

MUNICIPAL FIXED INCOME

FACT SHEET | March 31, 2017

STRATEGY

- Seek double tax-exempt income
- Invests in various counties, public projects, school districts and taxing authorities that have been identified as attractive investments through our research
- Investment-grade quality and intermediate maturity emphasis

Sector Allocation²

	Municipal Fixed Income
Cash	4.0
Airport	3.2
Build America Bonds	2.6
Development	12.2
Education	12.3
Facilities	1.9
General	23.5
General Obligation	8.2
Higher Education	2.5
Medical	19.2
Multifamily Housing	2.6
Nursing Homes	1.3
Power	0.8
School District	3.0
Transportation	0.8
Utilities	0.5
Water	1.4

¹Data is based on firm's Municipal Fixed Income 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 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.

³The rating information reflects the Standard & Poor's equivalent rating category for the highest credit-quality rating assigned by either Standard & Poor's or Moody's ratings.

⁴Source: CMS BondEdge

⁵Standard Deviation statistic based on monthly data. Three years. Source: eVestment Alliance.

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Performance¹

Periods Ended 3/31/17 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
Municipal Fixed Income (gross)	1.48	1.48	0.37	3.44	3.07	4.32
Municipal Fixed Income (net)	1.36	1.36	-0.13	2.92	2.55	3.83
Barclays Capital 7-Year Municipal Bond Index ⁴	1.95	1.95	-0.06	2.89	2.72	4.47
Municipal Fixed Income Custom Index	1.95	1.95	-0.06	3.36	3.20	4.74
Calendar Year (%)	2016	2015	2014	2013	2012	2011
Municipal Fixed Income (gross)	0.49	3.64	7.06	-1.46	5.56	9.25
Municipal Fixed Income (net)	-0.01	3.12	6.53	-1.96	5.04	8.73
Barclays Capital 7-Year Municipal Bond Index	-0.50	3.26	6.09	-0.97	4.20	10.14
Municipal Fixed Income Custom Index	-0.50	3.26	8.72	-2.17	5.70	12.31

Portfolio Characteristics²

	Municipal Fixed Income	Barclays U.S. 7-Year Municipal Bond ⁴
Effective Duration	5.4 years	5.0 years
Effective Maturity	9.6 years	7.0 years
Effective Yield	2.6%	2.0%
Coupon	4.5%	4.8%
Average Credit Quality	A	AA2/AA3
Standard Deviation ^{1,5}	2.78%	3.14%
Cash	4.0	0.0

Quality Detail^{2,3}

% of portfolio	Municipal Fixed Income (%)	Barclays U.S. 7-Year Municipal Bond ⁴ (%)
Treasuries	0.0	0.0
Agencies (incl. MBS)	0.0	0.0
AAA	7.0	16.8
AA	41.7	56.5
A	20.8	23.4
BBB	17.6	3.3
BB & Below	3.0	0.0
Not Rated	9.9	0.0

Duration Distribution^{2,4}

% of securities	Municipal Fixed Income (%)	Barclays U.S. 7-Year Municipal Bond ⁴ (%)
0 - 1 year	12.7	4.2
1 - 3 years	26.1	9.4
3 - 4 years	3.7	6.3
4 - 6 years	12.7	52.5
6 - 8 years	13.1	27.6
8+ years	31.6	0.0

FOR MORE INFORMATION ABOUT OUR INSTITUTIONAL OFFERING, PLEASE CONTACT:

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Market Overview

The first quarter saw the markets largely settle down after the November elections. Municipal bond interest rates remained largely range bound through the first quarter, as the 10-year AAA rated municipal bond yield fell six basis points to 2.25%. Rates declined the most for shorter maturity bonds as markets faced the reality that pro-growth policy changes by the new administration are going to take time.

Flows into municipal bond funds remained slightly negative for the quarter. Investors seemed to be waiting for further clarity on what tax law changes may emerge from the new administration. While we believe there will be changes, it appears that the battle to get them enacted into law will be tougher than initially thought. It also appears that the magnitude of changes will likely be more subdued than initially expected. Given current municipal yields, and the presumed tax advantages under almost any reasonable outcome from tax law changes, we would likely view a near-term dislocation in prices as a technical move rather than a long-term fundamental change – and therefore, a potential buying opportunity.

Portfolio Performance

For the first quarter, the Denver Investments' Municipal Fixed Income portfolio outperformed its benchmark, the Barclays U.S. 1-15-Year Municipal Bond Index, which returned 1.55%.

Contributors to Return

The portfolio's first full quarter of operation was spent building the portfolio and establishing positions that we believe we can continue to build upon as the portfolio grows. Smaller portfolio make some investors skeptical, but in practice, we believe being smaller offers the opportunity to be incredibly effective and nimble. We are currently able to buy smaller pieces of bond offerings that are often overlooked by the market and brokers. These small pieces can add value since they are often less expensive than if you were to buy larger pieces. This is because larger investors are usually less interested in buying smaller positions. Also, these smaller-sized offerings are generally more plentiful since larger investors don't want to take part in them.

Detractors to Return

The only real detractors to the portfolio's return in the quarter were investments in cash equivalents that were held while we searched for attractive bonds to invest in. This is a natural growing pain for a new fund. We, however, believe that we have done as good of job as possible of mitigating the impact.

Outlook & Positioning

Portfolio Positioning: We continue to be optimistic about the immense number of municipal bonds available. With approximately 70,000 individual issuers in the municipal market, we believe the investment opportunities are vast. Our goal is just to be as selective as possible.

Duration: The portfolio's effective duration as of March 30, 2017 was 5.19 and its effective maturity was 11.69 years. This is a slightly longer effective duration than the benchmark.

At quarter end, no individual holdings within the portfolio were subject to the Alternative Minimum Tax (AMT).

Performance Disclosure: Municipal Fixed Income Composite

Year	— Composite Assets —		Composite Accounts	Composite Gross	Composite Net	Composite Benchmark ¹⁰ (%)	Composite	Index	Composite Dispersion (%)	Total Firm Assets (Incl. Model Portfolios)* (\$Bil)	Total Firm Assets (\$Bil)
	Dollars (\$ millions)	% of Firm Assets		of Fees Annual Return (%)	of Fees Annual Return (%)		3 Year Standard Deviation (%)	3 Year Standard Deviation (%)			
2015	255	3.5	19	3.64	3.12	3.26	2.09	2.13	0.65	7.606	7.382
2014	203	2.1	12	7.06	6.53	8.72	3.16	3.82	1.90	9.596	9.373
2013	163	1.6	12	-1.46	-1.96	-2.17	3.43	4.37	0.97	10.009	9.794
2012	193	2	12	5.56	5.04	5.70	3.22	4.20	1.32	9.565	9.343
2011	191	2	14	9.25	8.73	12.31	4.09	5.38	1.58	9.389	9.101
2010	194	2.2	14	2.45	2.00	4.04	-	-	0.73	8.989	8.711
2009	186	2.3	14	13.08	12.57	9.87	-	-	3.51	8.038	7.837
2008	140	2	10	0.24	-0.22	1.50	-	-	1.51	7.008	6.867
2007	134	1.4	10	3.20	2.75	4.31	-	-	1.14	9.715	9.502
2006	121	1.4	9	4.64	4.19	4.70	-	-	0.72	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 Advisors 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 1991 (style inception 7/1/1991). All returns are computed using a time-weighted total rate of return. The composite is defined to include all fee-paying, discretionary accounts that are managed according to the Municipal Fixed Income strategy. The Barclays 7 Year Municipal Bond Index is a capitalization weighted bond index created by Barclays intended to be representative of major municipal bonds of all quality ratings with an average maturity of approximately seven years. Barclays Capital is the source and owner of the Barclays Capital Index data contained in this material and all trademarks and copyrights related thereto. Any further dissemination or redistribution is strictly prohibited. Barclays Capital 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 in 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 equivalent investments.
- 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 – 12/31/15. The verification reports are available upon request. Verification assesses whether the firm has complied with all the composite construction requirements of the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. A complete list and description of all firm composites is available upon request.
- 7) The management fee schedule is as follows: 0.50% on the market value of assets.
- 8) Past performance does not guarantee future results and future performance may be lower or higher than the performance presented.
- 9) Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.
- 10) From the inception of the product through 12/31/2014, the composite benchmark was the Barclays Capital 10-Year Municipal Index. The Barclays Capital 10-Year Municipal Index is an unmanaged index that includes investment grade (Moody's Investor Services Aaa to Baa, Standard & Poor's AAA to BBB) tax-exempt bonds with maturities between eight and twelve years. From 1/1/2015 to present, the benchmark is the Barclays Capital 7-Year Municipal Index. The index was changed to better reflect the strategy of the composite.