FIRST QUARTER 2018

PERFORMANCE COMMENTARY

SMID-CAP COMPOSITE

Dear Client and Friends,

Our mantra in 2018 is “Simplicity and Focus”. To that end, we redesigned our quarterly report to present all the essential information needed for a full understanding of performance in a format that’s much easier to digest. Please let us know what you think!

1ST QTR PERFORMANCE

	Contribution (%)
Best	2.25%
Worst	-1.62%
Best Minus Worst	0.63%
Rest of Portfolio	1.20%
Total Daruma	1.83%
Russell 2500	-0.24%
Return Difference	2.07%

Daruma’s SMid-Cap composite was up +1.83% in a quarter when the Russell 2500 was down -0.24%, putting us ahead of the Index by 207 basis points. While beating the Index is always satisfying, it is especially gratifying to do so when the market is down and we are up on an absolute basis.

That said, in over 30 years of investing, this has been one of the most frustrating markets in which I have operated. In this increasingly fragmented, short-term world where the conversation is dominated by algorithms and aggressively deployed passive products, valuations fluctuate on the news of the day and we experience short cycle oscillations between what’s working and what’s not. In a market where rapid ebbs and flows are causing violent cross-currents, the subtleties of portfolio composition make all the difference.

2018 began with a continuation of 2017, i.e. a relentless march upwards, with low volatility and ever expanding multiples, goosed by tax reform. Just as the ice pack begins to break up and melt in spring, we are finally seeing low volatility and a breakdown of 2017’s implacable momentum, and this bodes well for stock pickers such as ourselves and conditions may well be positioned to turn in our favor.

Details on winners and losers, sectors of note and market observations follow.

As always, we are happy to discuss our first quarter results with you.

All the best,

Mariko

Mariko O. Gordon, CFA
Founder & CEO

This should not be considered a recommendation to buy or sell any security. Please also see General Disclosures at the end of this presentation.

1ST QUARTER 2018

WINNERS AND LOSERS

SMID-CAP COMPOSITE COMMENTARY

Top Contributors

Company	Quarter End Position Size	Contribution
Microsemi Corporation	3.7%	0.87%
National Instruments Corporation	3.3%	0.72%
CoStar Group, Inc.	3.3%	0.66%
Total		**2.25%**

MICROSEMI
Semiconductor maker
+87 bps

NATIONAL INSTRUMENTS
Testing and measurement company
+72 bps

COSTAR GROUP
Real estate information services provider
+66 bps

This should not be considered a recommendation to buy or sell any security. Please also see General Disclosures at the end of this presentation.

The net contribution from our biggest winners minus our biggest losers was a positive +63 bps. Our best three stocks were semiconductor maker Microsemi Corp. (MSCC) (+87 bps); testing and measurement company National Instruments (NATI) (+72 bps); and real estate information services provider CoStar Group (CSGP) (+66 bps). These three positions generated a healthy 225 bps in total contribution.

Microsemi Corp. (MSCC) stock was up 25% in the quarter on the news that it had agreed to be acquired by Microchip (MCHP) in an all-cash deal expected to close in the second quarter. Although we had long believed that Microsemi was undervalued relative to its peers and felt it would make a good acquisition target in a consolidating industry, it wasn't a takeover play for us and we would have happily been long term holders. Our thesis was driven by strong free cash flows, expanding margins, stable and steadily growing niche products, a solid franchise in defense, and a specialized market characterized by idiosyncratic demand drivers (in contrast to the more economically sensitive generic semiconductor market). Nevertheless, a takeout at a 25% premium is never a bad thing and we are pleased with the outcome of this position.

National Instruments (NATI) reported good results, but more importantly the company delivered the operating margin expansion that investors were eagerly anticipating and the stock responded accordingly. NATI is a well-run business with a strong engineering culture, a sound strategy, and a great product line. Moreover, the company has always been willing to make the investment needed to open future growth pathways and NATI's 5G wireless testing product line is gaining traction in a marketplace that is primed for rapid expansion. In addition, global PMIs have been strong, and any number north of 50 is a

1ST QUARTER 2018

WINNERS AND LOSERS

SMID-CAP COMPOSITE COMMENTARY

Top Detractors

Company	Quarter End Position Size	Contribution
Pacira Pharmaceuticals, Inc.	0.0%	-0.56%
Healthcare Services Group, Inc.	2.1%	-0.55%
II-VI Incorporated	4.2%	-0.51%
Total		**-1.62%**

PACIRA
Specialty pharmaceutical maker
-56 bps

HEALTHCARE SERVICES GROUP
Nursing home facilities service provider
-55 bps

II-VI INC
Engineered materials and optoelectronics component manufacturer
-51 bps

This should not be considered a recommendation to buy or sell any security. Please also see General Disclosures at the end of this presentation.

tailwind to top line growth. NATI is well positioned to reap the rewards of playing the long game; next generation leadership is focused on taking profitability from good to great, and investors are eagerly awaiting more concrete long-term profitability targets which will be unveiled in May (during National Instrument's annual jamboree for developers and investors).

CoStar Group (CSGP) continues to grow its apartment rental listings and marketing offering and is reaping the benefits of upselling to the customers it acquired when it bought Loopnet. CoStar also has a formidable competitive moat which gives it considerable control over its fate.

These three big contributors were offset by our biggest three detractors, which cost us -162 bps collectively.

Our biggest detractors were specialty pharmaceutical maker Pacira Pharmaceuticals (PCRX) (-56 bps), nursing home facilities service provider Healthcare Services Group (HCSG) (-55 bps) and engineered materials and optoelectronics component maker II-VI Inc. (IIVI) (-51 bps).

Pacira Pharmaceuticals (PCRX) is by its very nature a volatile stock. The company had been more consistent as of late, reporting good monthly sales growth for its flagship non-opioid surgical analgesic. When a recent contentious and negative FDA adcom panel vote on expanding usage for upper extremity surgeries hit the stock hard, the price declined and we sold Pacira in the SMid-portfolio to raise cash to fund the purchase of new ideas. Although the stock recovered in the second quarter, we are comfortable with our decision to sell given the strength of new idea flow and the risk return parameters of the new positions that replaced Pacira.

Healthcare Services' (HCSG) stock declined after fourth quarter results showed a degradation in working capital metrics. HCSG has delivered such steady results over the years it has become almost a cult stock, so any disappointment is unusual. Healthcare Services sits at the intersection of a number of trends in the nursing home industry. Specifically, industry consolidation is creating a desire on the part of larger chains to hire large professional vendors and revenue pressure is causing smaller facilities to consider outsourcing non-core competency functions like maintenance, laundry and cleaning. HCSG has been benefitting from these trends and also is investing margin in developing a food service offering which is not yet operating at scale (gross margins are lower in food service, but contract sizes are larger).

Investors believed in HCSG's sales and growth strategy and accordingly, gave management the benefit of the doubt when DSOs began to lengthen. We felt that the buildup in receivables was an early warning sign of deterioration in fundamentals, so we met with management and pressed the issue. They assured us that the situation was under control, but we decided to sell the stock anyway in part because we don't want to hold companies with long dated stories whose fundamentals are deteriorating. This proved to be a good decision as HCSG later wrote down a slug of receivables which cost a whole quarter's worth of profits and caused the stock to plummet. Healthcare Services still has a sound franchise, but the subsequent hit to management's credibility will take a while to heal and we are glad we exited when we did.

II-VI Inc.'s (IIVI) stock came under pressure last quarter for two reasons. First, sales of the Apple X phone were slower than expected and II-VI supplies the specialized laser diodes (VCSELs) which allow for the facial recognition feature in that product. Although this was disappointing, the market for the technology remains strong and II-VI is a market leader that can master the difficult task of producing VCSELs at scale. In 2019, Apple is on track to expand the use of VCSELs broadly into many of its other products and

Samsung is also expected to incorporate II-VI's VCSELs. These specialized diodes are also being deployed in automotive markets and are enabling accurate 3D sensing that can be used in many other applications. In short, there is a tidal wave of demand coming – and we believe it's a matter of when, not if. The second reason for the decline is investor fear that Chinese demand for optoelectronics (which is notoriously hard to predict) would be weaker than expected in 2018. The Chinese continue to build out their telecom infrastructure but their pace of investment is not always smooth and linear. This investment is indeed going to be made, but again, it is a question of when.

We know that the telecom and consumer electronic stock space is volatile, and we have chosen to invest in II-VI precisely because it has a broad, diversified customer base across a range of industries, and thus is less at the mercy of incoming and outgoing tides of demand in specific pockets of the marketplace. In the short term, this diversification may dampen overall growth rates relative to the pure play stocks, but the long term stability is a worthwhile tradeoff. Additionally, II-VI has shown excellent operational and fiscal discipline over the years, and has made sizable investments in scaling production capacity in VCSELs in the last 18 months. This has compressed short term free cash flow but we expect to see a material rebound in cash generation as II-VI harvests these investments. We also expect II-VI to continue to benefit from secular shifts occurring in both materials development and technology that favor the company's expertise and product line.

1ST QUARTER 2018

SECTORS OF NOTE

SMID-CAP COMPOSITE COMMENTARY

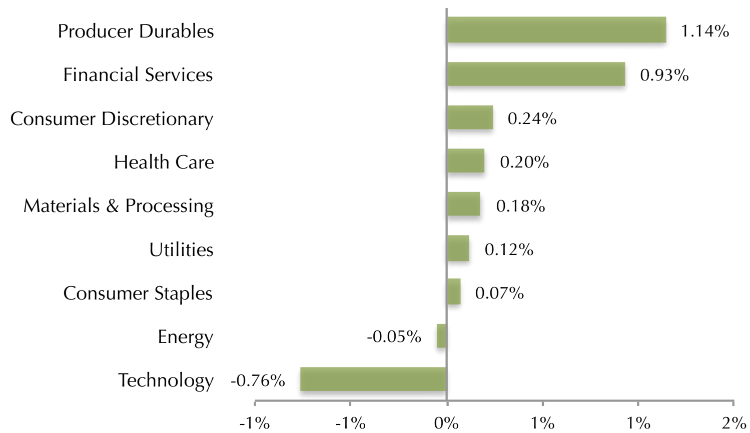
Our best sector was Producer Durables where four of our stocks beat the Index by a healthy margin, generating a return of +5% in a market where the Russell 2500's sector was down -1%. This resulted in +114 bps of relative outperformance. In a concentrated portfolio such as ours, the idiosyncratic performance of individual stocks drives our sector performance. In the case of Producer Durables, in addition to CoStar and National Instruments, we had good performance from water infrastructure company Xylem Inc. (XYL) (+12.8%) and labeling and RFID company Zebra Technologies, a new position, which was up +13.4%.

Financial Services also contributed a surplus of +93 bps relative to the Index (+73 bps vs. -20 bps). Our Financial stocks were up +4.2% while R2500 Financials were down -0.8%. Four out of five of our Financials — Florida Commerce Bank (FCB), Zion Bancorp (ZION), title insurer First American Financial (FAF) and payment processor WEX Inc. (WEX) — were positive in the quarter. We were also helped by the decline REITs (in which we do not invest) which detracted -76 bps from the Benchmark.

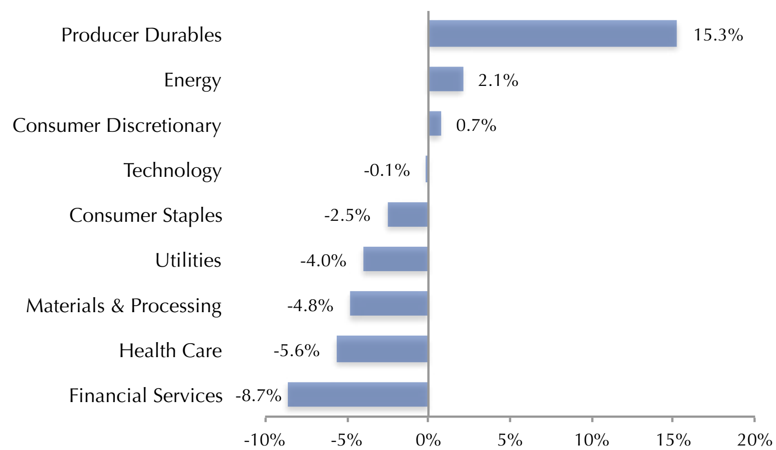
Our notable sector underperformer was Technology — where we were down -8 bps when the Russell 2500 technology stocks generated +68 bps. Here we were hurt by II-VI as mentioned previously and also by Xperi Corp. which cost us -40 bps. Software was an industry group with the Tech sector that was rewarded by investors, and our lack of exposure there also created a comparative drag. Gains in Microsemi, our biggest winner helped offset these headwinds, but weren't sufficient to overcome them entirely.

This should not be considered a recommendation to buy or sell any security. Please also see General Disclosures at the end of this presentation.

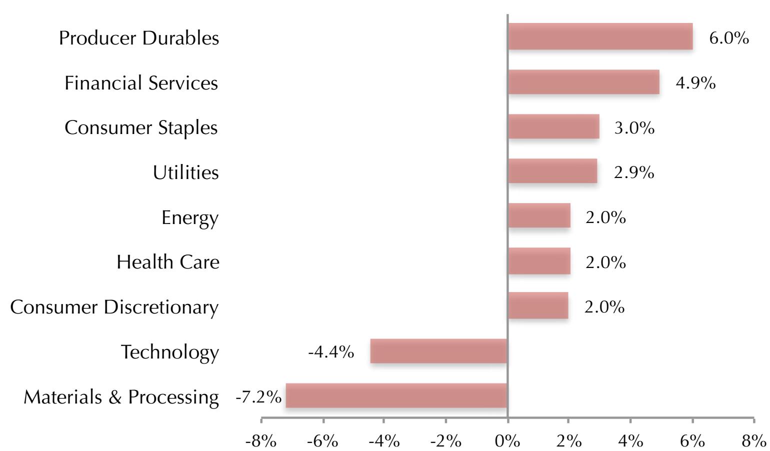
CONTRIBUTION DIFFERENCE DARUMA VS. R2500



DARUMA SECTOR OVER/UNDERWEIGHT VS. R2500



RETURNS DIFFERENCE DARUMA VS. R2500



Sources: FactSet, Russell Investments & Daruma Capital Management

1ST QUARTER 2018

MARKET OBSERVATIONS

SMID-CAP COMPOSITE COMMENTARY

This market is rife with cross currents as the prolonged earnings growth associated with late cycle markets becomes interwoven with rising rates, inflation fears and the beginnings of multiple compression. This plus the newfound weakness in the FAANG stocks suggests that we have a long in the tooth market that is primed for a "risk off" scenario and a potential change in investor mindset. Specifically, investors should begin paying more attention to the differences between individual stocks as well as focusing more on balance sheet strength, quality, and overall stability. In fact, as the quarter progressed it was notable that even on up days, the more defensive stocks lead the market.

In general, performance characteristics of the Russell 2500 supported this risk off mindset. The largest stocks continued to beat the smallest stocks by a huge margin (+4.3% vs. -12.4%) and the lowest beta companies trounced those with the highest beta, (+2.7% vs. -3.4%). Growth was also rewarded, with the best top line growers up +3.6% vs. -9.3% for the worst. See table below.

The divergence between the S&P 500 and the Russell 2500 was notable in the quarter. While the year got off to a great start with the Russell up +3.1% in January, it lagged the S&P 500, which was up a phenomenal +5.7% for the month. February reversed hard, with the R2500 down -4.1%, flat against the S&P's -3.7%. In March however, the Russell was up +1.0% while the S&P 500 was down -2.5% signaling a breakdown in large-cap leadership that bodes well for smid-cap investors.

WHAT DROVE THE RUSSELL 2500?

In these charts, the Russell 2500 is sorted into deciles of performance according to different characteristics, some fundamental and some sentiment-based. The percentage in each box is the performance of that attribute (e.g. beta) for that decile.

	1Q 2018									
Decile	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Market Cap (Largest to Smallest)	4.3%	1.8%	-1.3%	-1.3%	-0.4%	2.3%	2.7%	-1.1%	-2.1%	-12.4%
P/E Ratio (Lowest to Highest)*	-4.8%	-2.9%	0.7%	-1.2%	-0.1%	1.3%	1.0%	0.2%	0.2%	-1.5%
Dividend Yield (Highest to Lowest)**	-9.0%	-2.9%	-0.2%	0.4%	2.5%	-	-	-	-	0.5%
Short Interest (Lowest to Highest)	0.8%	1.7%	-1.2%	-0.3%	-1.4%	-0.6%	-1.4%	-1.6%	-1.7%	-1.8%
Beta (Lowest to Highest)	2.7%	-1.7%	-1.1%	0.2%	0.5%	-0.1%	-3.1%	0.0%	-1.4%	-3.4%
Sales Growth (Best to Worst)	3.6%	1.6%	0.6%	1.5%	0.3%	-0.4%	-0.4%	-3.7%	-5.5%	-9.3%
Analyst Ratings (Best to Worst)	-0.3%	4.1%	-0.0%	1.0%	-0.7%	-0.7%	-1.3%	-2.8%	-8.0%	-6.6%
Institutional Ownership (Most to Least)***(*)	0.6%	-1.9%	0.1%	-0.8%	0.5%	-1.6%	-0.4%	-2.3%	-0.1%	-1.7%
% Chg Q4 2017 (Best to Worst)^	-2.8%	1.2%	-1.4%	-0.9%	-0.5%	-0.6%	-1.1%	-2.7%	1.2%	-1.7%
% Chg in 2017 (Best to Worst)^^	0.4%	0.9%	1.9%	1.2%	-1.5%	-1.3%	0.4%	-1.9%	-3.6%	-6.0%

*Decile 10 of P/E Ratio category is made up of all stocks that have no P/E
**Decile 10 of Dividend Yield category is made up of all stocks that pay no dividend
***Institutional Ownership may be over/under stated due to timing of filings
****Institutional Ownership is as of the end of last quarter (if report completed intra-quarter)
^% Change in Q4 2017 excludes stocks without complete performance
^^% Change in 2017 excludes stocks without complete performance

The green indicates the best-performing decile for the category.

The red indicates the worst-performing decile for the category.

Sources: Bloomberg, Russell Investments & Daruma Capital Management

1ST QUARTER 2018

GENERAL DISCLOSURES

It should be noted that this presentation should not be construed as an offer or a solicitation of an offer to buy interests/shares in any investment fund managed by Daruma. Any such offer will be made only to qualified investors by means of a confidential Private Offering Memorandum and other operative documents, and only in those jurisdictions where permitted by law. Neither the Securities and Exchange Commission nor any U.S. State or international securities administrator has passed on or endorsed the merits of any such offerings of these securities, nor is it intended that they will. Any representation to the contrary is a criminal offense. The firm does not offer or provide tax or legal advice. Individuals are urged to consult with their own tax or legal advisers before entering into any advisory contract.

Past performance is not a guarantee of future results. Nothing contained in this presentation should be considered a recommendation to buy or sell any security. Due to rounding, certain performance numbers contained throughout this document may differ immaterially from actual performance, and may not add up precisely to the totals indicated for the same reason. Many factors affect performance, including changes in market conditions and interest rates, as well as other economic, political and financial developments. Performance for 2018 is not yet audited and subject to change upon audit. You should not assume that investment decisions we make in the future will be profitable or will equal the investment performance of the past.

A list of the Top Ten holdings by portfolio weight as of 03/31/18 is available on our website at http://www.darumanyc.com/portfolio/smid-cap. These holdings and certain other performance information contained in this presentation supplement the SMid-Cap Composite Presentation, which is available on our website at https://www.darumanyc.com/disclosures/equity-composite-presentation-smid-cap.

The portfolio is actively managed, so holdings, sector weightings and other portfolio characteristics may have changed since the dates shown. They should not be considered recommendations to buy or sell any security. You should not presume that any holding shown has been or will be profitable. The holdings referred to herein do not represent all of the securities purchased, sold or recommended for Daruma's clients.

The appropriate comparison benchmark for the SMid-Cap Equity strategy is the Russell 2500. The Russell 2500 includes approximately 2500 of the smallest U.S. common stocks based on a combination of their market cap and current membership in the Russell 3000. The Russell 2500 Value Index includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values, while the Russell 2500 Growth Index includes those with higher price-to-value ratios and higher forecasted growth values.

The SMid-Cap Equity strategy is a concentrated strategy that is not managed to a benchmark, so there are material differences in characteristics, such as the number of holdings and sector and industry weightings. In addition, benchmark performance does not include any fees or expenses. Because of these differences, benchmarks should not be considered a completely accurate comparison.

Several charts are included in the book to demonstrate certain information or conclusions. You should not make any investment decision relying only on these charts. Such charts are provided for illustrative purposes only and you should not make any investment decisions based on these charts or any other information contained within this presentation.

Performance information obtained from external sources may differ from those contained in this presentation. These differences may be attributed to various factors including, but not limited to: timing and pricing of transactions; weightings and holding periods of individual positions; different methods of analysis; different pricing sources; treatment of accrued income or different accounting procedures.

The information in this presentation is current as of the date of the presentation, unless otherwise noted, and may have changed by the time you read this. Daruma has obtained some of the information in this presentation from third-party sources we believe to be accurate. However, we do not assume any responsibility for or undertake independent verification of such information and we cannot guarantee the accuracy. Such third party information is footnoted.

Statements in this presentation that are not historical facts reflect our opinions, beliefs or expectations as of the date of this presentation. Subsequent events may impact whether those come to pass. This presentation is the property of Daruma. The contents of this presentation are confidential. By accepting or reading any portion of this presentation, you agree that you will treat the presentation confidentially.

This presentation is intended for review purposes only by the person(s) or organization(s) who are reviewing it and Daruma expressly prohibits its redistribution, dissemination or sharing, in part or in its entirety, to other person(s) or organization(s) without Daruma's prior written consent.