

## SMALL-CAP GROWTH STRATEGY

Denver Investments' Small-Cap Growth investment philosophy is based on the belief that equity prices reflect expectations for earnings and cash flow. The team believes that identifying companies with superior growth prospects and fundamental stability early leads to consistent outperformance over time. Through rigorous, independent, fundamental research, the team constructs a portfolio designed to generate alpha primarily through stock selection.

### HIGHLIGHTS

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#### **Experience and expertise**

Analysts on the team each have extensive experience following their respective industries. Each analyst uses his base of knowledge (awareness of a company's growth profile, management quality, product/service positioning, etc.) throughout the research process. In addition, the team's industry-specific research model allows analysts to combine an understanding of their industries with the broader, cross-sector perspectives gained by covering industries in different sectors.

#### **Identifying change early**

The research process is designed to allow analysts to be early in the identification of companies with superior growth prospects and fundamental stability. To this end, analysts focus their research on understanding a company's growth dynamic and look for companies with the following attributes: long duration and/or accelerating growth opportunities, product and/or service leadership that can lead to or maintain market share, quality management that can consistently execute on its growth strategy, and operating within an attractive industry. Analysts create a proprietary valuation model to understand where their internal expectations exceed the implied market expectations and to better understand the phase of its growth cycle a company is in. In growth investing, the team believes it is paramount to be both early and to be right to consistently add alpha in the space.

#### **Sell discipline**

The team utilizes a rigorous sell discipline, as it believes that the timely execution of the sell decision is critical for capturing gains and avoiding losses. The team meets weekly to review all current holdings and discuss the relative attractiveness of each security. The focus is on identifying signs of deterioration in fundamentals including: negative earnings revisions, earnings quality deterioration, significant slowing of growth, erosion of competitive advantage as evidenced by margin degradation, turnover in key management, or a major acquisition. Various outcomes can result from this review and analysis, including, but not limited to trimming the position, no change to position size or selling the position outright.

## INVESTMENT PROCESS

### IDEA GENERATION

Identify companies with superior growth prospects and fundamental stability.

- The team generates investment ideas through the insights, expertise and empirical observations of individual team members.
- Analysts also source ideas through review of key financial metrics including accelerating growth in sales/earnings, expanding margins, and positive earnings revisions.
- Analysts conduct an initial fundamental assessment of a company's growth prospects and fundamental stability with a focus on:
  - Long duration and/or accelerating growth opportunities.
  - Product/service leadership and opportunity to gain or maintain market share.
  - Quality management that can consistently execute on its growth strategy.
  - Fundamental stability, as evidenced by lower volatility around both earnings and cash flows.
- Analysts focus their research on the most attractive candidates for investment.

### FUNDAMENTAL RESEARCH

Analyze companies with the potential to exceed expectations.

- Conduct 360-degree assessment of company, including conversations with management, customers, competitors, suppliers, and industry contacts.
- Identify investment catalysts over next 12 to 18 months.
- Utilize proprietary discounted cash flow model to identify where internal expectations exceed market expectations.
- Establish price target; minimum 20% upside.

### STOCK SELECTION

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

- Analysts present new ideas to entire team.
- The team has collaborative discussion and debate of the investment thesis for each new idea.
- Utilize each team member's knowledge and skill set.
- The portfolio managers collectively make buy decisions.

### PORTFOLIO CONSTRUCTION

Construct growth portfolio to achieve client objectives.

- Stock weightings based on risk-adjusted expected returns.
- Maximum position size of 5%.
- Sector sensitive: +/-10% of absolute sector weights in benchmark.
- Fully invested: typically less than 10% cash.

### SELL DECISION

Timely execution critical for capturing gains and avoiding losses.

- Achieves valuation objectives.
- Appreciates outside of market capitalization parameters.
- More attractive investment opportunity is developed.
- Signs of deterioration in fundamentals.

## SMALL-CAP GROWTH EQUITY STRATEGY

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### Representative portfolio guidelines:

#### ■ SMALL-CAP GROWTH

- Benchmark: Russell 2000® Growth Index
- Universe: Typically stocks within the market capitalization range of the Russell 2000® Growth Index
- Stocks: Approximately 70 – 100

The Small-Cap Growth product is available through our family of mutual funds.

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

## FIRM OVERVIEW

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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

### **Brian C. Fitzsimons, CFA**

Partner, Director of Small-Cap Growth Research,  
Portfolio Manager, Analyst

2005 to Present: Denver Investments  
2004 to 2005: Newmont Capital Ltd., Finance Manager  
2002 to 2004: A.G. Edwards & Sons, Inc., Equity Analyst  
2002: Berger Financial Group, Equity Analyst  
1999 to 2002: Women's Pro Softball League, Director of Finance/  
Controller  
Education: BS – Metropolitan State College of Denver; MBA –  
University of Denver  
Member of CFA Institute and CFA Society Colorado

### **Adam C. Bliss**

Partner, Portfolio Manager, Analyst

2004 to Present: Denver Investments  
1997 to 2003: Berger Funds, Co-Portfolio Manager and Equity  
Analyst  
Education: BSBA – Saint Mary's College of California; MBA –  
University of Denver

### **Mitch S. Begun, CFA**

Partner, Portfolio Manager, Analyst

2003 to Present: Denver Investments  
2000 to 2002: Raymond James & Associates, Equity Research  
Associate  
Education: BSBA – University of North Carolina at Chapel Hill  
Member of CFA Institute and CFA Society Colorado

### **Mark S. Truelsen, CFA**

Vice President, Analyst

2001 to Present: Denver Investments  
2000 to 2001: RJ Falkner & Co., Junior Research Analyst  
1999: Skyline Asset Management, Marketing Assistant  
1998 to 1999: Scudder Kemper Investments, Investment  
Representative  
Education: BA – University of Illinois at Urbana-Champaign  
Member of CFA Institute and CFA Society Colorado

### **Georgene L.A. Pedrie**

Vice President, Senior Equity Trader

2002 to Present: Denver Investments  
1987 to 2002: NDB Capital Market, Sales Trader  
Education: BA and MA – University of Northern Colorado

FOR MORE INFORMATION ABOUT OUR INSTITUTIONAL OFFERING, PLEASE CONTACT:

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