

# SMID CAP VALUE DIVIDEND

FACT SHEET | December 31, 2018

## 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> (%)

Oshkosh Corp (Industrials)	3.0
Primoris Services Corp (Industrials)	2.8
Radian Group Inc (Financials)	2.8
National Fuel Gas Co (Utilities)	2.7
Graham Holdings Co (Consumer Discretionary)	2.6
Mosaic Co/The (Materials)	2.6
GEO Group Inc/The (Real Estate)	2.6
Southwest Gas Holdings Inc (Utilities)	2.5
MDC Holdings Inc (Consumer Discretionary)	2.5
Public Service Enterprise Group Inc (Utilities)	2.3
<b>Total (% of portfolio)</b>	<b>26.3%</b>

<sup>1</sup>Data is based on firm's Smid Cap Value Dividend 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.

## Performance<sup>1</sup>

Periods Ended 12/31/18 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
Smid Cap Value Dividend (gross)	-15.40	-12.27	-12.27	6.22	4.99	11.80
Smid Cap Value Dividend (net)	-15.59	-12.96	-12.96	5.35	4.12	10.87
Russell 2500™ Value Index <sup>4</sup>	-17.12	-12.36	-12.36	6.59	4.16	11.62
Calendar Year (%)	2018	2017	2016	2015	2014	2013
Smid Cap Value Dividend (gross)	-12.27	2.59	33.17	-4.65	11.61	34.47
Smid Cap Value Dividend (net)	-12.96	1.72	32.07	-5.46	10.67	33.37
Russell 2500™ Value Index <sup>4</sup>	-12.36	10.36	25.20	-5.49	7.11	33.32

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>

	Smid Cap Value Dividend	Russell 2500™ Value <sup>4</sup>
Weighted Average Market Capitalization (\$ Mil)	\$4,993	\$4,303
Median Market Capitalization (\$ Mil)	\$3,443	\$902
Discount to Intrinsic Value	57.1%	-
Price/Book Value	1.9x	1.8x
Return on Assets	5.6%	4.1%
Long-Term Debt/Capital	41.0%	36.1%
Dividend Yield (1 year trailing)	3.0%	2.3%
Beta (3 Years)	1.01	-
Standard Deviation (3 Years)	14.40%	13.77%
Tracking Error (3 Years)	3.72%	-
Turnover (3 year average)	80%	-
Number of Holdings	59	-

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

	Smid Cap Value Dividend	Russell 2500™ Value <sup>4</sup>	Relative Weights
Communication Services	2.0	3.2	-1.2
Consumer Discretionary	9.8	8.3	1.5
Consumer Staples	3.1	3.3	-0.2
Energy	6.3	5.0	1.3
Financials	21.6	23.2	-1.6
Health Care	3.4	5.0	-1.6
Industrials	11.6	13.5	-1.9
Information Technology	10.8	9.0	1.8
Materials	4.2	5.9	-1.7
Real Estate	15.2	16.1	-0.9
Utilities	9.2	7.4	1.8
Cash	2.8	0.0	2.8

## Market Overview

In the fourth quarter of 2018, bullishness gave way to bearishness. Having bid up stocks in the third quarter to achieve the longest bull market on record, investors appear to have become fearful of rising interest rates, China trade tensions, the partial government shutdown and global policy uncertainty. In attempting to reduce risk, investors sold stocks of small capitalization companies in particular, as well as those with above average foreign sales exposure and higher leverage. Unlike previous risk-off market pullbacks, neither reasonable valuation nor a commitment to paying a dividend provided a cushion, which continued the two-year trend of markets tending to overlook valuation and dividend payments.

## Portfolio Performance

For the fourth quarter of 2018, the Segall Bryant & Hamill Smid Cap Value Dividend portfolio outperformed the -17.12% return of its benchmark, the Russell 2500<sup>TM</sup> Value Index. U.S. equity markets were led by stocks with lower risk profiles, lower exposure to foreign sales and strong momentum.

## Contributors to Return

The sectors that contributed most to the portfolio's return relative to its benchmark in the quarter were Energy, Consumer Discretionary and Industrials. Consumer Discretionary holding Graham Holdings Co. (GHC) was the portfolio's top performer. This diversified education and media company reported solid revenue growth and a significant improvement in operating income. GHC's conservative balance sheet and stable revenue and operating income were also beneficial in the flight to safety that occurred in the quarter. Another strong performer was Lamb Weston Holdings Inc. (LW), a producer and marketer of value-added frozen potato products. The company continued to benefit from a favorable supply demand environment and reported better-than-expected sales and earnings. LW has demonstrated pricing power without sacrificing volumes in a very challenging food industry environment, which has been driving returns and cash flows higher.

## Detractors from Return

The portfolio's weakest sectors relative to its benchmark were Financials, Real Estate and Communication Services. Navient Corp. (NAVI), a servicer and owner of education loans and a business services provider, was the portfolio's largest detractor within the Financials sector in the quarter. Despite NAVI's strong execution and better-than-expected earnings, investors appear to be concerned that historically high student debt levels do not bode well for the student lending business. NAVI's demonstrated competence in providing creditworthy borrowers with solutions, such as refinancing or taking advantage of government relief provisions, gives us optimism. We are keeping a watchful eye on industry developments but continue to believe that NAVI's franchise for consumer lending and services has intrinsic value well in excess of the current stock price. The portfolio's weakest stock in the Real Estate sector was GEO Group Inc. (GEO), a prison real estate investment trust. GEO's stock pulled back after the company reported delays in the execution of new contracts and renewals, which came at both the State and Federal levels. Additionally, a criminal justice reform bill, which cleared the senate in the fourth quarter, created some volatility due to uncertainty about the impact the bill may have on private prisons. We believe GEO's new business contracts and increasing backlog of renewals is not yet being priced into the stock.

## Outlook and Positioning

Uncertainty and risk intensified in the fourth quarter, driving volatility higher. Looking ahead, we expect continued volatility as investors ponder the implications of a strong domestic economy paired with policy uncertainty, interest rate actions by the U.S. Federal Reserve (Fed) and a slowing global economy. The market environment of the last two years has largely ignored valuation, focusing instead on momentum and growth, which has created headwinds for our strategy. Despite these challenges, we remain confident in our belief that over time attractively-valued, fundamentally sound businesses that generate consistent cash flows and pay dividends will be rewarded.

## 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
Graham Holdings Co.	2.30	0.20	Enerplus Corporation	2.51	-1.08
TTEC Holdings, Inc.	1.74	0.19	Range Resources Corporation	2.15	-1.03
Lamb Weston Holdings, Inc.	1.42	0.09	Primoris Services Corporation	2.94	-0.71
SM Energy Company	0.06	0.06	GEO Group Inc	2.71	-0.60
Mid-America Apartment Communities, Inc.	0.95	0.06	Navient Corp	1.51	-0.55

<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 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.sbhic.com](http://www.sbhic.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 Dividend Composite

Year	— Composite Assets—			Composite	Composite	Russell 2500™ Value Index (%)	Composite	Index	Composite Dispersion (%)	Total Firm Assets (Incl. Model Portfolios)* (\$Bil)	Total Firm Assets (\$Bil)
	Dollars (\$ millions)	% of Firm Assets	Composite Accounts	Gross of Fees Annual Return (%)	Net of Fees Annual Return (%)		3 Year Standard Deviation (%)	3 Year Standard Deviation (%)			
2017	19	<1.0	10	2.59	1.72	10.36	13.07	11.98	0.15	7.284	6.995
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

\*Number includes a portion of assets where Segall Bryant & Hamill does not have discretionary trading authority. This information is supplemental to fully compliant presentation.

- 1) Segall Bryant & Hamill is an independent investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Segall Bryant & Hamill provides fundamental investment management services to various institutional and private investors and mutual funds. Denver Investment Advisors LLC (aka Denver Investments) was acquired by Segall Bryant & Hamill on April 30, 2018. Prior to this date, performance results were achieved through the legacy firm, Denver Investments.
- 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 Dividend 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 Segall Bryant & Hamill's 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) Segall Bryant & Hamill claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Segall Bryant & Hamill 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 Dividend 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 Segall Bryant & Hamill's 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.