Mid Cap Dividend Value

Third Quarter 2018 Commentary

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal will fluctuate so that an investor's portfolio, when liquidated, may be worth less than the original cost/balance. As with any investment, there is a potential risk of loss. Smaller and medium-sized company stocks are more volatile and less liquid than larger, more established company securities.

Performance

For the quarter ended September 30, 2018, the Mid Cap Dividend Value Strategy rose 3.66% gross (3.48% net of fees) compared with a 3.30% gain for the Russell Mid Cap Value Index. For the year-to-date period, the Strategy is up 4.83% gross (4.29% net of fees) compared with a 3.13% increase for the benchmark.

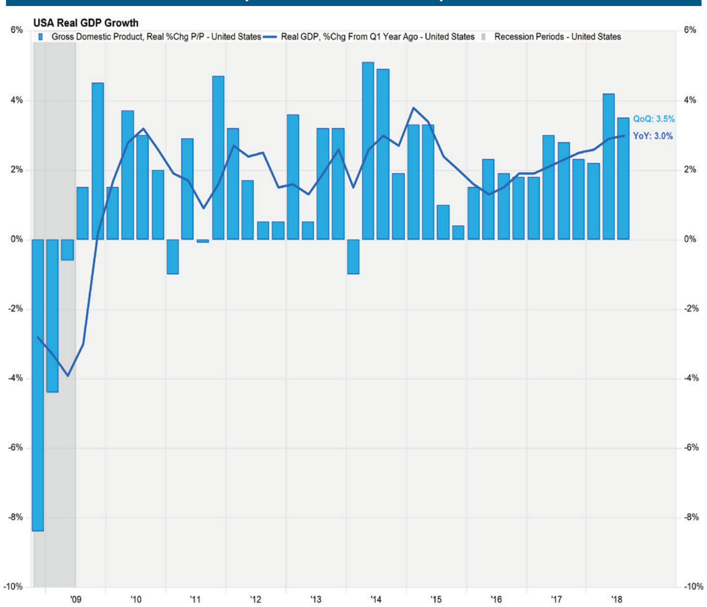
Macroeconomic Review

As we move towards the end of the calendar year, the economy continues to signal domestic strength. Chief among these positive statistics is the unemployment rate, which has declined to 3.7%, the lowest level since the Vietnam War. Yet, despite tight employment conditions where many companies cite talent acquisition as a strategic concern, hourly earnings growth and inflation remain at modest levels, which we believe supports the case that the economy is not overheating. Corporate tax reform has boosted earnings growth and contributed to a general willingness for business investment. Likewise, the ISM Non-Manufacturing Index, which also encompasses orders and business activity, marked the highest expansionary reading since mid-2005.

Market Performance

As of September 30, 2018	3 Months	YTD	1-Year
S&P 500 Index	7.7%	10.6%	17.9%
Russell 3000 Value Index	5.4%	4.2%	9.5%
Russell 3000 Index	7.1%	10.6%	17.6%
Russell 2500 Value Index	2.7%	5.7%	10.2%
Russell Midcap Value Index	3.3%	3.1%	8.8%
Russell 2000 Index	3.6%	11.5%	15.2%
Russell 2000 Value Index	1.6%	7.1%	9.3%
Bloomberg Barclays Agg. Bond Index	0.0%	-1.6%	-1.2%

USA Real GDP Growth (Q4 2008 - Q3 2018)



Source: U.S. Bureau of Economic Analysis, Factset. Grey represents recession periods.

Stock indices, however, ended the quarter on the retreat after marking all-time highs earlier this summer. The impact was far more pronounced for small capitalization stocks. Reflecting back to the start of the year, the Trump

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Administration's opening of a two-front trade war—in China and North America—prompted investors to reallocate towards domestically-focused small caps, which are perceived to be more insulated from such matters. We were supportive of the insulation thesis and felt it provided a reason to remain bullish. Yet in the final days of the quarter, the Trump Administration rather quickly resolved the trade war on one front as NAFTA was restyled the US-Mexico-Canada Agreement (USMCA). Largely perceived by investors and companies as having "dodged a bullet", the new agreement should allow for minimal disruption to existing supply chains and provide reasonable protections, rather than the punitive repudiations implied by earlier rhetoric. With this achievement, and its contemplation as a template for China, small caps lost their perceived advantage over their larger, global brethren. We do remain concerned about the prickly sparring with China, predominantly over trade issues, recognizing both the exposure of technology supply chains and the threat to US consumers through higher price levels. We continue to proactively anticipate potential exposure among our holdings.

The Strategy performed in line with its benchmark during the third quarter of 2018. While we strive to do better, this does not seem like a bad outcome when you consider that non-dividend paying stocks in the Russell MidCap Value Index outperformed the dividend paying stocks by over three percentage points (5.9% vs. 2.7%).

At the portfolio level, neither sector allocation nor stock selection decisions added or detracted much relative to the benchmark. A small underweight in the strong performing Industrials sector and a small overweight in cash were very slight detractors. Within specific sectors, the Strategy's holdings in Financials, Real Estate, Technology, and Health Care outperformed those in the benchmark, while the Strategy's holdings in Consumer Discretionary lagged.

Within the positive sectors, Financials were the largest positive contributor to relative performance. The sector's outperformance was led by long-time holdings Arthur J. Gallagher and Air Lease which both reported solid results. These gains offset declines in some of the Strategy's bank stocks.

The Real Estate sector contributed about as much as Financials on a relative basis. Gains in the sector were led by Lamar Advertising, which reported good second quarter results. The Financials and Real Estate sectors did not increase significantly in the quarter. As a result, the Strategy outperformed in those areas by posting modest gains. That was not the case in the Health Care and Information Technology sectors, which were two of the three best performing sectors, trailing only the Industrials sector.

Health Care was the second best performing sector in the Russell Mid Cap Value Index with a gain of more than 9%. While most of the Strategy's positive contribution came from a strong showing by Cigna (discussed below), four of the Strategy's five holdings performed as well as the sector or better.

The Strategy's holdings in Information Technology also did well. Four of its holdings advanced more than 10% and were led by a 26% gain in Perspecta. This compares with an 8% gain in the technology holdings in the benchmark.

On the negative side, the Strategy's holdings in the Consumer Discretionary sector disappointed. They were down about 4% compared to flat results for the Index. Autoliv accounted for most of the shortfall and is discussed below.

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Leading Contributors

NRG Energy (NRG) is an independent producer of electricity with a portfolio of 44 Gigawatts (GW) of conventional generation. It also sells retail energy in deregulated markets. The company has benefitted from a restructuring of operations to reshape the company which began over a year ago. This included the sell-off of non-core assets to reduce debt, a simplification of structure with the sale of an ownership interest in NRG Yield (now Clearway Energy, CWEN - $19.25 – NYSE), and other operational improvements to enhance margins. Management has successfully executed this plan which produced significant cash to be redeployed through share repurchases.

Cigna Corporation (CI) is a large managed care company that provides health benefit plans to employers and Medicare plans to seniors, among other insurance products. Cigna shares fell earlier this year when it announced plans to acquire pharmacy benefits manager Express Scripts (ESRX - $95.01 – NASDAQ). Investors had anticipated that Cigna would buy a Medicare-related business or repurchase more of its own stock. During Q3, investors finally warmed to the deal, as management aggressively promoted its rationale. The stock moved higher after shareholders and the Department of Justice's Antitrust Division approved the pairing.

SM Energy (SM) is a mid-sized oil and gas exploration and production company with most of its core operations in the Permian Basin in Texas. Having sold most of its non-Permian Basin assets and using the proceeds to reduce debt, we believe that SM is well-positioned to benefit from an increase in oil prices. While West Texas Intermediate was relatively flat in the quarter, it was up more than 40% over the last year. This helps SM. Furthermore, the company continues to prove up its acreage position, thereby giving investors comfort in the underlying value of the company. Finally, a couple of other Permian Basin operators were acquired during the quarter, boosting investor's enthusiasm.

Leading Detractors

EQT Corporation (EQT) is a natural gas exploration and production company operating in Appalachia. Several factors led to the weakness in EQT's stock price during the quarter. First, natural gas prices decreased late in the quarter after some earlier strength. In addition, the company's plans to spin off its midstream business in a transaction that we believe will uncover the value in its E&P business was delayed by a quarter. Finally, a pipeline that will serve as important takeaway capacity for EQT has been delayed for a couple quarters. This could pressure growth and earnings temporarily in 2019. These factors seem transient to us.

Autoliv Inc. (ALV) is one of the leading global makers of seatbelts, airbags, and other passive safety equipment for automobiles and trucks. Autoliv recently completed the spin-off of its active safety business, Veoneer, a producer of radar, cameras, and software for driver-assist and autonomous vehicle applications. It is not uncommon for stocks to exhibit weakness on the heels of such transactions. In addition, flattening light vehicle sales growth and concerns about the impact of tariffs and other trade actions on auto sales weighed on the entire auto sector.

Vulcan Materials (VMC) is a leading producer of aggregates and other construction materials (asphalt, concrete, and calcium) for use in infrastructure and buildings. The longer than normal winter delayed the start and ramp-up of projects which led Vulcan to miss second quarter earnings expectations. This hangover, plus challenging weather in the third quarter, is leading to lower earnings this year as the lower volumes lead to lower margins as fixed costs are absorbed over fewer tons. Nevertheless, we believe that the outlook remains favorable as end-markets appear strong, pricing continues to improve, and the costs of the weather events should moderate.

Outlook

As we look to the end of the year 2018 and beyond, we do not think that the recent weakness is the start of a larger decline. That is not to say that a correction might not occur. We simply don't perceive conditions that would lead to a 40%-50% drop like we saw in the 2000-2003 and 2008-2009 time periods. Our outlook remains balanced. On the positive side the economy appears to be on solid footing and this should benefit corporate earnings. On the political side, while there seems to be a lot of noise, the Trump Administration appears to be making some progress on trade and security. On the negative side, some of that progress seems to come in "a one step back and two steps forward" manner. Other concerns include the remarkably easy credit market conditions, the likely impact of higher rates on US government budget deficits, and what we see as slightly elevated valuations for stocks.

In conclusion, thank you for investing alongside us in the Mid Cap Dividend Value Strategy. We will continue to work hard to justify your confidence and trust.

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Third Quarter Contributors and Detractors

Third Quarter Contributors		
Top Contributors	Total Return (%)	Contribution to Return (%)
NRG Energy, Inc.	21.94	0.45
Cigna Corporation	22.54	0.36
SM Energy Company	22.73	0.32
Total System Services, Inc.	16.95	0.31
DXC Technology Co.	16.12	0.28

Third Quarter Detractors		
Largest Detractors	Total Return (%)	Contribution to Return (%)
EQT Corporation	-19.80	-0.32
Autoliv Inc.	-18.97	-0.29
Vulcan Materials Company	-13.68	-0.25
Delek US Holdings Inc	-15.08	-0.17
MDU Resources Group, Inc.	-9.77	-0.13

Source: Factset

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Past performance is no guarantee of future results. As with all investments, there is a risk of loss. Any performance and/or attribution information contained herein are based on a representative account of the specific strategy discussed.

Market Performance presented solely for informational purposes. The S&P 500 Index is designed to act as a barometer for the overall U.S. stock market and consists of 500 stocks that are chosen on the basis of market size, liquidity, and industry grouping. The S&P 500 is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Russell 2000® Value Index is an unmanaged index that measures the performance of the small-cap value segment of the U.S. equity universe and includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000® Index is an unmanaged index that measures the performance of the smallest 2,000 companies by market capitalization of the Russell 3000® Index.

The S&P SmallCap 600® measures the small-cap segment of the U.S. equity market and is unmanaged. The index is designed to track companies that meet specific inclusion criteria to confirm that they are liquid and financially viable.

The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of mid-sized companies reflecting the distinctive risk and return characteristics of this market segment.

The Russell 2500® Value Index is an unmanaged index that measures the performance of the small to mid-cap value segment of the U.S. equity universe and includes those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2500® Index is an unmanaged index that measures the performance of the 2500 smallest companies by market capitalization of the Russell 3000® Index.

The Russell Midcap® Value Index is an unmanaged index that measures the performance of the mid-cap value segment of the U.S. equity universe and includes those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Midcap® Index is an unmanaged index that measures the performance of the 800 smallest companies by market capitalization of the Russell 1000® Index.

The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies by market capitalization of the Russell 3000® Index.

The Russell 3000® Value Index is an unmanaged index that measures the performance of the broad value segment of the U.S. equity universe and includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000® Index is an unmanaged index that measures the performance of the 3,000 largest U.S. companies by market capitalization.

The Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS.

A direct investment into any of these indices is not possible.

The opinions expressed in this document are those of Keeley Teton Advisors, LLC as of the date indicated and are subject to change without notice and are not intended as recommendations of individual securities.

The net performance numbers shown are for informational purposes only. Management fees are negotiable and a table of standard fees is contained in the Firm's Form ADV Part 2A, which is available at no cost at www.keeleyteton.com.

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