

# MICRO CAP

FACT SHEET | December 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> (%)

<b>Vanda Pharmaceuticals Inc</b> (Health Care)	1.4
<b>Meridian Bioscience Inc</b> (Health Care)	1.2
<b>Perficient Inc</b> (Information Technology)	1.2
<b>OFG Bancorp</b> (Financials)	1.2
<b>ANI Pharmaceuticals Inc</b> (Health Care)	1.2
<b>Turning Point Brands Inc</b> (Consumer Staples)	1.1
<b>Photonics Inc</b> (Information Technology)	1.1
<b>Anika Therapeutics Inc</b> (Health Care)	1.1
<b>Pacific City Financial Corp</b> (Financials)	1.1
<b>Global Medical REIT Inc</b> (Real Estate)	1.1
<b>Total (% of portfolio)</b>	<b>11.9%</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.

## Performance<sup>1</sup>

Periods Ended 12/31/18 (%)	QTD	YTD	Annualized Returns			
			1 Year	3 Years	5 Years	10 Years
Micro Cap (gross)	-18.77	-11.13	-11.13	6.17	3.66	12.37
Micro Cap (net)	-19.04	-12.24	-12.24	4.85	2.37	10.98
Russell Microcap® Index <sup>4</sup>	-22.14	-13.08	-13.08	5.79	3.08	11.71
Calendar Year (%)	2018	2017	2016	2015	2014	2013
Micro Cap (gross)	-11.13	6.83	26.05	-3.72	3.86	48.06
Micro Cap (net)	-12.24	5.51	24.51	-4.92	2.57	46.46
Russell Microcap® Index <sup>4</sup>	-13.08	13.17	20.37	-5.16	3.65	45.62

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® Index <sup>4</sup>
Weighted Average Market Capitalization (\$ Mil)	\$547	\$534
Median Market Capitalization (\$ Mil)	\$343	\$193
Price/Book Value	2.2x	2.2x
Return on Assets	3.5%	-4.3%
Long-Term Debt/Capital	21.7%	24.5%
Dividend Yield (1 year trailing)	1.1%	0.8%
Turnover (3 year average)	69%	-
Number of Holdings	154	

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

	Micro Cap	Russell Microcap® Index <sup>4</sup>	Relative Weights
Communication Services	3.6	3.5	0.1
Consumer Discretionary	10.8	10.5	0.3
Consumer Staples	1.6	2.2	-0.6
Energy	4.4	4.1	0.3
Financials	25.3	25.2	0.1
Health Care	24.7	24.4	0.3
Industrials	10.6	11.1	-0.5
Information Technology	10.5	10.3	0.2
Materials	2.8	2.7	0.1
Real Estate	4.0	4.5	-0.5
Utilities	1.3	1.4	-0.1
Cash	0.4	0.0	0.4

## Market Overview

Micro cap stocks posted their worst quarterly returns since 2011, with the Russell Microcap® Index returning -22.14% for the fourth quarter of 2018. Every sector within the Index finished the quarter in negative territory, except for the more defensive Utilities sector, which managed a mere 0.33% return. The worst-performing sector was Energy, which was hurt by the 35% fall in oil prices in the quarter, as measured by the price of Brent crude oil futures.

## Portfolio Performance

For the fourth quarter of 2018, the Segall Bryant & Hamill Micro Cap portfolio outperformed the -22.14% return of its benchmark, the Russell Microcap® Index. On an absolute basis, every sector within the portfolio ended the quarter in negative territory, while 10 of 11 sectors within the benchmark had negative returns. The portfolio, however, outperformed the benchmark in 6 of the 11 sectors.

## Contributors to Return

The portfolio's strongest sectors relative to the benchmark in the quarter were Health Care, Financials and Energy. Among the portfolio's best-performing individual holdings was waste management company Charah Solutions Inc. (CHRA), which offers environmental and maintenance services to the power-generation industry. The stock rallied in December after the company reached an agreement to settle a trade secrets lawsuit brought by a competitor. HCI Group Inc. (HCI), a health care information technology consulting firm, also contributed positively to the portfolio's performance during the period following the company's third quarter earnings announcement. Another strong performer was EMC Insurance Group Inc. (EMCI), which provides property and casualty insurance, as well as reinsurance products. The stock price rose sharply after Employers Mutual Casualty Co. announced it would be acquiring EMCI.

## Detractors from Performance

The portfolio's weakest sectors relative to the benchmark were Consumer Discretionary, Real Estate and Consumer Staples. Among the portfolio's largest individual detractors was Eagle Pharmaceuticals Inc. (EGRX), which specializes in injectable treatments for patients across oncology, critical care and orphan diseases. Disappointing earnings and drug study results during the quarter caused several analysts to downgrade the stock. Another detractor during the period was Patrick Industries Inc. (PATK), a manufacturer of component products and distributor of building products and materials for the recreational vehicle (RV), manufactured housing and marine industries. The stock sold off after reports of falling RV shipments and lower RV manufacturers' earnings. Real estate management and investment company RMR Group Inc. (RMR) also proved to be a drag on performance. Recent weakness in the stock has been driven by the announcement of a merger between two of the company's managed REITs.

## Outlook and Positioning

U.S. equity markets, which had been seemingly sheltered from the worries affecting global markets, finally succumbed in the fourth quarter of 2018. This equity market weakness occurred despite the U.S. economy remaining fundamentally sound, as employment and other measures of economic health remain strong. With headlines about slowing economies abroad and the possibility that trade tensions with China may affect the U.S. economy, fears of a potential recession appear to have taken hold of investors. The recent pullback had the greatest impact on smaller companies, with the Russell Microcap® Index suffering the most amongst the Russell 2000® and Russell 1000®. An apparent silver lining is that the aggregate price-to-book value of the companies within the Russell Microcap® Index is now below its five-year median, which means there are potentially more bargains than investors have seen in years. We are excited for the opportunities that 2019 holds for the microcap asset class.

## 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
Charah Solutions, Inc.	0.10	0.18	Eagle Pharmaceuticals, Inc.	0.70	-0.36
HCI Group, Inc.	0.79	0.18	Patrick Industries, Inc.	0.57	-0.32
Kewaunee Scientific Corporation	0.08	0.17	RMR Group, Inc. Class A	0.52	-0.29
EMC Insurance Group Inc.	0.34	0.15	W&T Offshore, Inc.	0.37	-0.28
Zymeworks Inc.	0.39	0.10	Comtech Telecommunications Corp.	0.76	-0.26

<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: 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								
2017	14	<1.0	1	6.83	5.51	13.17	13.30	15.53	-	7.284	6.995
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 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 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 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. 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) 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 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 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.