Teton Advisors

KEELEY Teton Advisors

Small Cap Opportunities

First Quarter 2021 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 March 31, 2021, the Small Cap Opportunities Strategy generated a 21.27% gross return (21.03% net of fees) compared to a 21.17% return for the Russell 2000 Value Index and a 12.70% return for the Russell 2000 Index.

Overview

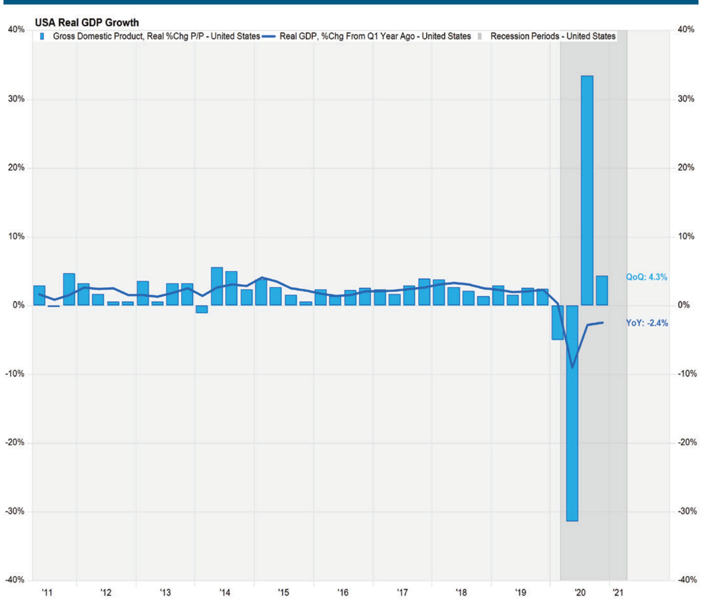
Small cap stocks rose sharply during the quarter. Those gains extended the rally that began approximately a year ago, and small cap indexes ended the quarter near their all-time high levels.

Market Performance

As of March 31, 2021	3 Months	1-Year	3-Year
S&P 500 Index	6.2%	56.4%	16.8%
Russell 3000 Value Index	11.9%	58.4%	11.0%
Russell 3000 Index	6.3%	62.5%	17.1%
Russell 2500 Value Index	16.8%	87.5%	10.9%
Russell Midcap Value Index	13.1%	73.8%	10.7%
Russell 2000 Index	12.7%	94.8%	14.8%
Russell 2000 Value Index	21.2%	97.1%	11.6%
Bloomberg Barclays Agg. Bond Index	-3.4%	0.7%	4.7%

Source: eVestment.

USA Real GDP Growth (Q2 2011 - Q4 2020)



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

Stocks responded favorably to a strong earnings outlook. The release of pent-up demand as the economy reopens from its pandemic-induced shut down, aided by massive fiscal stimulus, provides an economic environment conducive to corporate profit growth. The improved earnings outlook helped small cap stocks outperform large cap stocks and value stocks outperform growth stocks, continuing the trend that started late in 2020.

The Strategy performed in line with the Russell 2000 Value Index and outperformed the Russell 2000 Index during the first quarter. Relative to the Russell 2000 Value Index, positive stock selection was offset by disadvantageous sector allocation. Relative to the Russell 2000 Index, the Strategy benefited from lower exposure to underperforming growth stocks.

The outlook for the U.S. economy in 2021 is quite robust as the economy further recovers from the pandemic-driven recession in 2020, as the vaccine opens the economy back to normal levels, aided by additional fiscal stimulus and strong housing and financial markets. Historically, the Strategy's absolute and relative performance have benefitted from an improving economic environment. We believe the current recovery will be no different, given the strong managements, balance sheets, and market positions your Strategy's companies possess. Despite the strong rebound in stock prices over the last year, the valuations of the Strategy's holdings remain attractive, particularly when compared to the stock market as a whole and other investment alternatives.

Market Review

Following more than a decade of growth stock leadership the rotation into value appears to be sustainable for an extended period. While equities have appreciated materially since the March 2020 Covid-19 pandemic driven market bottom, we believe the macro backdrop remains favorable for future gains.

Never in recent history have we witnessed an exogenous shock to global economies comparable in magnitude to the pandemic and its impact on travel, leisure, hospitality, entertainment and overall business logistics. Following a steep, rather short, recession, the U.S. economy has rebounded in tandem with massive government fiscal stimulus along with unprecedented Federal Reserve monetary accommodation.

The Fed estimates U.S. Gross Domestic Product (GDP) will grow at an annualized rate of six percent in 2021 followed by further growth in 2022. Corporate earnings meanwhile, are expected to exceed pre-pandemic levels. President Biden's $1.9 trillion stimulus bill takes to nearly $3 trillion the amount of pandemic related spending paid since December, and to about $6 trillion the total paid out since the crisis. And that's not all. The Biden administration is considering as much as $3 trillion worth of additional measures addressing infrastructure and climate change.

The Fed, meanwhile, will provide some $2.5 trillion to the banking system this year through its bond purchases. Fed officials left their benchmark lending rate unchanged in March and projected it would remain around zero for the next three years, even as inflation moves up and employment gathers momentum. Inflation fears have forced the yield on the U.S. Ten Year Treasury note to more than double to 1.7 percent in recent months. In January, U.S. retail sales were already 7.4% higher than a year earlier, as many Americans received checks from the government. Household savings could hit $2 trillion by year end, according to Morgan Stanley. The American economy is recovering quickly, as fiscal transfers have left households with lots of extra savings. Lockdowns have given rise to pent-up demand.

Financial markets, meanwhile, are not pricing in monetary tightening by the Fed until 2023. Corporate earnings should be strong in 2021, given that last year's numbers were hit hard by lockdowns. This year's earnings should be boosted by robust economic growth, thanks to the major rollout of Covid-19 vaccinations, pent up demand and trillions in fiscal stimulus. Earnings for the S&P 500 should hit $172 per share in 2021, up 25% from 2020, according to Factset data. At the same time, corporations, which cut capital spending in 2020, have started spending again and the rebound could extend into 2022.

Portfolio Review

The Strategy generated a 21.3% return for the first quarter, compared to a 21.2% return for the Russell 2000 Value Index and a 12.7% return for the Russell 2000 Index. The Strategy performed in line with the

Russell 2000 Value Index. Strong stock selection, particularly within the consumer discretionary sector, offset negative sector allocation, most notably a lack of exposure to the strong performing energy sector. Relative to the core Russell 2000 Index, the Strategy's value orientation helped drive both strong stock selection and sector allocation in a quarter when growth stocks underperformed meaningfully.

Every sector of the Strategy generated positive returns during the quarter, with the consumer discretionary sector contributing the most to the Strategy's performance on both an absolute basis and relative to its benchmarks.

Bed Bath and Beyond Inc. (BBBY), a home goods retailer, contributed most to the Strategy's return during the quarter. During the quarter, BBBY was caught up in the "Reddit frenzy", highly volatile price swings in a handful of stocks driven by retail investors influenced by posts on Reddit site WallStreetBets (of which Gamestop was the most notable). We purchased BBBY in the low $20s late last year. We believed the restructuring plan laid out by new management would drive significantly higher earnings and a higher stock price if implemented successfully. Due to positive mentions on WallStreetBets, the stock rose dramatically in late January, soaring through our price target. As a result, we sold our position, at prices between $46 and $50. We reestablished a small position in early February as the frenzy subsided and the stock fell back to the mid 20s.

In addition to BBBY, **Dine Brands Global, Inc., (DIN)** a franchisor of family and casual dining restaurants, Children's Place, Inc., (PLCE) a retailer of children's clothing, and Bloomin' Brands, (BLMN) a restaurant operator and recent addition to the Strategy, are consumer discretionary stocks that contributed significantly to your portfolio's return during the quarter. All of these stocks trade at attractive valuations and are expected to be major beneficiaries of the reopening of the economy.

Kulicke & Soffa Industries, Inc., (KLIC) a semiconductor equipment manufacturer, was a major contributor to the Strategy's return during the quarter. KLIC had very strong results posting 85.6% year over year revenue growth in the final quarter of 2020. Additionally, KLIC stands to benefit from the ripple effects of accelerated megacap tech capex spending. Intel Corp, for example, just announced an initial $20 billion in capital expenditures as part of its plan to spend billions to revive its manufacturing prowess. In addition, Taiwan Semiconductor Manufacturing Co. plans to spend $100 billion over the next three years to expand its chip fabrication capacity.

The financial services sector detracted most from the Strategy's performance relative to the Russell 2000 Value Index. Among the detractors was **James River Group Holdings, Ltd (JRVR)**, a property and casualty insurer. JRVR declined as the company announced a significant increase to prior period reserves. The step was taken by the company's new CEO and we believe it clears the deck for the company to take advantage of a hardening market for the company's core excess and surplus insurance lines.

Although your financial services stocks underperformed the Russell 2000 Value benchmark during the quarter, several of its bank stocks were among the top ten most meaningful contributors to its absolute return. **First Midwest Bancorp, Inc.**, **(FMBI) UMB Financial Corporation**, **(UMBF)** and **Sterling Bancorp, (STL)** were all positions that were added to late last year and early this year. They all responded to better than expected earnings and favorable outlooks.

The macro backdrop continues to be favorable for the Strategy's bank holdings. The steepening yield curve has increased bank profitability by widening net interest margins. Unforeseen was the pandemic driven boom in housing, and its contribution to mortgage underwriting and refinancing. Covid has also forced banks to implement competing initiatives of both cost reduction and technology investment to improve operating efficiencies. Loan growth should also rebound in 2021 to low single digits and credit generally remains solid with many banks having taken aggressive loan loss provisions last year. Loan deferrals have also been declining in tandem with businesses reopening. We would expect an acceleration in merger and acquisition activity in 2021 and beyond as the benefits of consolidation and scale broaden the deposit footprint and better absorb the increased technology investments.

Outlook

It has been roughly one year since the pandemic driven bear market ended and the current bull market began. Over the last four quarters the Strategy has risen 108.83%, the Russell 2000 Value Index has risen 97.05%, the Russell 2000 Index is up 94.85%, and the S&P 500 is up 56.35%. The outstanding absolute and relative performance of the Strategy is consistent with our expectations that it performs best beginning in the late stages of an economic recession and continues as the economy expands.

We remain optimistic about the outlook for the U.S. economy. The combination of the release of pent-up demand following the reopening of the economy, unprecedented fiscal and monetary stimulus, historically high personal savings, and supportive housing and financial markets creates an environment conducive to economic growth.

The strong economic outlook supports the outlook for earnings growth, particularly among small cap stocks, which tend to be more sensitive to the U.S. economy than large cap stocks. According to Factset, small cap earnings are expected to be up 50% in 2021 and another 19% in 2022. In his recent letter to shareholders, JP Morgan CEO Jamie Dimon predicted that the economy will continue to grow through at least 2023.

Although the prices of the stocks in the Strategy have rebounded sharply over the last year, valuations remain reasonable. The median P/E on 2021 estimated earnings for the stocks in the Strategy is 15.9x which is attractive considering the 26.3x multiple for the Russell 2000 Index.

In addition, we believe ythe Strategy’s company-specific opportunities remain intact, which, when combined with positive outlook for the economy, should lead to a sustained period of above average earnings growth. Taken in isolation, the combination of attractive valuations and the expectation for above average earnings make us optimistic about the outlook for the Strategy. When compared to other areas of the market, the case for the Strategy is even more compelling.

In conclusion, thank you for your investment in the Small Cap Opportunities Strategy. We will continue to work hard to justify your confidence and trust.

Small Cap Opportunities

First Quarter 2021 Commentary

First Quarter Contributors and Detractors

First Quarter Contributors		
Top Contributors	Total Return (%)	Contribution to Return (%)
Bed Bath & Beyond Inc.	242.04	2.50
Dine Brands Global, Inc.	55.22	1.21
Children's Place, Inc.	39.12	1.06
Kulicke & Soffa Industries, Inc.	54.86	0.94
Korn Ferry	43.61	0.73

First Quarter Detractors		
Largest Detractors	Total Return (%)	Contribution to Return (%)
PROG Holdings, Inc.	-19.64	-0.21
James River Group Holdings Ltd	-6.60	-0.13
TriMas Corporation	-4.26	-0.05
BMC Stock Holdings, Inc.	0.00	0.00
WNS (Holdings) Limited Sponsored ADR	0.54	0.01

Source: Factset

Keeley Teton Advisors Institutional Team

Mailing Address:
Keeley Teton Advisors, LLC
141 West Jackson Boulevard, Suite 2150
Chicago, IL 60604

Email: inst@keeleyteton.com
Telephone: 312-786-5050
Fax: 312-786-5002

Small Cap Opportunities

First Quarter 2021 Commentary

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.

As of March 1, 2021 the Composite was renamed Keeley Teton Small Cap Opportunities. Performance shown prior to March 1, 2021 represents results achieved by the Skyline Small Cap Value Composite and its portfolio management team while they were part of Skyline Asset Management, L.P. The Small Cap portfolio management team joined Keeley Teton on March 1, 2021. This investment strategy was originally developed by three portfolio managers from Skyline Asset Management, L.P. This prior performance was represented by linked, asset-weighted monthly returns, trade-date valuation, beginning-of-the-month market values, and accrual-based accounting. Gross of fees returns were calculated gross of investment management and custodial fees and net of transaction costs. Net of fees returns were calculated net of actual investment management fees and transaction costs and gross of custodial fees. Prior to 1/1/06, net of fees returns were calculated by reducing monthly gross performance by 1/12th of the asset-weighted annual management fee. Returns also reflect transaction costs which were paid by the portfolios. The institutional advisory fee was 0.80%. Skyline Asset Management, L.P. claimed compliance with the Global Investment Performance Standards (GIPS ®) and was independently verified for the periods 9/1/1995 – 12/31/2020. Inception date of the strategy is September 1, 1995.

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 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.

Keeley Teton Advisors, LLC is the registered investment adviser to this strategy and is a wholly owned subsidiary of Teton Advisors, Inc.