted growth values than the threshold determined by FTSE Russell. 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.
- 4) 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.
- 5) 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; nor is it shown for periods where 36 months of returns are not available.
- 6) 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.
- 7) 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 period 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 Small-Cap Growth composite has been examined for the periods 1/1/11 – 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.
- 8) The maximum fee rate is 1.00%. Please reference Denver Investments' ADV for full fee schedule.
- 9) Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.
- 10) Past performance does not guarantee future results and future performance may be lower or higher than the performance presented.

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