

SMALL-CAP VALUE

FACT SHEET | December 31, 2017

STRATEGY

- Focus on dividend-paying small-cap companies
- Seek to invest in companies generating positive free cash flow and improving returns
- Use integrated investment approach that combines proprietary quantitative screen and original fundamental research
- Emphasize strict adherence to our style and risk control measures

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

Enerplus Corp (Energy)	3.7
TiVo Corp (Technology)	3.5
Sinclair Broadcast Group Inc (Consumer)	2.9
Spire Inc (Utilities)	2.6
GEO Group Inc/The (REITs)	2.4
Umpqua Holdings Corp (Interest Rate Sensitive)	2.4
Glacier Bancorp Inc (Interest Rate Sensitive)	2.4
Ensign Group Inc/The (Medical / Healthcare)	2.3
Greenbrier Cos Inc/The (Capital Goods)	2.2
Silicon Motion Technology Corp (Technology)	2.1
Total (% of portfolio)	26.5%

¹Data is based on firm's Small-Cap Value 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 these 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

⁵Standard Deviation, Beta and Tracking Error 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
Small-Cap Value (gross)	0.22	-0.62	-0.62	7.00	12.73	8.13
Small-Cap Value (net)	0.00	-1.54	-1.54	5.97	11.63	7.07
Russell 2000 [®] Value Index ⁴	2.05	7.84	7.84	9.55	13.01	8.17
Calendar Year (%)	2017	2016	2015	2014	2013	2012
Small-Cap Value (gross)	-0.62	32.27	-6.80	7.61	38.08	10.97
Small-Cap Value (net)	-1.54	30.99	-7.73	6.55	36.74	9.88
Russell 2000 [®] Value Index ⁴	7.84	31.74	-7.47	4.22	34.52	18.05

Portfolio Characteristics^{2,5}

	Small-Cap Value	Russell 2000 [®] Value ⁴
Weighted Average Market Capitalization (\$ Mil)	\$2,710	\$2,055
Median Market Capitalization (\$ Mil)	\$2,466	\$738
Discount to Intrinsic Value	28.1%	-
Price/Book Value	2.1x	1.8x
Return on Assets	4.5%	2.8%
Long-Term Debt/Capital	35.7%	30.7%
Dividend Yield (1 year trailing)	2.5%	1.6%
Beta (3 Years)	0.97	-
Standard Deviation (3 Years)	14.45%	14.17%
Tracking Error (3 Years)	4.27%	-
Turnover (3 year average)	49%	-
Number of Holdings	58	-

Sector Allocation²

	Small-Cap Value	Russell 2000 [®] Value ⁴	Relative Weights
Basic Materials	4.2	4.5	-0.3
Capital Goods	10.4	12.7	-2.3
Consumer	13.6	13.7	-0.1
Energy	5.5	6.3	-0.8
Interest Rate Sensitive	28.9	30.8	-1.9
Medical / Healthcare	6.7	6.2	0.5
REITs	9.4	9.9	-0.5
Technology	13.4	9.4	4.0
Utilities	4.5	6.5	-2.0
Cash	3.5	0.0	3.5

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Market Overview

Markets climbed higher in the fourth quarter based on the passage of the tax bill and hopes that lower corporate and individual tax rates would accelerate economic growth. Value stocks underperformed growth stocks and small caps underperformed large caps, as was the case throughout the year, as valuation remained out of favor and the momentum-driven market continued. Investors focused on stocks that had the highest sales growth and best fundamental execution, regardless of valuation levels. In this environment, it was not surprising that dividend-paying and less volatile stocks underperformed.

Portfolio Commentary

Our value-oriented, dividend-focused strategy tends to lag in momentum-driven markets, and this quarter and year were consistent with that pattern. We exacerbated the downside with mistakes in fundamental projections for a handful of stocks and, unfortunately, the penalty for those mistakes was greater than it could have been in a valuation-driven market. The Denver Investments Small-Cap Value portfolio's fourth quarter return lagged the 2.05% return of its benchmark, the Russell 2000® Value Index.

Contributors to Portfolio

The sectors that contributed most to the portfolio's return relative to its benchmark in the quarter were basic materials, capital goods, and utilities. The portfolio's top performer for the quarter was Sinclair Broadcasting Group Inc. This diversified television broadcaster, experienced share price appreciation after the Federal Communications Commission took steps toward deregulating the broadcasting industry. An increase or elimination of the media ownership cap would allow Sinclair to combine with Tribune Media and divest fewer TV stations as a result. In addition, the stock reacted favorably to the passing of tax reform, as a lower cash tax rate should drive free cash flow higher for Sinclair and other cash-tax paying Broadcasting companies. Another strong contributor was Artisan Partners Asset Management Inc. This boutique asset manager reported better-than-expected operating results driven by lower expenses. While asset flow trends are still a headwind, new smaller alternative-like products have been gaining traction. The passage of tax reform has also served as a tailwind to asset manager stock performance, as investors anticipate accelerating economic growth to support market valuations, and attract investment flows into actively managed equity products. Another top performer was Radian Group Inc., a leading mortgage insurer. The company reported solid third quarter earnings that beat street expectations. Strength in the mortgage business, driven by strong credit quality and better premiums, coupled with a restructuring of its services business, resulted in an improved outlook by management.

Detractors from Portfolio

The portfolio's weakest sectors relative to the benchmark for the quarter were REITs, technology, and interest rate sensitive. AmTrust Financial Services Inc., an insurer focused on small businesses in lower risk industries, was among the portfolio's largest detractors during the quarter. The stock pulled back on lower-than-expected earnings that resulted from record-high catastrophe losses due to the severe hurricane season. In addition, the stock has been volatile while management repositions the company through a partial sale of the fee business and the strengthening of reserves and capital raises. We believe these actions position the company well to accelerate growth and improve returns in the coming quarters. GEO Group Inc., a leading provider of prisons, prison operations, and post-release monitoring and re-entry services, underperformed despite reporting an in-line third quarter. Concerns around U.S. Immigration and Customs Enforcement's (ICE) interior enforcement transition and uncertainties regarding the fiscal year 2018 House Appropriations Budget caused the stock to pull back in December. We believe the transition at ICE is temporary and that utilization rates will continue to recover in 2018. The company also has several contracts that could be awarded in the next six to nine months as the proposed House appropriations budget calls for a demand increase in ICE and U.S. Marshals Service beds. TiVo Corp., a provider of entertainment technology and software offerings, also detracted from portfolio performance. The stock struggled as a ruling in an intellectual property complaint filed by TiVo was delayed until late November. While certain intellectual property infringement was ultimately confirmed in December, the company charged with infringement has issued notice of appeal. We believe these issues will be resolved in the coming months. A leading owner and franchisor of residential real estate brokerages, along with corporate relocation and title insurance, Realogy Holdings Corp. also detracted from performance. The company reported lower-than-expected earnings and reduced forward guidance for earnings estimates due to higher costs. The stock also pulled back on market concerns regarding the impact of tax reform on the sale of higher-priced homes in high tax states. We see a very favorable outlook for housing and a significantly lower tax rate for Realogy as significant tailwinds to sales and cash flow growth going forward.

Outlook and Positioning

With the passing of tax reform, markets finally have a reason to believe that economic growth will accelerate. Such growth is necessary to support historically high equity valuation levels and fuel further stock price appreciation. The question remains whether tax reform will drive capital expenditures and consumer spending high enough to offset wage pressure and other inflation drivers. This could allow the Fed to normalize policy rates and accelerate the shrinkage of its balance sheet, thereby putting a damper on the economy's growth rate. An accelerating economy is typically more beneficial to economically-sensitive, domestic-focused, and smaller-cap stocks, and tax reform should positively impact higher tax sectors, such as financials, consumer discretionary, and capital goods. We believe our strategy is well-positioned in this type of environment and we are working hard to improve our stock selection and bounce back, as we have in the past, from a tough year of performance.

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

Top 5 Contributors	Average Weight	Absolute Contribution to Return
Sinclair Broadcast Group, Inc. Class A	2.95	0.49
SM Energy Company	1.79	0.34
Bloomin' Brands, Inc.	1.80	0.33
Artisan Partners Asset Management, Inc. Class A	1.40	0.33
Radian Group Inc.	1.96	0.28

Top 5 Detractors	Average Weight	Absolute Contribution to Return
CBL & Associates Properties, Inc.	0.00	-0.82
AmTrust Financial Services Inc.	1.68	-0.57
TiVo Corp.	3.48	-0.56
Realogy Holdings Corp.	1.46	-0.29
GEO Group Inc	2.36	-0.27

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: Small-Cap Value Composite

Year	— Composite Assets—			Composite Gross of Fees Annual Return (%)	Composite Net of Fees Annual Return (%)	Russell 2000® Value 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	1,352	18.9	33	32.27	30.99	31.74	14.93	15.72	0.65	7.476	7.169
2015	1,146	15.5	39	-6.80	-7.73	-7.47	13.03	13.65	0.64	7.606	7.382
2014	1,589	17.0	50	7.61	6.55	4.22	11.26	12.98	0.39	9.596	9.373
2013	1,574	16.1	45	38.08	36.74	34.52	14.01	16.05	0.39	10.009	9.794
2012	1,323	14.2	55	10.97	9.88	18.05	16.91	20.17	0.34	9.565	9.343
2011	1,391	15.3	60	1.29	0.28	-5.50	23.49	26.42	0.54	9.389	9.101
2010	1,552	17.8	61	28.52	27.28	24.50	-	-	0.69	8.989	8.711
2009	1,035	13.2	65	23.87	22.67	20.58	-	-	1.15	8.038	7.837
2008	589	8.6	62	-32.90	-33.59	-28.92	-	-	0.85	7.008	6.867
2007	674	7.1	47	-2.12	-3.10	-9.78	-	-	0.47	9.715	9.502
2006	135	1.6	17	25.27	23.90	23.48	-	-	0.24	8.396	8.368

*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 1999 (style inception was 7/1/1999). All returns are computed using a time-weighted total rate of return. The composite is defined to include all fee-paying, discretionary accounts managed according to the Small-Cap Value strategy. The composite includes all actively managed equity accounts that are managed to the Russell 2000® Value Index and primarily invest in small-capitalization U.S. value equities. The Russell 2000® Value benchmark is an unmanaged index that measures the performance of companies within the Russell 2000® Index having lower price-to-book ratios and lower 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.
- 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. Effective October 1, 2012, for the composite, any cash flow which exceeds \$10 million and 25% of the account value prior to the cash flow, will result in the account transferring to the restricted composite for the month of the cash flow and then return to the unrestricted composite in the month following the cash flow.
- 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 Small-Cap Value composite has been examined for the periods 1/1/04 – 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 0.90%. As of 1/31/2017, the maximum fee was decreased from 1.00% to 0.90%. 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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