

SMALL-CAP VALUE

FACT SHEET | September 30, 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)	3.4
TiVo Corp (Technology)	2.8
CBL & Associates Properties Inc (REITs)	2.6
Spire Inc (Utilities)	2.6
Radian Group Inc (Interest Rate Sensitive)	2.5
GEO Group Inc/The (REITs)	2.4
AmTrust Financial Services Inc (Interest Rate Sensitive)	2.3
Sinclair Broadcast Group Inc (Consumer)	2.3
Realogy Holdings Corp (Interest Rate Sensitive)	2.2
Umpqua Holdings Corp (Interest Rate Sensitive)	2.2
Total (% of portfolio)	25.3%

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 9/30/17 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
Small-Cap Value (gross)	0.93	-0.84	15.52	10.71	12.94	7.18
Small-Cap Value (net)	0.70	-1.54	14.43	9.63	11.84	6.13
Russell 2000 [®] Value Index ⁴	5.11	5.68	20.55	12.12	13.27	7.14
Calendar Year (%)	2016	2015	2014	2013	2012	2011
Small-Cap Value (gross)	32.27	-6.80	7.61	38.08	10.97	1.29
Small-Cap Value (net)	30.99	-7.73	6.55	36.74	9.88	0.28
Russell 2000 [®] Value Index ⁴	31.74	-7.47	4.22	34.52	18.05	-5.50

Portfolio Characteristics^{2,5}

	Small-Cap Value	Russell 2000 [®] Value ⁴
Weighted Average Market Capitalization (\$ Mil)	\$2,613	\$1,958
Median Market Capitalization (\$ Mil)	\$2,406	\$727
Discount to Intrinsic Value	34.0%	-
Price/Book Value	1.9x	1.8x
Return on Assets	5.0%	2.7%
Long-Term Debt/Capital	38.9%	33.0%
Dividend Yield (1 year trailing)	2.4%	1.6%
Beta (3 Years)	0.95	-
Standard Deviation (3 Years)	14.69%	14.57%
Tracking Error (3 Years)	4.76%	-
Turnover (3 year average)	52%	-
Number of Holdings	60	-

Sector Allocation²

	Small-Cap Value	Russell 2000 [®] Value ⁴	Relative Weights
Basic Materials	3.1	4.3	-1.2
Capital Goods	11.4	12.7	-1.3
Consumer	12.3	12.9	-0.6
Energy	4.9	5.8	-0.9
Interest Rate Sensitive	30.2	31.2	-1.0
Medical / Healthcare	6.6	6.2	0.4
REITs	10.2	10.7	-0.5
Technology	12.8	9.7	3.1
Utilities	4.4	6.6	-2.2
Cash	4.1	0.0	4.1

FOR MORE INFORMATION ABOUT OUR INSTITUTIONAL OFFERING, PLEASE CONTACT:

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Market Overview

After a weak start to the quarter, value stocks experienced a bounce as the potential for tax reform fueled optimism that lower corporate and individual taxes would boost economic growth. In addition, the Federal Reserve left rates unchanged and, despite recent inflation data remaining low, did not appear to alter its rate policy plans, which include at least one more rate hike in 2017. The continuation of gradual economic growth and the Fed's normalization of monetary policy were additional drivers of more economically sensitive stocks, such as domestic small-cap value stocks. Importantly, the market's historically high valuation levels, combined with the backdrop of weak earnings growth, has appeared to increase investors' skittishness. This has resulted in a lack of tolerance for companies that fail to hit financial targets or reduce earnings estimates. While stocks that disappointed were hit hard, stocks that met expectations were bid up, regardless of valuation levels.

Portfolio Commentary

Although value stocks began a rebound in September, Denver Investments' Small-Cap Value portfolio's return for the third quarter significantly lagged the 5.11% return of its benchmark, the Russell 2000® Value Index. Our strategy tends to lag in momentum-driven markets such as we've seen recently. This quarter's return was consistent with that pattern and, unfortunately, we exacerbated the downside with mistakes in fundamental projections for a handful of stocks.

Contributors to Portfolio

The sectors that contributed most to the portfolio's return relative to its benchmark in the quarter were technology and energy. The portfolio's top performer for the quarter was oil and gas exploration company Enerplus Corp. Driven by growth in its core North Dakota acreage, Enerplus beat production cost expectations and raised oil production guidance for the year. Radian Group Inc., a leading mortgage insurer, reported solid second quarter earnings that beat estimates and assuaged concerns regarding an earnings miss in the first quarter. Application software developer Progress Software Corp. experienced share price appreciation as the company announced favorable preliminary quarterly results and boosted its quarterly dividend payment. Portfolio holding TiVo Corp., a provider of entertainment technology and software offerings, outperformed in the quarter due largely to the extension of its intellectual property license with AT&T through 2024. Additionally, the renewal layered intellectual property for TiVo and Rovi, which acquired TiVo in 2016, into one agreement. Also among the portfolio's top contributors in the quarter was Independent Bank Corp. This bank holding company reported solid results driven by strong margin income and fee revenues. The company's profits from lending activity beat expectations and management increased both margin and loan growth estimates for the year.

Detractors from Portfolio

The portfolio's weakest sectors relative to the benchmark for the quarter were the consumer, capital goods, and medical/healthcare. Within the consumer sector, brick and mortar retailers were hit particularly hard. Shifts in consumer spending, fashion trends, and shopping habits accelerated and weighed heavily on sales, profitability, and forward outlooks. As we mentioned earlier, the markets had little tolerance for companies that disappointed, regardless of valuations. This was a significant departure from the past, when investors tended to look beyond near-term disappointments and instead focused on identifying companies that they believed would recover, driven by either internal or external factors. With the growing presence of Amazon and the landscape rapidly being changed by millennials' behaviors, the competitive environment has become drastically worse for many brick and mortar retailers. This has raised the risk profile of the consumer cyclicals industry. We did not place a high enough probability on the downside scenarios of some of the portfolio's consumer cyclical holdings. We have since reduced the portfolio's exposure and are looking for a bottom in fundamentals before we will consider increasing this exposure.

From an individual stock standpoint, AMC Entertainment Holdings Inc., an owner and operator of movie theaters, detracted the most from the portfolio's performance in the consumer sector. Investor concerns about Premium Video on Demand (PVOD), a plan that would offer movies to home viewers within the 90-day period in which theaters typically have exclusive rights, and MoviePass, a service in which consumers pay a monthly fee to see up to one movie per day, were only exacerbated by industry box office performance that marked the worst quarterly sales in a decade. Sporting goods retailer Big 5 Sporting Goods Corp. also detracted from performance as second quarter same-store sales disappointed. This was a result of a more competitive promotional environment than was expected, which, in turn, has delayed the benefits of industry consolidation. Bloomin' Brands Inc., an operator of casual dining restaurants, also detracted from the portfolio's performance. Challenging quarterly same-store sales were the driver of reduced near-term guidance for earnings estimates. Additionally, recent hurricane disruptions added another layer of concern and intensified share price underperformance. Capital Goods holding Dean Foods Co., a processor and distributor of dairy products, was the portfolio's largest detractor during the quarter. The company's weaker-than-expected quarterly results and lowered future earnings estimates were attributable to high production in the dairy industry. This resulted in aggressive pricing in certain markets which compressed profitability and led to Dean's earnings miss. Aceto Corp. is a manufacturer of generic pharmaceuticals and active ingredients. This medical/healthcare sector holding underperformed upon reporting weak financial results due to a combination of competitive headwinds and delays in launching new products.

Outlook and Positioning

Historically, valuation has been the largest factor that dictates stock performance over time. However, in shorter periods, that is often not the case and this year has, so far, been an example. We believe it is important to take a longer-term view as these types of momentum-driven markets have tended to be relatively short lived. In the current market, which may be overdue for a correction, we believe our strategy is positioned well for the future. In the meantime, we remain focused on our value-oriented dividend-focused process, which we have refined over the past 18 years. We continue to work on sharpening our execution while also learning from our mistakes and stringently reviewing our underperforming stocks. We have added to positions that we believe have presented us with an opportunity on the pullback, where the long-term picture is unchanged despite the near-term weakness. We have sold positions that we believe will be unable to achieve our original predictions or where the risk to achieving it outweighs the potential reward. We continue to find opportunities across sectors as the market disregards valuation and are confident that the portfolio will bounce back from this tough period.

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

Top 5 Contributors	Average Weight	Absolute Contribution to Return
Enerplus Corporation	3.19	0.66
Radian Group Inc.	2.39	0.32
Progress Software Corporation	1.01	0.25
TiVo Corp.	2.68	0.21
Independent Bank Corp.	1.62	0.19

Top 5 Detractors	Average Weight	Absolute Contribution to Return
Dean Foods Company	2.22	-1.05
AMC Entertainment Holdings, Inc. Class A	1.56	-0.71
Big 5 Sporting Goods Corporation	0.72	-0.47
Aceto Corporation	1.03	-0.35
Bloomin' Brands, Inc.	1.59	-0.30

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.deninvest.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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