The views presented in this document are those of the Henderson Geneva Capital Management Investment Team at the time of writing and may not be reflective of views any time thereafter.

Economic and Investment Outlook

First Quarter 2017
Economic Outlook

2016 was a year of surprises. Seven months ago the collective world was certain the UK would not exit the Eurozone and Donald Trump had no chance of becoming president, yet that is the reality today. While the market, and indeed global bond yields, would suggest there could be an acceleration in global Gross Domestic Product (GDP) growth forthcoming in 2017, current trends in the US remain somewhat muted in a 2.0-2.4% range (‘14-‘16). While an upswing of .2-.3% is possible as the new administration’s stimulative policies take effect later this year, translating campaign promises into specific actions takes time and political compromise. Lower corporate taxes would be supportive as the Organization for Economic Cooperation and Development (OECD) countries have seen their rates drop from 40% in 1990 to 25% today, while the nominal rate in the US is still stuck at 39%. Ireland decided to make this change in 1998, which has resulted in substantial economic growth for the Emerald Isle. The new administration has promised a rollback in regulations, which according to small business surveys would increase confidence which in turn could lead to economic acceleration in late ‘17 into 2018. A concern for free market advocates is the new administration’s focus on the implementation of large import tariffs to “bring jobs back to America”. The extreme damage that resulted from the Smoot-Hawley restrictive Tariff Act of 1930 should be a lesson that restricting free trade among nations is a bad idea. However, as it stands today, we are long on tweets and short on details so discerning any cogent forecast is impossible at this point. Given expectations for sluggish capex spending in 2017, peaking auto sales, continued modest expansion in housing starts despite higher interest rates and an improving picture for consumer spending, our forecast is for 2017 Real Gross Domestic Product (RGDP) to expand 2.3% vs the 2.0% in 2016.

Despite rising crude oil prices and the regional impact of higher minimum wage regulations coupled with the redefining of many companies of salaried versus hourly workers (leading to sharp wage increases for supervisory workers), the inflation outlook remains encouraging with core Consumer Price Index (CPI) and Producer Price Index (PPI) prices (YoY) up 2.1% and 1.7%, respectively. Furthermore, the index of leading economic indicators through November was up only 0.7% (YoY). November housing starts at 1.09m are 7.0% lower than a year ago and industrial production is down 0.6% from November ’15. Clearly, quickly providing an economic climate more attune to spurring new small business formations and decisions by both foreign and domestic companies to expand manufacturing and service facilities in the US is almost a prerequisite for achieving the long awaited 3% increase in RGDP. Taking into consideration a multitude of variables, not the least of which is the strong US dollar and moderate to minimal growth dynamics in Europe, Japan and China, our 2017 headline CPI forecast is initially set at 2.3% up from 2.0% in 2016.

To see a sustained acceleration in RGDP growth or inflation, an economy needs population growth and increasing productivity. Non-financial productivity has been in a secular declination for the past 10 years. Excessively low interest rates and substantial money creation has fostered an inefficient distribution of capital. The 1990’s to mid-2000’s leveraged the innovation in information technology and communications to reconstruct existing business models, traditional retailing being the most obvious. Optimists might look to the proliferation in robotics, artificial intelligence/machine learning, utilization of the cloud/big data and automation technology and expect a forthcoming inflection point in productivity. While this is far from assured, a new secular bear market in bonds (should it occur) coupled with reduced regulations, could create a supportive backdrop for such a hypothesis. The obvious question, however; is whether more technology comes at the expense of labor and what consequences will manifest as a result? While unemployment is at business cycle lows, the labor participation rate has remained stubbornly low as demographic changes have created headwinds and a growing skills gap will require the long-term unemployed to seek retraining. The types of policies the Trump administration enacts on immigration could determine how quickly our population grows. On balance, there have been tremendous innovations over the last 10 years that are now starting to affect the productivity numbers and adjustments must be made by our work force to thrive in such an environment.
Economic Outlook

The technological and logistical advancements of the past decade have made domestic manufacturing more economic than in past cycles, including higher transportation costs, lower labor needs (the substitution of technology for labor has translated into labor being a smaller and smaller part of the manufacturing cost structure), and a demand for shorter lead times. Additional trade policies such as border taxes or lower corporate tax rates could add to this trend, as manufacturing offshore to take advantage of lower taxes will become less attractive. Alternatively, done badly, new trade policies could damage trade relations and lead to trade wars, which unchecked could lead to recession. At this point, there is no way to know which policies, good or bad, will be enacted. In addition, assuming we can avoid trade wars and weakening of international relations to drive accelerated growth, there is still a need to carefully thread the needle between healthy growth and rampant inflation. Should the administration’s policies translate to stronger US growth, the Federal Reserve (Fed) will have to be prepared to raise rates judiciously to avoid getting behind the inflation curve. Given debt levels in the US, both private and government, significant increases to rates could stall growth as more and more money will be needed to service debt. We continue to monitor and run scenarios regarding the range of economic possibilities in order to monitor the risk to our portfolio names. Regardless of the direction, we think many of the policies will take time to develop after the inauguration, so other than sentiment improving and driving increased investment; there will be a lag before we see significant change in the US. This most likely leads to a slower and in our opinion better, ramp to accelerated growth in the US.

Numerous events and Fed commentary significantly affected the yield curve during 2016, as the benchmark 10-year treasury ranged from a low of 1.36% to a high of 2.60%. Brexit and the US presidential election certainly had a meaningful impact on the market and served as significant contributor to a shift in the yield curve. In the near-term, these two surprise events increased volatility but as time passed, the fixed income market returned to a more defined trend line. As we have stated previously, geopolitical events may add volatility but longer-term, binary events in the market will not meaningfully shift the yield curve away from its trend line. Over the long-term, multiple factors such as unemployment, inflation, and economic growth play a more meaningful role in determining rate levels. We believe rate increases in 2017 will be at a measured pace and expect only a moderate upward movement in the yield curve given projected US and international forecasts. Globally, US treasuries remain attractive from both a yield and credit standpoint given the United States relative economic stability. Our year end 2017 forecast for the benchmark 10-year and 30-year treasury has been adjusted upward to 2.65% and 3.30%, respectively, from 2.40% and 3.05%.

Looking out to 2017 and beyond, we believe global growth has the potential to be stronger than investors are forecasting. Most market participants expect the mediocre growth of the past few years to continue. However, with better economic numbers recently emanating from China, and the possibility of faster growth in the US, along with stabilization in the UK, Europe, and emerging markets (EM), global growth could inflect to the upside in 2017. China has seen their Purchasing Managers’ Index (PMI) break out to multi-year highs, which is a reversal of their slowing growth over the past two to three years. There have been several infrastructure programs announced, including a $503bn rail expansion, a focus on pollution control (which included taking inefficient and high pollution cars off the roads) and moving to cleaner energy sources, and reducing pollution from industrial production sources. Each of these initiatives could spur infrastructure spending as well as consumer spending (if new cars are required), which amounts to monetary stimulus, which in turn would spur GDP growth. In the UK, the economy has been stronger than feared after the Brexit vote, though new fears emerged late in 2016, which drove the trade-weighted pound even lower. While exporters continue to benefit and the consumer sees their spending power eroding, economists worry that concerns of a recession within the population will become self-fulfilling, and will drive a further slowdown. Germany and Spain are both exhibiting stronger growth, with improving PMI readings in both countries, a stronger consumer in Germany, and lower unemployment in Spain, which may be enough to spur growth throughout the EU. Policy uncertainty remains the wild card as investors try to predict the ramifications of Brexit for the rest of the trade union. Continental Europe continues to struggle due to negative demographic trends and regulations which stymie innovation and entrepreneurship. However, with the European Central Bank (ECB) signaling its willingness to continue fiscal stimulus, regardless of the diminishing returns, growth in the Eurozone could hold steady at current low levels, contributing to an improved global growth trajectory. Japan similarly is seeing improved manufacturing PMI readings and stronger tourism benefits. However, like Europe, they continue to struggle due to demographics and its regulatory environment. The Bank of Japan (BoJ) continued fiscal stimulus has increased their balance sheet by nearly 30% YoY, which may be enough to keep their GDP growth positive, though probably not improving, it will be interesting to see how the yen reacts to President Trump’s trade policies and China’s potential response.
Economic Outlook

The US possesses tremendous potential, but we are at risk of a significant policy error. The enthusiasm in business circles regarding the new administration’s pro-business stance may be enough to waken the “animal spirits” that give businesses the confidence to start to invest in capacity, growth, and expansion within the US. The recent announcements of Ford, Fiat, etc., agreeing to reinvest in US manufacturing instead of building internationally may improve sentiment enough to start a virtuous cycle. That said, as mentioned earlier, it is impossible to prognosticate about the outcome of translating campaign promises into reality, which then take time to appear in the data. Looking at the scenarios we deem most likely at this point, with the US and China seeing accelerating growth, the UK, Europe and Japan not getting significantly worse, we would expect to see moderate to accelerated global growth in the next 12 to 18 months. Nonetheless, as we mentioned, in this period of multitudinous possibilities and very few facts, we continue to monitor global growth closely.

Longer-term

Looking out three to five years, or essentially Trump’s first term, we could see a return to 3% RGDP growth in the US. If, in fact, Trump can continue to convince companies to expand in the US rather than moving manufacturing offshore, lower corporate tax rates, and reduce or streamline regulations, there would be a very favorable environment for corporate and GDP growth over the next four years. This of course assumes the deficit remains controlled, trade wars do not erupt and the administrative pressure on business doesn’t backfire. Additional benefits from lower personal tax rates, improvements in the health insurance/health care delivery system, and wage rates could improve personal spending and consumer demand that would drive further growth in the US economy. At the same time, China could continue to improve their consumer led economy transformation, as well as spur spending on accretive infrastructure changes and drive growth as well. Their continued demand for raw materials as well as their increased demand for consumer goods will drive their GDP growth, and in turn, bolster global GDP.

We believe Japan and the European Union (EU) have limited opportunities for growth without significant structural adjustments, all of which will take longer than five years to be implemented. While some European countries are seeing improved growth, the structural changes coming as a result of Brexit and the uncertainty of the future of the EU will limit overall growth in the coming three to five years. In our view, as a result, the EU’s near-term contribution to global growth will be limited.

Technological innovations are coming at a faster rate than ever before, and we think there will be exponential changes in the next five plus years, driven by new technology, new manufacturing capabilities (robotics, 3D printing), new transportation changes (autonomous cars, hyperloop, drone delivery), and changing demographics worldwide. We think many topics that sound like science fiction today will actually be reality much sooner than the general public believes. These leaps forward in technology and other modalities could be disruptive to many entrenched interests. For example, as technology reduces the need for entry level workers (automated ordering kiosks at McDonalds), new training, education, and skills gaps will need to be contemplated to keep labor participation up and unemployment down. Though these new concepts will still be in development or will be nascent in the coming years, they are now more a reality than possibility, and will start to shape the future within a three to five year outlook.
## Economic Outlook

### First quarter 2017

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<tbody>
<tr>
<td>Real GDP</td>
<td>1.5%</td>
<td>2.4%</td>
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<tr>
<td>Inflation (Headline CPI)</td>
<td>1.5%</td>
<td>0.8%</td>
<td>0.7%</td>
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<td>Year-to-year change</td>
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<td></td>
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<td>Profits (S&amp;P 500*)</td>
<td>5.4%</td>
<td>6.9%</td>
<td>0.0%</td>
<td>5.2%</td>
<td>6.8%</td>
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<tr>
<td>Annual housing starts</td>
<td></td>
<td></td>
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<tr>
<td>in thousands</td>
<td>920</td>
<td>985</td>
<td>1111</td>
<td>1165</td>
<td>1215</td>
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<tr>
<td>Gross private domestic investment</td>
<td>2.8%</td>
<td>5.5%</td>
<td>1.8%</td>
<td>2.0%</td>
<td>3.2%</td>
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<tr>
<td>fixed investment - non-residential</td>
<td></td>
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<td></td>
<td></td>
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<td>US auto sales</td>
<td>12.1</td>
<td>12.8</td>
<td>13.5</td>
<td>13.8</td>
<td>14.5</td>
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<td>domestically produced vehicles in millions</td>
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<td>10-year Treasury (year-end)</td>
<td>3.03%</td>
<td>2.17%</td>
<td>2.27%</td>
<td>2.44%**</td>
<td>2.65%</td>
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<td>30-year Treasury (year-end)</td>
<td>3.97%</td>
<td>2.75%</td>
<td>3.02%</td>
<td>3.07%**</td>
<td>3.30%</td>
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</tbody>
</table>

*Operating earnings

**Actual, 12/31/16

Economic Outlook

Since the 2008 “Great Recession” fiscal stimulus has been massive

Unlike in 1982, when debt to GDP was at a secular low providing ample room for fiscal stimulus, today we are near a multi-generational high debt to GDP, which potentially limits our ability to invest or respond to a crisis.

**US government debt (% of GDP)**

Source: Thomson Reuters DataStream, 11/30/16, Bloomberg, 12/30/16
Economic Outlook

GDP growth for the G-7 countries is averaging around 2%

With inflation at 0-2%, real growth in advanced countries is clearly insufficient to provide new employment opportunities for newly-arrived immigrants (Europe), or the next generation of job seekers (US millennials). Additional pro-growth policies may be needed, particularly to re-engage marginally attached and discouraged workers.

GDP growth
Fourth-quarter percentage change

Source: Thomson Reuters DataStream, 11/30/16
Economic Outlook

US dollar vs export growth

The stronger US dollar has put pressure on US export growth and benefits importers of foreign purchased goods.

Source: Thomson Reuters DataStream, 11/30/16
Economic Outlook

Real raw material prices have been in a downtrend for 200 years

This reflects the mechanization of industrial production worldwide, bringing a better quality of life to affected countries.

- Real* raw industrial prices (in US$ terms)
- Trend**
- Trend +/− two standard deviations

*Adjusted by US GDP deflator
**Time-trend from 1800 to present

Source: BCA Research, 12/21/16
Economic Outlook

Core inflation of 2.0-2.5% seems likely in 2017

We have likely seen the lows in consumer prices for this economic cycle. The pickup in headline inflation reflects rising energy prices and wage pressures driven by a number of factors including regulation (e.g. minimum wage) and skills gaps, leading companies in certain industries to use wages as a tool to attract more skilled workers.

Source: Thomson Reuters DataStream, 11/30/16
Economic Outlook

US employment and wages

One of the main themes for the US economy is likely to be a further acceleration in wages. Surveys already indicate record wage pressure.

Evercore ISI temp & perm employment COS surveys

0 = weak 100 = strong eq wts 13 wk avg
Wage pressure Dec 23: 62.9

Source: Evercore ISI, 12/23/16
The US employment picture continues to brighten.

Source: Thomson Reuters DataStream, 11/30/16
Economic Outlook

Consumer confidence is on the rise

With the passing of the US election, rising personal incomes and falling unemployment and underemployment, consumer confidence is firming.

Conference board: consumer confidence

University of Michigan: consumer sentiment

Source: Thomson Reuters DataStream, 12/31/16
Economic Outlook

US consumer spending and personal income trends are improving

Additionally, the personal savings ratio is stabilizing. Good news for consumer discretionary stocks.

Source: Thomson Reuters DataStream, 11/30/16
Economic Outlook

The rate of industrial production growth has been in a cyclical decline for five years

Perhaps the new administration’s “pro growth” economic policies will help turn the momentum positive over the 2017-2019 timeframe.

Source: Thomson Reuters DataStream, 11/30/16
Economic Outlook

A close correlation between ISM manufacturing and Treasury yields

Recent momentum in both measures suggest a stronger economy in 2017.

ISM manufacturing and 5-yr Treasury yield (RHS)
Index, 50 = no change

Source: Thomson Reuters DataStream, 11/30/16
Economic Outlook

US recession probably years out

In the past, the next recession has started on average six years after the LEI has made a new high. In November, it was below its prior high. The LEI typically makes a new high 24 months after recessions have ended. This time, we’re 89 months after the recession ended, and the LEI still has not made a new high.

US leading indicator

Nov: 124.6

Source: Evercore ISI, 12/23/16
Investment Outlook

US Equity markets finished the year strong and were the best performing asset class for the second year in a row. The S&P 500 finished the year up 12.0% with value equities leading the way; the Russell 1000 Value Index outperformed its growth counterpart by over 10%, marking the greatest disparity since 2006. Within the market cap spectrum, small cap equities reigned supreme with the Russell 2000 Index returning 21.3% for the year vs 12.1% for the Russell 1000 Index. The strength in small cap equities came during the second half of the year as investors anticipated the proposed changes to US tax policy and an increase in infrastructure spending would overwhelmingly benefit small cap companies.

The election of Donald Trump as the 45th President of the United States was widely unexpected as nearly every poll had Secretary Clinton ahead by a comfortable margin. Initially Mr. Trump’s election was expected to be a net negative for markets but it has proven to be anything but; in general, markets are up nearly 9.0% (S&P 500) since the election and going into 2017 markets were nearing all-time highs. 2016 may be remembered as the year in which the populist movement spread across the globe; US election and the referendum results in the UK and Italy, illustrate just how powerful this movement is at the moment. With elections in Germany, France and the Netherlands next year, pundits would be wise not to underestimate the populist movement.

During the fourth quarter, the dispersion between high quality and low quality was relatively balanced. High quality companies, those rated B+ or better¹, returned 3.4% and slightly outperformed low quality companies, those rated B or worse¹, which returned 3.3%. Factor attribution within the indices was consistent with the S&P quality data, showing neither a strong bias for high quality or low quality companies. Within the Russell Midcap Growth Index, signaling a bias for high quality was the outperformance of high return on equity (ROE) companies and the underperformance of non-earners; conversely, companies with a high debt-to-cap, low share price and low P/E all outperformed, signaling a bias for low quality. Within the Russell 2000 Growth Index, the factor attribution was much the same and no distinct bias could be confirmed. Signaling the bias for low quality was the outperformance of companies with low P/E’s and low long-term growth rates; conversely, signaling a bias for high quality was the outperformance of high ROE companies and companies without earnings.

Over the period, the US Mid Cap Growth strategy underperformed the Russell Midcap Growth Index by 0.59% and returned -0.13% (gross of fees) vs the Russell Midcap Growth Index returning 0.46%. The relative underperformance was broad based although the consumer discretionary and technology sectors were the greatest detractors. Within consumer discretionary, the underperformance was driven by positions in Under Armour and LKQ Corporation, as well as being overweight to industries such as hotels and recreational vehicles. Under Armour declined nearly 25% after the company announced they will need to make additional investments in their business in order to achieve their 2018 revenue goal of $7.5bn. This increased spend impacted margins and as a result they will not be able to achieve their 2018 EBIT goal of $800m. LKQ fell 13.6% after the company lowered 2016 guidance and indicated a moderation in the growth rate of the core US business. Within the technology sector, weakness can be mostly attributed to being underweight the semiconductor industry, which increased 24%, and weakness in Tyler Technologies and Red Hat. Contributing to performance was the solid stock selection within the financial services sector, specifically the strategy’s overweight position in banks, as well as the utilities sector. Within utilities, the only position held in the strategy is J2 Global, which rose over 23%; the company announced their proposed acquisition of Everyday Health and this news drove the stock higher. Everyday Health is a digital marketing platform that enables healthcare marketers to engage with consumers and healthcare professionals; this acquisition will help J2 Global expand their reach into digital media and create a more balanced business mix. Outperformance within the banking sector was driven by the election of Donald Trump and the anticipation for higher inflation, a steeper yield curve and a less burdensome regulatory environment.
Investment Outlook

During the fourth quarter, the US Small Cap Growth strategy outperformed the Russell 2000 Growth Index by 0.22%, returning 3.79% (gross of fees) vs the Russell 2000 Growth Index returning 3.57%. The relative outperformance was led by the health care and financial services sectors. Within health care, the outperformance was the result of being underweight biotechnology and pharmaceuticals, which fell 11.3% and 10.4%, respectively. Within financial services, the outperformance was driven by the strategy’s overweight positions in banks, specifically positions in Bank of the Ozarks, Texas Capital Bancshares and BofI Holding. The strength in the banking sector was again the byproduct of expectations for less financial regulation and higher rates due to the election of Donald Trump. Weighing on performance was stock selection in both the technology and consumer discretionary sectors. Within technology, the strategy was pressured by an underweight position in semiconductors, which increased 13.0%. At a stock specific level, Tyler Technologies fell 16.6% after the company experienced a slowdown in organic growth and highlighted the timing of a few larger deals as the culprits for a slower growth rate. Additionally, the company was pressured as investors feared that potential lower tax rates would impact the attractiveness of municipal bonds, therefore limiting local municipalities’ ability to invest in technology. The weakness in the consumer discretionary sector was the result of stock selection within the portfolio, specifically within the specialty retail and leisure time industries and underweight positions in more cyclical industries such as recreational vehicles.

It’s never an easy task projecting earnings for the stock market one year in advance, but entering 2017, prognosticators are dealing with a number of imponderables, making projections even more problematic than usual. Until clear ground rules are in place for tax and regulatory reform, the fate of the ACA, and trade policy, business should be expected to pursue a wait and see attitude toward all but the most mandatory investments. Put simply, Trumponomics, if successful in accelerating economic growth, is most likely a 2018 story, not 2017. Reflected in this opinion are our forecasted 2017 earnings of $125.00 for the S&P 500, which translates into 7% growth. Certainly, if expectations for 3%+ RGDP growth in 2018 materialize, earnings approaching $140 are reasonable achieved. The question is what multiple to place on those earnings, which is the source of much debate amongst market participants. This market is unloved as the multiple has been elevated for some time and given the volatility (in February the Russell 2000 Growth Index was down 20% YTD only to finish +12%) exhibited by individual securities we understand and indeed would agree a healthy pullback is to be expected. However, the market has a nasty habit of making as many participants look as foolish possible at any given time. Thus, the adage “climbing the wall of worry” was born. Looking at a potentially bullish scenario, international investors who have invested in US equities have seen tremendous returns based on the currency tailwind. In addition, it has been years since we have seen significant flows from overseas or from other asset classes into equities. If we are looking at the infancy of a secular bear market in bonds, real estate facing headwinds due to rising interest rates and a reversal of the flows into alternatives (who haven’t lived up to lofty expectations once adjusted for fees), the upward movement in equity multiples from this point shouldn’t be underestimated. The common retort to this statement focuses on the current low level of interest rates and inflation, which in an accelerating GDP environment should be subject to upward pressure. However, the US has experienced accelerating inflation in the midst of a bull market before (’86-90, ‘02-05), and interest rates moving to a historical normalized level should be indicative of a healthy economy. We are therefore not too concerned about a modest increase in these measures as positive earnings momentum should trump (pun intended) any pressures to the contrary. We believe a multiple range of 17-20x is reasonable and should be expected in such an environment.
Investment Outlook

Longer-term

Looking towards 2017, investors have begun to focus on the incoming administration’s plans and policies. Given what we know today, we would expect a large infrastructure package to be passed, investments in roads, bridges and airports. Tax policy will certainly be in play as Republicans will look to reform the corporate tax code and some legislators will attempt to repeal and replace aspects of the ACA (Affordable Care Act), but details to this point have been lacking. Reforming immigration will also be near the top of the President’s agenda, but we fear his hardline policies may hinder US growth, specifically if it impacts the availability of H-1B visas which are desperately needed to fill the talent gap in this country. A renegotiation of the US trade pacts was a key message of Mr. Trump’s campaign so we would expect to see him put these plans into action shortly after taking office. However, the unpredictability of Mr. Trump leaves us leery of getting too excited about the market’s potential in 2017 given the magnitude of the market appreciation post-election. If Mr. Trump is able to push through his agenda of tax reform, regulatory reform, and infrastructure spending we would expect markets to react favorably, which would be especially positive for small and mid cap companies who are domestically focused and profitable. We expect market volatility to continue as details of his plans emerge and this should be beneficial to high quality equities. As always, we continue to adhere to our high quality philosophy and the nature of the companies in which we invest, specifically companies with the potential for high degrees of recurring revenue, earnings visibility and high organic growth rates. We believe these are exactly the types of companies that our portfolios should have exposure to in an environment such as this.

1 Stock ratings are provided by Standard & Poor’s and Bank of America Merrill Lynch US Quantitative Strategy. Stock rankings are assigned to all US equity securities which have the required 10 years of earnings and dividend history as required by Standard & Poor’s.
## Investment Outlook

### First quarter 2017

<table>
<thead>
<tr>
<th>Henderson Geneva’s forecast of capital markets total returns – 12-months forward</th>
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<tbody>
<tr>
<td>30-day commercial paper</td>
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<tr>
<td>-------------------------</td>
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<tr>
<td>12-month return potential*</td>
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<tr>
<td>Level on 12/30/16</td>
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</tbody>
</table>

*Actual returns may be more or less than projections

Investment Outlook

Financials, cyclicals the best performers post-election, staples and healthcare the poorest performers

Speculation that lower taxes and easing regulatory burdens will lead to a stronger economy has boosted cyclicals and financials post-election. Additionally, financials stand to benefit from higher rates, including LIBOR.

Sector performance since election day
11/9/16 – 12/31/16

Source: Thomson Reuters DataStream, 12/31/16
Investment Outlook

2016 was the first true risk-on market we have seen in years

Source: Cornerstone Macro, 12/27/16
Active and passive outperformance trends are cyclical

Periods of passive outperformance seem to last five to six years. As institutional investors rush to embrace this concept, the stage is set for active, quality-oriented stock pickers to outperform.

Source: Morningstar Direct, 12/31/15
Many risk-on factors were strong performers as value trumped growth in 2016

In assessing factor performance over the course of the year, it’s clear that risk-on factors were strong performers, while higher-quality attributes lagged.

Source: Cornerstone Macro, 12/27/16
Investment Outlook

Value vs growth outperformance was especially pronounced in smaller cap companies

Value companies soared in the fourth quarter, perhaps reflecting the possible emerging tailwind for all companies from “Trump-onomics” over the next 12-18 months.

Value vs growth performance
Indexed to 100 at 12/31/15

Source: Bloomberg, 12/31/16
Investment Outlook

Does returning cash to shareholders crowd out capex?

Until tax policy is settled, punitive regulations are addressed, and capacity utilization rates rise above 80%, there is little incentive for US corporations to sharply expand capital expenditure.

PP&E as a % of total assets declined

Cash returned and CAPEX as % of total cash generated

Source: Leuthold Group, 10/31/16
Investment Outlook

A warning sign: leverage rising sharply for US companies

“Financial engineering” will have unintended consequences in the next cycle.

Net debt to EBITDA for US and Eurozone equities (2006-2016)

Source: Thomson Reuters DataStream, 9/30/16. Chart shows net debt to 12-month forward EBITDA for US and Eurozone DataStream Total Market Indexes. Ratios are re-based to 100 starting at 1/1/06.
Investment Outlook

US corporations are much more profitable than their international counterparts

Due in part to less regulation and greater “white spaces” for new product development. The question will be whether margins are sustainable in light of rising inflation.

Source: Thomson Reuters DataStream, 11/30/16
Investment Outlook

Look for the US dollar exchange rate to remain strong

US rates are rising vis-à-vis its trading partners. A massive program to repatriate foreign profits will intensify the need for US dollars. Rising oil prices (dollar-denominated) is another positive force. US multinationals will benefit from repatriation but the strong dollar will continue to weigh on reported profits.

Source: Thomson Reuters DataStream, 11/30/16
A strong dollar has implications on trade and foreign currency reserves

A strong dollar could be a headwind for trade, and put upward pressure on yields as foreign central banks sell treasuries to defend their own currencies.

**Chinese yuan per US$**
Dec 22: 6.95 yuan to $1

**China foreign exchange reserves**
Nov: $3.05 Trillion USD

Source: Evercore ISI, Cornerstone Macro, 12/27/16
Investment Outlook

Despite seven years of recovery, residential fixed investment is below long-term averages

Typically, residential investment averages just 5% of GDP and often peaks out at close to 6% of GDP. Currently at 3.6% of GDP, housing continues to offer one of the biggest growth opportunities. Also, the number of people turning 31 (the average age of a first-time home buyer) is now increasing again, providing a demographic tailwind. Nevertheless, lower job mobility and scarce land resources are forcing more potential buyers to remodel rather than move.

Residential spending as a percentage of GDP

Source: Morningstar Direct, 9/30/16
Investment Outlook

Over three quarters of global government bonds have yields below 1%

With the 10-year US Treasury ending the year at 2.44%, foreign investors should consider this disparity in bond yields as an investment opportunity. Rising global demand for US treasuries should place downward pressure on yields.

Source: Robert W. Baird, Bloomberg, 9/30/16
Annual Disclosure Presentation

US Small Cap Growth

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>4,682</td>
<td>1,101</td>
<td>36</td>
<td>11.66%</td>
<td>10.93%</td>
<td>-1.38%</td>
<td>-4.41%</td>
<td>0.2%</td>
<td>12.33%</td>
</tr>
<tr>
<td>2014</td>
<td>4,892</td>
<td>882</td>
<td>37</td>
<td>-1.77%</td>
<td>-2.41%</td>
<td>5.60%</td>
<td>4.89%</td>
<td>0.1%</td>
<td>11.40%</td>
</tr>
<tr>
<td>2013</td>
<td>6,695</td>
<td>1,011</td>
<td>36</td>
<td>45.18%</td>
<td>44.41%</td>
<td>43.30%</td>
<td>38.82%</td>
<td>0.4%</td>
<td>13.70%</td>
</tr>
<tr>
<td>2012</td>
<td>3,774</td>
<td>288</td>
<td>21</td>
<td>17.76%</td>
<td>17.15%</td>
<td>14.59%</td>
<td>16.35%</td>
<td>0.2%</td>
<td>17.39%</td>
</tr>
<tr>
<td>2011</td>
<td>2,609</td>
<td>173</td>
<td>14</td>
<td>1.44%</td>
<td>0.95%</td>
<td>-2.91%</td>
<td>-4.18%</td>
<td>0.2%</td>
<td>22.15%</td>
</tr>
<tr>
<td>2010</td>
<td>1,872</td>
<td>110</td>
<td>8</td>
<td>38.02%</td>
<td>37.39%</td>
<td>29.09%</td>
<td>26.85%</td>
<td>0.4%</td>
<td>N.A.</td>
</tr>
<tr>
<td>2009</td>
<td>1,393</td>
<td>45</td>
<td>6</td>
<td>23.75%</td>
<td>23.22%</td>
<td>34.47%</td>
<td>27.17%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2008</td>
<td>979</td>
<td>28</td>
<td>Five or fewer</td>
<td>-33.18%</td>
<td>-33.49%</td>
<td>-38.54%</td>
<td>-33.79%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2007</td>
<td>1,579</td>
<td>9</td>
<td>Five or fewer</td>
<td>14.15%</td>
<td>13.69%</td>
<td>7.05%</td>
<td>-1.57%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2006</td>
<td>1,355</td>
<td>6</td>
<td>Five or fewer</td>
<td>6.31%</td>
<td>5.90%</td>
<td>13.35%</td>
<td>18.37%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2005</td>
<td>1,073</td>
<td>5</td>
<td>Five or fewer</td>
<td>15.85%</td>
<td>15.39%</td>
<td>4.15%</td>
<td>4.55%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2004</td>
<td>815</td>
<td>4</td>
<td>Five or fewer</td>
<td>22.72%</td>
<td>22.22%</td>
<td>14.31%</td>
<td>18.33%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2003</td>
<td>693</td>
<td>3</td>
<td>Five or fewer</td>
<td>33.43%</td>
<td>32.89%</td>
<td>48.54%</td>
<td>47.25%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2002</td>
<td>531</td>
<td>2</td>
<td>Five or fewer</td>
<td>-14.40%</td>
<td>-14.71%</td>
<td>-30.26%</td>
<td>-20.48%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2001</td>
<td>537</td>
<td>1</td>
<td>Five or fewer</td>
<td>4.15%</td>
<td>3.67%</td>
<td>-9.23%</td>
<td>2.49%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2000</td>
<td>514</td>
<td>1</td>
<td>Five or fewer</td>
<td>2.77%</td>
<td>2.30%</td>
<td>-22.43%</td>
<td>-3.02%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1999</td>
<td>470</td>
<td>1</td>
<td>Five or fewer</td>
<td>7.50%</td>
<td>7.13%</td>
<td>43.09%</td>
<td>21.26%</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

3-year Ex-Post Standard Deviation

Not required Prior to 2011

N.A. – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Compliance Statement
Henderson Geneva Capital Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Henderson Geneva Capital Management has been independently verified for the periods January 1, 1993 through September 30, 2016.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The US Small Cap Growth composite has been examined for the periods January 1, 1999 through September 30, 2016. The verification and performance examination reports are available upon request.

The Firm
Composite Description
The US Small Cap Growth composite contains fully discretionary equity accounts invested in approximately 50-60 small capitalization growth securities whose market capitalization ranges generally fall between $250 million to $2 billion at the time of purchase. Securities are selected using a “bottom-up” fundamental analysis of the company and supplemented by “top-down” considerations of economic conditions. Prior to September 30, 2015, the composite was named Geneva Smallcap Composite. There is no minimum account size for this composite. Prior to January 1, 2006, the minimum account size was $500,000. From January 1, 2004 through December 31, 2005, accounts were removed from the composite if they fell more than 20% below the minimum account size. Beginning July 1, 2008, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of 30% portfolio assets or greater. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the last day of the month in which the cash flow takes place.

Composite Benchmark
For comparison purposes, the US Small Cap Growth composite is measured against the primary index Russell 2000® Growth Index and secondary Russell 2000® Index. The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000® Index companies with higher price-to-value ratios and higher forecasted growth values (Source: http://www.russell.com). The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership (Source: http://www.russell.com). Performance results in presentations prior to January 1, 2002 were measured against the S&P® 600 Index. From January 1, 2002 through January 1, 2008 performance results were primarily measured against the Russell 2000® Index. The benchmark was changed to be more representative of the composite strategy and style. Information regarding the S&P 600® Index is available upon request.

Fee Information
The annual fee schedule is 100 bps (1.00%) on the first $50 million, 90 bps (0.90%) on $50 to $100 million, and 80 bps (0.80%) on the balance over $100 million. Actual investment advisory fees incurred by clients may vary.

Basis of Returns
Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Prior to January 1, 2000, net returns were calculated using the highest fee per the fee schedule in the ADV which was 1.0%. Past performance is not indicative of future results.

Composite Dispersion
The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

GIPS Policies and Procedures
The Firm maintains a complete list of composite descriptions, which is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Composite Creation Date
The US Small Cap Growth composite creation date is January 1, 1999.

Composite Currency
The US Dollar is the currency used to express performance.
Annual Disclosure Presentation

US Mid Cap Growth

<table>
<thead>
<tr>
<th>Year End</th>
<th>Total Firm Assets USD (millions)</th>
<th>Composite Assets USD (millions)</th>
<th>Number of Accounts</th>
<th>Composite Gross</th>
<th>Composite Net</th>
<th>Russell Midcap® Growth</th>
<th>Russell Midcap® Dispersion</th>
<th>Composite Russell Midcap® Growth</th>
<th>Composite Russell Midcap® Dispersion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>4,682</td>
<td>2,808</td>
<td>114</td>
<td>4.54%</td>
<td>4.08%</td>
<td>-0.20%</td>
<td>-2.44%</td>
<td>11.13%</td>
<td>11.31%</td>
</tr>
<tr>
<td>2014</td>
<td>4,892</td>
<td>3,247</td>
<td>128</td>
<td>5.90%</td>
<td>5.44%</td>
<td>11.90%</td>
<td>13.22%</td>
<td>10.56%</td>
<td>10.87%</td>
</tr>
<tr>
<td>2013</td>
<td>6,695</td>
<td>4,896</td>
<td>190</td>
<td>32.00%</td>
<td>31.46%</td>
<td>35.74%</td>
<td>34.76%</td>
<td>13.69%</td>
<td>14.62%</td>
</tr>
<tr>
<td>2012</td>
<td>3,774</td>
<td>2,860</td>
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<td>11.03%</td>
<td>15.81%</td>
<td>17.28%</td>
<td>16.62%</td>
<td>17.91%</td>
</tr>
<tr>
<td>2011</td>
<td>2,609</td>
<td>1,958</td>
<td>140</td>
<td>4.19%</td>
<td>3.73%</td>
<td>-1.65%</td>
<td>-1.55%</td>
<td>18.86%</td>
<td>20.82%</td>
</tr>
<tr>
<td>2010</td>
<td>1,872</td>
<td>1,297</td>
<td>119</td>
<td>30.83%</td>
<td>30.25%</td>
<td>26.38%</td>
<td>25.48%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>2009</td>
<td>1,393</td>
<td>928</td>
<td>96</td>
<td>36.89%</td>
<td>36.28%</td>
<td>46.29%</td>
<td>40.48%</td>
<td>13.69%</td>
<td>14.62%</td>
</tr>
<tr>
<td>2008</td>
<td>979</td>
<td>618</td>
<td>96</td>
<td>-35.54%</td>
<td>-35.86%</td>
<td>-44.32%</td>
<td>-41.46%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>2007</td>
<td>1,579</td>
<td>1,061</td>
<td>92</td>
<td>17.00%</td>
<td>16.50%</td>
<td>11.43%</td>
<td>5.60%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>2006</td>
<td>1,355</td>
<td>794</td>
<td>89</td>
<td>5.62%</td>
<td>5.15%</td>
<td>10.66%</td>
<td>15.26%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>2005</td>
<td>1,073</td>
<td>581</td>
<td>70</td>
<td>15.84%</td>
<td>15.39%</td>
<td>12.10%</td>
<td>12.65%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>2004</td>
<td>815</td>
<td>399</td>
<td>38</td>
<td>20.92%</td>
<td>20.47%</td>
<td>15.48%</td>
<td>20.22%</td>
<td>11.13%</td>
<td>14.03%</td>
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<tr>
<td>2003</td>
<td>693</td>
<td>340</td>
<td>34</td>
<td>26.55%</td>
<td>26.10%</td>
<td>42.71%</td>
<td>40.06%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>2002</td>
<td>531</td>
<td>229</td>
<td>24</td>
<td>-14.05%</td>
<td>-14.36%</td>
<td>-27.41%</td>
<td>-16.19%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>2001</td>
<td>537</td>
<td>244</td>
<td>24</td>
<td>-3.84%</td>
<td>-4.18%</td>
<td>-20.15%</td>
<td>-5.62%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>2000</td>
<td>514</td>
<td>212</td>
<td>16</td>
<td>13.36%</td>
<td>13.00%</td>
<td>-11.75%</td>
<td>8.25%</td>
<td>11.13%</td>
<td>14.03%</td>
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<tr>
<td>1999</td>
<td>470</td>
<td>286</td>
<td>56</td>
<td>14.29%</td>
<td>13.19%</td>
<td>51.29%</td>
<td>18.23%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>1998</td>
<td>380</td>
<td>206</td>
<td>53</td>
<td>28.77%</td>
<td>27.56%</td>
<td>17.86%</td>
<td>10.09%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>1997</td>
<td>259</td>
<td>135</td>
<td>36</td>
<td>25.03%</td>
<td>23.85%</td>
<td>22.54%</td>
<td>29.01%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>1996</td>
<td>214</td>
<td>90</td>
<td>34</td>
<td>27.40%</td>
<td>26.20%</td>
<td>17.48%</td>
<td>19.00%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>1995</td>
<td>195</td>
<td>73</td>
<td>32</td>
<td>28.40%</td>
<td>27.20%</td>
<td>33.98%</td>
<td>34.45%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>1994</td>
<td>133</td>
<td>53</td>
<td>28</td>
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<td>-1.50%</td>
<td>-2.16%</td>
<td>-2.09%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
<tr>
<td>1993</td>
<td>120</td>
<td>28</td>
<td>26</td>
<td>5.02%</td>
<td>3.99%</td>
<td>11.19%</td>
<td>14.30%</td>
<td>11.13%</td>
<td>14.03%</td>
</tr>
</tbody>
</table>

3-year Ex-Post Standard Deviation
Not required Prior to 2011

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Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The US Midcap Growth composite has been examined for the periods January 1, 1993 through September 30, 2016. The verification and performance examination reports are available upon request.
Annual Disclosure Presentation

The Firm

Composite Description
The US Mid Cap Growth composite contains fully discretionary equity accounts invested in approximately 50-60 mid capitalization growth securities whose market capitalization ranges generally fall between $1 billion to $10 billion at the time of purchase. Securities are selected using a “bottom-up” fundamental analysis of the company and supplemented by “top-down” considerations of economic conditions. Prior to January 1, 2006, the composite was named Geneva Growth. Between January 1, 2006 and September 30, 2015 the composite was named Geneva Midcap Growth Composite. The minimum account size for this composite is $500,000. As of January 1, 2004 accounts are removed annually if they fall more than 20% below the minimum account size. Beginning January 1, 2006, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of 30% portfolio assets or greater. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the last day of the month in which the cash flow takes place. Prior to January 1, 2000, balanced portfolio segments were included in this composite and performance reflects required total segment plus cash returns using a predetermined cash allocation percentage.

Composite Benchmark
For comparison purposes, the US Mid Cap Growth composite is measured against primary index Russell Midcap® Growth Index and secondary Russell Midcap® Index. The Russell Midcap® Growth Index measures the performance of the mid-cap growth segment of the US equity universe. It includes those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values (Source: http://www.russell.com). The Russell Midcap® Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap® is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap® represents approximately 31% of the total market capitalization of the Russell 1000® companies (Source: http://www.russell.com). Performance results in presentations prior to January 1, 2002 were measured against the S&P® 400®. From January 1, 2002 through January 1, 2008 performance results were primarily measured against the Russell Midcap® Index. The benchmark was changed to be more representative of the composite strategy and style. Information regarding the S&P 400® Index is available upon request.

Fee Information
The annual fee schedule for institutional clients is 75 bps (0.75%) on the first $100 million and 60 bps (0.60%) on the balance over $100 million. The annual fee schedule for retail clients is 100 bps (1.00%) on the first $1.5 million, 85 bps (0.85%) on the next $8.5 million, and 70 bps (0.70%) on the balance over $10 million. Actual investment advisory fees incurred by clients may vary.

Basis of Returns
Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Prior to January 1, 2000, net returns were calculated using the highest fee per the fee schedule in the ADV which was 1.0%. Past performance is not indicative of future results.

Composite Dispersion
The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

GIPS Policies and Procedures
The Firm maintains a complete list of composite descriptions, which is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Composite Creation Date
The US Mid Cap Growth composite creation date is January 1, 1988.

Composite Currency
The US Dollar is the currency used to express performance.
Economic and Investment Outlook

Statement of Purpose

Henderson Geneva Capital Management ("HGCM" or "Firm") prepares an Economic and Investment Outlook ("EIO") on a quarterly basis. The purpose of the EIO is to communicate the views and opinions held by HGCM's Investment Team ("the Team") at a particular time regarding current and future economic and market trends. The views expressed in the EIO may change as new information becomes available to the Team. Clients and prospects of HGCM may receive the EIO as a reference for understanding the Firm's intermediate and long-term outlook. This process has been in place since the inception of the Firm.

The EIO includes commentary, charts and graphs that are produced either internally or sourced from outside research organizations. HGCM carefully reviews all external source material used in the EIO and believes the information to be reliable; however, we cannot guarantee the accuracy or completeness of external data. Views expressed in the EIO should not be interpreted as a recommendation to buy or sell a particular security or type of securities and any forward looking views or statements may not come to pass. Current and prospective clients may obtain additional information about HGCM in our Form ADV brochure. A copy is available upon request.

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Fax: (414) 224-9503
Hendersongeneva.com

Important information
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Fees are billed or charged to the account in arrears, at one quarter of the annual rate, on a quarterly basis or as applicable based on the average month-end values for each of the three months comprising a quarter. Actual investment advisory fees incurred by clients may vary.