

VALUE STRATEGY

Denver Investments' Value investment philosophy is based on the belief that the market rewards companies over time for their free cash flow rather than their reported earnings. The strategy utilizes a bottom-up approach, which is grounded in independent, fundamental research. Analysts seek to invest in companies where the future free cash flow and return on invested capital are undervalued by the market. The team constructs a diversified portfolio designed to generate alpha primarily through stock selection.

HIGHLIGHTS

Information advantage through proprietary integrated approach

The team believes that the combination of proprietary, sector-specific quantitative screening and independent, fundamental analysis provides an information advantage that is critical to exploiting market inefficiencies. Through this approach, research analysts seek to identify and thoroughly assess the key value-creating drivers for a company.

High-quality, attractively valued companies with improving fundamentals

Analysts research companies where the early fundamental improvement in free cash flow appears sustainable and not yet recognized by the market. They seek to develop an in-depth understanding of the economics of the business and sustainability of a company's competitive advantage by speaking to sources that "touch" the product(s) or service(s) including customers, suppliers, competitors, and other industry contacts.

Strict valuation and risk discipline

Investing in high quality, cash-generative companies at attractive valuations is the goal of the team's process. Analysts value companies based primarily on a proprietary discounted cash flow model using estimates derived from their fundamental research. The team seeks to manage risk through its rigorous valuation discipline and through in-depth fundamental research and portfolio structure.

Team-based decision-making

Individual analysts drive the research process: the investment team collectively makes the final buy and sell decisions. This approach recognizes the value of intellectual rigor in decision-making and is designed to take full advantage of both individual insights and the collective expertise of the group. Most importantly, it helps clients receive the team's best ideas while fostering product continuity and the consistent application of investment philosophy and process.

INVESTMENT PROCESS

QUANTITATIVE SCREENING

Using a proprietary, sector-specific quantitative screen, rank universe of stocks, focusing on top two deciles as candidates for fundamental analysis.

- Proprietary multi-factor screen incorporates seven factors per sector that the team believes have long-term predictive value.
- Screen ranks stocks that are not only statistically cheap but also have fundamentals showing early signs of improvement.
- Screen improves efficiency and effectiveness of analysts in identifying investment ideas.

FUNDAMENTAL RESEARCH

Analyze companies where the early fundamental improvement in free cash flow appears sustainable and not yet recognized by the market.

- Using a proprietary, free cash flow model, analysts determine expectations implied in stock's current price and seek to identify key value-creating drivers.
- Analysts focus their fundamental research on understanding what impacts key drivers and on determining how their estimates differ from market expectations and what this means to the value of the business.
- They develop an in-depth understanding of the economics of the business and sustainability of a company's competitive advantage. Analysts may speak to customers, suppliers, competitors, and other industry resources.
- Analysts estimate the intrinsic value for a company using three methods: 1) a proprietary discounted free cash flow model, 2) a proprietary "returns-based" peer analysis, and 3) an analysis of cash flow returns and reinvestment opportunities for the business. The greatest weight is placed on the free cash flow valuation.

STOCK SELECTION

Leveraging expertise of team, invest in companies with the most attractive risk/return profiles.

- Analysts present new ideas to the Value team.
- The team has a collaborative discussion and debates the investment thesis for each new idea.
- Utilize each team member's knowledge and skill set.
- Investment team collaboratively makes buy decision.

PORTFOLIO CONSTRUCTION

Construct well-diversified portfolio to achieve client objectives.

- Stocks weighted by expected appreciation.
- Initial position size: 1% to 3%; maximum of 5% at market.
- Sector sensitive: +/- 5% of the absolute sector weights in benchmark for Mid- and Small-Cap Value products; +/- 2% for Smid-Cap Value product.
- Fully invested: typically less than 5% cash.

SELL DECISION

Approach sell decision with same rigor as buy decision.

- Estimate of intrinsic value reached.
- Fundamentals violate original investment thesis.
- More attractive investment ideas are developed.
- Appreciates outside of market capitalization parameters.

VALUE EQUITY PRODUCTS

Representative portfolio guidelines:

■ MID-CAP VALUE

- Benchmark: Russell Midcap[®] Value Index
- Universe: All dividend-paying public companies in market capitalization range of Russell Midcap[®] Value Index
- Stocks: Approximately 50 – 70

■ SMID-CAP VALUE

- Benchmark: Russell 2500[™] Value Index
- Universe: All dividend-paying public companies in market capitalization range of Russell 2000 and Midcap Value Indices
- Stocks: Approximately 60 – 80

■ SMALL-CAP VALUE

- Benchmark: Russell 2000[®] Value Index
- Universe: All dividend-paying public companies in market capitalization range of Russell 2000[®] Value Index
- Stocks: Approximately 55 – 75

The Small-Cap Value and Mid-Cap Value products are available through our family of mutual funds.

The guidelines listed are representative of each product, but are not considered restrictions. Specific client guidelines may differ.

FIRM OVERVIEW

Denver Investments is a research-driven organization founded on the belief that independent research is the key driver of value-added management. Since the inception of our investment management services in 1958, proprietary fundamental research has been at the core of our investment approach. Our approach is implemented across value, core, growth, and international equities, as well as core and non-core fixed income strategies.

As a firm, we are in one business: serving our clients as a fiduciary in the management of their investment assets. This allows the firm to focus its resources on one goal: the pursuit of superior investment returns for our clients. We believe that our independence (100% employee-owned) helps align our interests with our clients which enhances our ability to promote their investment success.

INVESTMENT TEAM

Mark M. Adelman, CFA, CPA

Partner, Portfolio Manager, Analyst

1995 to Present: Denver Investments
 1979 to 1995: Deloitte & Touche, Senior Manager
 Education: BS – Oral Roberts University
 Member of CFA Institute and CFA Society Colorado
 Member of the American Institute of CPAs and the Colorado Society of CPAs

Troy Dayton, CFA

Partner, Co-Director of Value Research, Portfolio Manager, Analyst

2002 to Present: Denver Investments
 2001 to 2002: Jurika and Voyles, Equity Research Analyst
 1998 to 2001: Dresdner RCM Global Investors, Equity Research Associate
 1996 to 1998: Jurika and Voyles, Equity Research Associate
 1996: Citibank, Trading Support Officer
 Education: BSBA – Colorado State University
 Member of CFA Institute and CFA Society Colorado

Jennifer B. Oldland

Vice President, Analyst

2006 to Present: Denver Investments
 Education: BS – Colorado State University

Alex A. Ruehle, CFA

Partner, Portfolio Manager, Analyst

2008 to Present: Denver Investments
 Education: BS and MBA – University of Denver
 Member of CFA Institute and CFA Society Colorado

Derek R. Anguilm, CFA

Partner, Co-Director of Value Research, Portfolio Manager, Analyst

2000 to Present: Denver Investments
 1999: Everen Securities, Research Assistant
 Education: BS – Metropolitan State College of Denver
 Member of CFA Institute and CFA Society Colorado

Guangyan (Yan) Qin, CFA

Vice President, Analyst

2008 to Present: Denver Investments
 2007: Investment Protection Services, Intern
 2007: First Data Corporation, Treasury Analyst Intern
 2006: China Great Wall Asset Management Intern
 2005: China Construction Bank, Intern
 Education: BS – University of International Business and Economics, Beijing, China; MS – University of Denver
 Member of CFA Institute and CFA Society Colorado

Lisa Z. Ramirez, CFA

Partner, Portfolio Manager, Analyst

1989 to Present: Denver Investments
 Education: BS – University of Colorado; MBA – Regis University
 Member of CFA Institute and CFA Society Colorado

Robbie A. Steiner, CFA

Vice President, Analyst

2014 to Present: Denver Investments
 2012 to 2013: BMO Capital Markets, Investment Banking Associate
 2008 to 2010: Transamerica Investments, Mutual Fund Wholesaler
 Education: BBA – University of Georgia, MBA – Emory University
 Member of CFA Institute and CFA Society Colorado

FOR MORE INFORMATION ABOUT OUR INSTITUTIONAL OFFERING, PLEASE CONTACT:

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