

## SMID-CAP VALUE

### FACT SHEET December 31, 2017

#### STRATEGY

- Seek to invest in small- and mid-cap companies generating positive free cash flow and improving returns
- Use integrated investment approach that combines proprietary quantitative screen and original fundamental research
- Employ bottom-up, team-based stock selection process
- Emphasize strict adherence to our style and risk control measures

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

<b>Sinclair Broadcast Group Inc</b> (Consumer)	2.5
<b>Enerplus Corp</b> (Energy)	2.4
<b>Ingredion Inc</b> (Capital Goods)	2.3
<b>Spire Inc</b> (Utilities)	2.3
<b>Fifth Third Bancorp</b> (Interest Rate Sensitive)	2.2
<b>Greenbrier Cos Inc/The</b> (Capital Goods)	2.2
<b>GEO Group Inc/The</b> (REITs)	2.0
<b>Lamb Weston Holdings Inc</b> (Consumer)	2.0
<b>KeyCorp</b> (Interest Rate Sensitive)	2.0
<b>Tyson Foods Inc</b> (Capital Goods)	1.9
<b>Total (% of portfolio)</b>	<b>21.8%</b>

<sup>1</sup>Data is based on firm's Smid-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.

<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
Smid-Cap Value (gross)	2.27	2.59	2.59	9.21	14.35	8.02
Smid-Cap Value (net)	2.06	1.72	1.72	8.29	13.39	7.11
Russell 2500 <sup>TM</sup> Value Index <sup>4</sup>	4.25	10.36	10.36	9.30	13.27	8.82
Calendar Year (%)	2017	2016	2015	2014	2013	2012
Smid-Cap Value (gross)	2.59	33.17	-4.65	11.61	34.47	14.57
Smid-Cap Value (net)	1.72	32.07	-5.46	10.67	33.37	13.60
Russell 2500 <sup>TM</sup> Value Index <sup>4</sup>	10.36	25.20	-5.49	7.11	33.32	19.21

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

	Smid-Cap Value	Russell 2500 <sup>TM</sup> Value <sup>4</sup>
Weighted Average Market Capitalization (\$ Mil)	\$6,797	\$4,772
Median Market Capitalization (\$ Mil)	\$4,241	\$1,060
Discount to Intrinsic Value	29.1%	-
Price/Book Value	2.1x	2.1x
Return on Assets	4.6%	3.6%
Long-Term Debt/Capital	44.8%	35.1%
Dividend Yield (1 year trailing)	2.4%	1.7%
Beta (3 Years)	1.04	-
Standard Deviation (3 Years)	13.07%	11.98%
Tracking Error (3 Years)	4.13%	-
Turnover (3 year average)	74%	-
Number of Holdings	64	-

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

	Smid-Cap Value	Russell 2500 <sup>TM</sup> Value <sup>4</sup>	Relative Weights
Basic Materials	6.9	6.1	0.8
Capital Goods	11.9	13.6	-1.7
Consumer	12.5	14.2	-1.7
Energy	6.2	7.2	-1.0
Interest Rate Sensitive	25.4	24.9	0.5
Medical / Healthcare	7.1	5.5	1.6
REITs	11.9	13.7	-1.8
Technology	9.3	8.1	1.2
Utilities	4.9	6.7	-1.8
Cash	4.0	0.0	4.0

#### FOR MORE INFORMATION ABOUT OUR INSTITUTIONAL OFFERING, PLEASE CONTACT:

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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-cap and mid-cap stocks underperformed large-cap stocks, 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 style 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' Smid-Cap Value portfolio's fourth quarter return lagged the 4.25% return of its benchmark, the Russell 2500™ 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, utilities, and consumer. The portfolio's top performer for the quarter and top performer in the consumer sector 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. WestLake Chemical Corp., a vertically integrated global manufacturer and marketer of basic chemicals, vinyls, polymers, and building products, outperformed in the fourth quarter. The market came to appreciate its ethylene positions and the reduced cyclicity of the company's profit margin profile. Moreover, fears of a North American ethylene oversupply proved to be overblown due to delays in supply additions and Hurricane Harvey's impact on competitor ethylene output. Also, WestLakes's vinyls business continued to see strong pricing momentum as North American competitors suffered maintenance downtime, Chinese production capacity was halted due to increasing environmental actions, and capacity for European production of mercury cells, used in vinyl production, was permanently capped. Voya Financial Inc., a diversified financial services company, was the standout performer within the interest rate sensitive sector as the company announced the sale of its closed book variable annuity business. This action should reduce the company's market and insurance risk. Additionally, it will allow Voya to focus on its higher-growth, higher-margin, and lower capital businesses, which include retirement, investment management, and employee benefits. Shares of Texas oil and gas exploration and production company SM Energy Co. performed well in the fourth quarter. Oil prices moved up due to strong global demand, international outages, reasonable U.S. shale production growth, and a November quota extension by OPEC. Further contributing to the portfolio's performance was Lamb Weston Holdings Inc., a producer and marketer of frozen potato products. The company reported solid first quarter sales and earnings driven by increased prices and improved product mix. News of positive contract renewals and early indications of an average potato crop year added to the tailwinds for the stock.

**Detractors from Portfolio**

The portfolio's weakest sectors relative to its benchmark for the quarter were REITs, technology, and energy. From an individual stock perspective, portfolio holding CBL & Associates Properties, Inc., a mall developer and operator focused in the southeast, was the largest detractor from performance. The stock pulled back meaningfully following the company's disappointing third quarter earnings announcement in which the dividend was cut by 25%. We were surprised by the magnitude of deterioration in the price of rent per square foot for new leases compared to previous rates. Increased uncertainty about the business, along with the decreased dividend, that emphasized management's growing concern, led us to exit the position. 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. AmTrust Financial Services Inc., an insurer focused on small businesses in lower risk industries, was also 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. Travelport Worldwide Ltd., a provider of global distribution systems for the travel industry, underperformed despite quarterly reporting that was in line with expectations. Investors were anticipating an increase to fourth quarter guidance for earnings estimates driven by new business contract wins, but management indicated that costs related to the launch of these new customers has been offsetting profitability in the near term. We believe Travelport is well positioned to benefit from continued growth in global travel and the emerging middle class in India and Asia. Realogy Holdings Corp., a leading owner and franchisor of residential real estate brokerages, as well as corporate relocation and title insurance, was another disappointing performer in the quarter. The company reported lower-than-expected earnings and reduced its guidance for future 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)<sup>2,6</sup>**

Top 5 Contributors	Average Weight	Absolute Contribution to Return	Top 5 Detractors	Average Weight	Absolute Contribution to Return
Sinclair Broadcast Group, Inc. Class A	2.26	0.42	CBL & Associates Properties, Inc.	1.01	-0.62
Westlake Chemical Corporation	1.45	0.38	TiVo Corp.	2.09	-0.50
Voya Financial, Inc.	1.68	0.38	AmTrust Financial Services Inc.	1.45	-0.44
Lamb Weston Holdings, Inc.	1.86	0.35	Travelport Worldwide Ltd.	1.62	-0.30
SM Energy Company	1.65	0.35	Realogy Holdings Corp.	1.40	-0.30

<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 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: Smid-Cap Value Composite

Year	— Composite Assets—			Composite Gross of Fees Annual Return (%)	Composite Net of Fees Annual Return (%)	Russell 2500™ 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	15	<1.0	10	33.17	32.07	25.20	13.43	13.36	0.50	7.476	7.169
2015	10	<1.0	7	-4.65	-5.46	-5.49	11.40	12.19	0.10	7.606	7.382
2014	10	<1.0	6	11.61	10.67	7.11	9.74	11.41	0.18	9.596	9.373
2013	9	<1.0	6	34.47	33.37	33.32	12.63	15.29	0.35	10.009	9.794
2012	7	<1.0	6	14.57	13.60	19.21	15.25	18.67	0.32	9.565	9.343
2011	7	<1.0	7	1.71	0.84	-3.36	20.45	24.57	0.18	9.389	9.101
2010	8	<1.0	9	22.34	21.30	24.82	-	-	0.48	8.989	8.711
2009	7	<1.0	10	24.80	23.77	27.68	-	-	0.29	8.038	7.837
2008	6	<1.0	12	-37.80	-38.34	-31.99	-	-	2.24	7.008	6.867
2007	9	<1.0	9	5.83	4.75	-7.27	-	-	0.48	9.715	9.502
2006	6	<1.0	4	21.19	19.92	20.18	-	-	0.09	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 April 2005 (style inception was 4/1/2005). 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 Smid-Cap Value strategy. The composite includes all actively managed equity accounts that are managed to the Russell 2500™ Value Index and primarily invest in small- and mid-capitalization U.S. value equities. The Russell 2500™ Value Index is an unmanaged index measuring the small- to mid-cap value segment of the U.S. equity universe that is constructed to provide a comprehensive and unbiased barometer of the small- to mid-cap value market. 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.
- 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 Smid-Cap Value composite has been examined for the periods 4/1/05 – 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 0.85%. 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.

FOR MORE INFORMATION ABOUT OUR INSTITUTIONAL OFFERING, PLEASE CONTACT:

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