

## MICRO-CAP

### FACT SHEET | March 31, 2018

#### STRATEGY

- Focus on micro-cap companies with less than \$500 million market capitalization
- Multi-factor sector-specific quantitative models developed in conjunction with fundamental analyst team
- Emphasize strict adherence to style and risk control measures
- Mathematical approach allows for repeatability within the process

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

Allied Motion Technologies Inc (Industrials)	1.4
Medifast Inc (Consumer Staples)	1.2
ConnectOne Bancorp Inc (Financials)	1.1
ICF International Inc (Industrials)	1.1
RadNet Inc (Health Care)	1.1
Chart Industries Inc (Industrials)	1.1
Citi Trends Inc (Consumer Discretionary)	1.1
Renewable Energy Group Inc (Energy)	1.1
McGrath RentCorp (Industrials)	1.1
Continental Building Products Inc (Industrials)	1.1
<b>Total (% of portfolio)</b>	<b>11.4%</b>

<sup>1</sup>Data is based on firm's Micro-Cap 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>Tracking error, Standard deviation and Beta statistics based on monthly data. Three years. Source: eVestment Alliance.

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#### Performance<sup>1</sup>

Periods Ended 3/31/18 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
Micro-Cap (gross)	0.07	0.07	10.41	8.41	12.20	-
Micro-Cap (net)	-0.24	-0.24	9.05	7.07	10.82	-
Russell Microcap <sup>®</sup> Index <sup>4</sup>	0.68	0.68	13.50	8.04	11.76	-
Calendar Year (%)	2017	2016	2015	2014	2013	2012
Micro-Cap (gross)	6.83	26.05	-3.72	3.86	48.06	17.11
Micro-Cap (net)	5.51	24.51	-4.92	2.57	46.46	15.94
Russell Microcap <sup>®</sup> Index <sup>4</sup>	13.17	20.37	-5.16	3.65	45.62	19.75

Segall Bryant & Hamill acquired Denver Investment Advisors LLC on 4/30/2018. Performance results before this date reflect returns generated by the portfolio managers at Denver Investment Advisors LLC.

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

	Micro-Cap	Russell Microcap <sup>®</sup> Index <sup>4</sup>
Weighted Average Market Capitalization (\$ Mil)	\$718	\$636
Median Market Capitalization (\$ Mil)	\$629	\$232
Price/Book Value	2.5x	2.8x
Return on Assets	4.2%	-3.2%
Long-Term Debt/Capital	23.7%	24.3%
Dividend Yield (1 year trailing)	1.1%	0.6%
Beta (3 Years)	0.82	-
Standard Deviation (3 Years)	13.35%	15.22%
Tracking Error (3 Years)	5.60%	-
Turnover (3 year average)	64%	-
Number of Holdings	141	-

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

	Micro-Cap	Russell Microcap <sup>®</sup> Index <sup>4</sup>	Relative Weights
Consumer Discretionary	12.0	11.7	0.3
Consumer Staples	2.4	1.9	0.5
Energy	4.6	4.6	
Financials	27.5	24.0	3.5
Health Care	20.5	25.5	-5.0
Industrials	13.1	11.6	1.5
Information Technology	11.3	12.4	-1.1
Materials	3.5	3.1	0.4
Real Estate	2.7	3.4	-0.7
Telecommunication Services	0.0	0.8	-0.8
Utilities	1.2	1.1	0.1
Cash	1.2	0.0	1.2

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

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### Market Overview

Micro-cap stocks posted their fourth straight quarter of positive results, with the Russell Microcap® Index up 0.68% for the three months ended March 31, 2018. As was the case in 2017, stocks that we view as expensive, those with high cash flow to price and other positive valuation metrics, outperformed. Stocks with solid return on equity also underperformed, as did those with higher quality (as measured by the Piotroski score). Stocks with higher historical trading volume outperformed less-liquid stocks.

### Portfolio Performance

For the first quarter of 2018, the Denver Investments' Micro-Cap portfolio underperformed the 0.68% return of its benchmark, the Russell Microcap® Index. The models used to help manage and select stocks for the portfolio delivered mixed results for the quarter. On an absolute basis, the portfolio provided positive returns in 4 of 11 sectors for the quarter. The benchmark's returns were also positive in 4 out of 11 sectors on an absolute basis. The portfolio outperformed the benchmark in 5 out of the 11 sectors.

### Contributors to Return

The portfolio's best-performing sectors, relative to the benchmark, were real estate and energy. Among the portfolio's best-performing holdings this quarter was RadNet Inc., a provider of comprehensive radiology solutions. The company reported better-than-expected 2017 results during the quarter and raised 2018 guidance. R1 RCM Inc., a hospital revenue cycle management company, was another significant contributor to the portfolio's performance in the quarter. The market reacted favorably to the firm's acquisition of Intermedix Corp. Another strong performer was Illinois-based Addus HomeCare Corp. This provider of comprehensive home care services reported fourth quarter numbers that beat expectations.

### Detractors from Return

The portfolio's weakest sectors relative to the benchmark were health care and materials. Among the portfolio's detractors in the quarter was MiMedx Group Inc., a biopharmaceutical company that develops bioactive products for tissue regeneration. The company delayed its fourth quarter and full year 2017 earnings reports as it conducts an internal investigation into its sales and distribution practices. Another detractor from the portfolio's performance in the quarter was Roadrunner Transportation Systems Inc., an asset-light transportation and supply chains solutions provider. The firm has been troubled by accounting issues and an internal investigation found that the company overstated its net income from 2011 through the third quarter of 2016. Collectors Universe Inc. also hampered the portfolio's performance in the quarter. The company provides third-party authentication and grading services to collectors. Its stock underperformed after company management decreased its dividend to in order to fund growth.

### Outlook and Positioning

After underperforming larger capitalization stocks in 2017, micro-cap stocks outperformed their larger-cap brethren during the first quarter of 2018. Fears of a trade war impacted the micro-cap universe less than the rest of the market, as smaller stocks are generally less dependent on international trade. These smaller stocks may continue to benefit as the playing field is leveled. We began to see the first fissures in the extended growth rally in March, as there was a sharp reversal in highly-valued technology company stocks. Valuations, in our opinion, continue to be historically high for many large- and micro-cap stocks, while stocks that are inexpensive based on the cash flow to enterprise value, remain relatively attractive in our view.

### 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
R1 RCM Inc	0.70	0.33	Roadrunner Transportation Systems, Inc.	0.63	-0.61
RadNet, Inc.	0.82	0.33	MiMedx Group, Inc.	0.71	-0.40
Medifast, Inc.	1.06	0.29	Collectors Universe, Inc.	0.58	-0.38
Addus HomeCare Corporation	0.74	0.28	SpartanNash Company	0.69	-0.31
Comtech Telecommunications Corp.	0.75	0.26	Lantheus Holdings Inc	0.79	-0.21

<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](mailto: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](http://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: Micro-Cap Composite

Year	— Composite Assets—			Composite Gross of Fees Annual Return (%)	Composite Net of Fees Annual Return (%)	Russell Microcap® 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	13	<1.0	1	26.05	24.51	20.37	15.18	17.08	-	7.476	7.169
2015	21	<1.0	1	-3.72	-4.92	-5.16	14.61	15.04	-	7.606	7.382
2014	37	<1.0	1	3.86	2.57	3.65	14.83	14.51	-	9.596	9.373
2013	21	<1.0	1	48.06	46.46	45.62	17.17	17.33	-	10.009	9.794
2012	3	<1.0	1	17.11	15.94	19.75	20.53	21.50	-	9.565	9.343
2011	2	<1.0	1	-2.26	-3.25	-9.27	25.38	26.47	-	9.389	9.101
2010	2	<1.0	1	35.23	33.50	28.89	-	-	-	8.989	8.711
2009	2	<1.0	1	17.07	15.55	27.48	-	-	-	8.038	7.837
2008 (7/1/08)	1	<1.0	1	-19.49	-20.04	-28.71	-	-	-	7.008	6.867

\*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 2008. The composite is defined to include all fee paying, discretionary, actively-managed equity accounts that are managed to the Russell Microcap® Index. The composite primarily invests in the stocks of micro-cap companies that appear to be undervalued. The Russell Microcap® Index measures the performance of the microcap segment of the U.S. equity market. It makes up less than 3% of the U.S. equity market. It includes 1,000 of the smallest securities in the small-cap Russell 2000® Index based on a combination of their market capitalization and current index membership and it includes the next 1,000 securities. 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. Dispersion is not shown for years in which only one account is present for the entire 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 Micro-Cap composite has been examined for the periods 7/1/08 – 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 1.25%. 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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