Where Every Stock Counts®

THIRD QUARTER 2018

PERFORMANCE COMMENTARY

SMID-CAP COMPOSITE

MEET ELLEN ADAMS OUR NEW SENIOR PARTNER

In business as in life, opportunities occasionally arise that are far too compelling to ignore. I have known Ellen Adams for over 25 years and have long admired her as a skilled and disciplined investor. She possesses both the ability to spot "big ideas" and the tenacity needed to sort through short term noise and ride them to fruition.

Both Ellen and I start with the big picture, but where I gather information holistically, Ellen is a more linear thinker. We are seasoned investors, who seek to develop a deep understanding of a company's business, from culture, financial gearing and its ecosystem.

I asked Ellen to do some consulting work with us and found that it was a joy to be working shoulder to shoulder with her daily, questioning company management, doing joint cross-checks to vet our investment theses, and speaking to the Street to gauge sentiment.

I have invited her to join me as a senior partner in the business (her official start date will be November 1st). The other Daruma partners have also welcomed her with open arms, and we have all adjusted our equity stakes to bring her on board. Since Daruma's founding in 1995, I have been its majority shareholder and portfolio manager, and that remains unchanged, as I retain 52% of the equity and maintain trading authority.

In the coming weeks Ellen and I will be available for investor calls and or visits, and I am sure you will be as excited as we are about her addition to the Daruma team.

To learn more about Ellen, please go to www.darumanyc.com/our-partners.

All data is as of 09/30/18 unless otherwise noted. For important disclosure information, please see General Disclosures at the end of this presentation.

Dear Clients and Friends,

Daruma's SMid-Cap composite returned +3.67% vs. + 4.7% for the Russell 2500, trailing the Benchmark by 103 bps. We outperformed in two out of three months, but lagged in August when the market was up 4.3%. Roughly half the portfolio beat the Index in the quarter and the bulk of the underperformance was due to gold mine operator Agnico-Eagle (AEM), which cost us 98 bps. We added six positions in the quarter (three are overlap positions with the small-cap portfolio), and sold four positions.

3RD QTR PERFORMANCE

	Contribution (%)
Best	2.54
Worst	-1.98
Best Minus Worst	0.56
Rest of Portfolio	3.11
Total Daruma	3.67
Russell 2500	4.70
Return Difference	-1.03

Year to date we are +10.59% vs. +10.41% for the Index, leading by 18 bps. For the year we've booked some healthy winners, with nine stocks up 20% or more, and our top three contributors generating an impressive 576 bps. In contrast, we had only four stocks that were down 20% or more, and our worst three detractors cost us 224 bps. The net contribution of our outliers for the year is a healthy 352 bps. We have had to fight the headwinds of REITs (+29 bps), Utilities (+37 bps) and Biotechnology stocks (+73 bps) where our relative underexposure to the Index created a total drag of 139 bps. For the quarter, roughly half the portfolio beat the Russell 2500, with nine stocks up 14% or more, and only three down an equivalent amount. Our best three contributors generated solid +254 bps, but our worst three stocks detracted -198 bps which is a bit more than we'd like in a market that is up nearly 5%.

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

All the best,

Mariko

Mariko O. Gordon, CFA
Founder & CEO

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WINNERS AND LOSERS

SMID-CAP COMPOSITE COMMENTARY

Top Contributors

Company	Quarter End Position Size	Contribution
Planet Fitness	3.9%	0.91%
Kratos	3.6%	0.88%
Zebra Technologies	3.4%	0.75%
Total		2.54%

PLANET FITNESS
Budget fitness centers
+91 bps

KRATOS
Aerospace defense contractor
+88 bps

ZEBRA TECHNOLOGIES
Asset tracking devices & analytics provider
+75 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.

Low-cost exercise chain Planet Fitness (PLNT) rose 23% and contributed 91 bps. Planet continues to the deliver the solid same-store sales and new-store growth that investors are rewarding in 2018. Now that the test of a concept of limited-footprint outlets for smaller markets has proven successful, investors appear confident in the company's ability to continue to grow the business and generate impressive results.

Defense contractor Kratos' (KTOS) stock was up 28% in the quarter (a contribution of 88 bps) as a steady stream of positive announcements proved that the company was indeed fulfilling its promises. It delivered its first production order of new subsonic aerial-target drones to the U.S. Navy ($80 to $100 million annually at full production); announced that its Valkyrie drone (an unmanned "loyal wingman" for the U.S. Air Force) will begin flight testing; received a $67.5 million single-award prime contract to provide engineering and technical support to the U.S. Navy; and garnered a number of additional contracts from international and domestic customers.

Mobile computing, barcode and RFID maker Zebra Technologies (ZBRA) rose 23% (contributing 75 bps) on strong sales and earnings, which prodded the Street to raise estimates and price targets. We believe Zebra can grow at a sustainable rate of 4% to 5%, (through both share gains and vertical expansions in the health care segment, public sector, and SMB markets) and further expand both gross and operating margins, and benefit from operating leverage. ZBRA has formidable competitive advantages: 40% market share (2x that of its nearest competitor); $430 million in annual R&D spend; and now, with the acquisition of a rugged tablet maker, a complete solution portfolio.

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WINNERS AND LOSERS

SMID-CAP COMPOSITE COMMENTARY

Top Detractors

Company	Quarter End Position Size	Contribution
Agnico Eagle Mines	3.5%	-0.98%
FCB Financial	0.0%	-0.50%
Entegris	3.0%	-0.50%
Total		-1.98%

AGNICO EAGLE MINES
Gold miner
-98 bps

FCB FINANCIAL HOLDINGS
Commercial bank
-50 bps

ENTEGRIS
Semiconductor materials supplier
-50 bps

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Despite a solid 2Q earnings report and solid fundamentals, gold mine operator Agnico-Eagle (AEM) declined 25% (-98 bps), due more to technical pressure on the sector. Specifically, gold futures became an extremely crowded short, a piling on the likes of which have not been seen since 2006. This was not a reflection of underlying supply and demand for physical gold which remained solid (e.g., central banks buying), but rather one of sentiment on the part of speculators. Additionally, the massive Vanguard Precious Metals and Mining Fund, the largest gold-mining-focused mutual fund in the world, changed its mandate to the Global Capital Cycles Fund and announced it would slash its holdings in precious metals and this caused selling pressure. Despite these short-term technical setbacks, we are optimistic about the long-term operating prospects for this company and added to our position on the pullback.

Florida Community Bank (FCB) was down 16% in the quarter which cost us 50 bps in performance. The news that it was being acquired in an all-stock deal by Synovus (SNV) was viewed as a "take under" and not well received. Synovus, itself rumored to be an acquisition target, had been bid up in anticipation. Those who had been playing for Synovus' take out by a larger regional bank tanked the stock, since the FCB deal effectively took it out of play. Despite this, the deal makes compelling strategic sense. On a stand-alone basis, Synovus was deposit heavy but struggled to grow, and FCB struggled to attract enough deposits to fund its conservatively underwritten, fast-growing loan book, but the combination of both companies is quite symbiotic. Additionally, FCB adds critical mass in Florida to Synovus' regional footprint. While the stock will be range bound until the deal closes (expected in 1Q 2019), we feel the combined bank will make for a compelling stock in 2019. We sold FCB late in the quarter to make room in the portfolio, with the intent to buy it back as we got closer to closing. FCB subsequently declined materially, along with the rest of the bank group — the valuation got too ridiculously cheap in the process so we bought it back in early 4Q.

Entegris (ENTG), a leading supplier of yield-enabling products and materials for semiconductor and other advanced manufacturing environments, declined 14% in the quarter detracting 50 bps. The company is also a key supplier of specialty chemicals and gases, filtration solutions, and other materials critical to semiconductor equipment OEM's and semiconductor manufacturers. Approximately 70% of the company's revenue is driven by wafer starts with the other 30% tied to capital equipment spend. The semiconductor industry is in the midst of a moderation in demand, and ENTG's stock has corrected along with the semiconductor equipment group. We believe the company will demonstrate its relative defensiveness and continue to grow EPS through this period of softness, accelerating when demand inflects back up.

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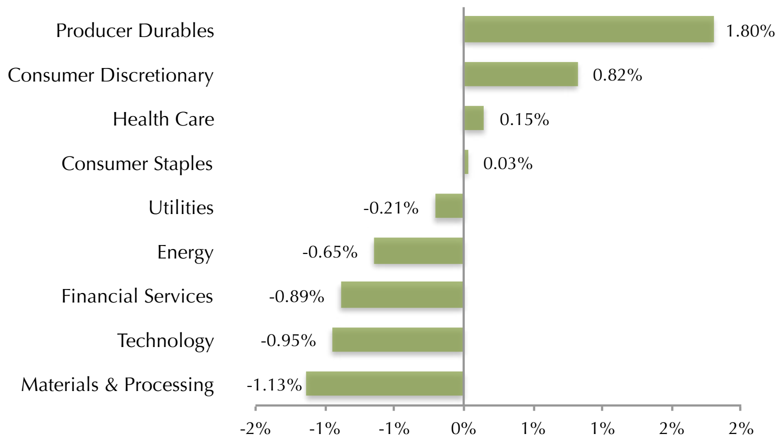
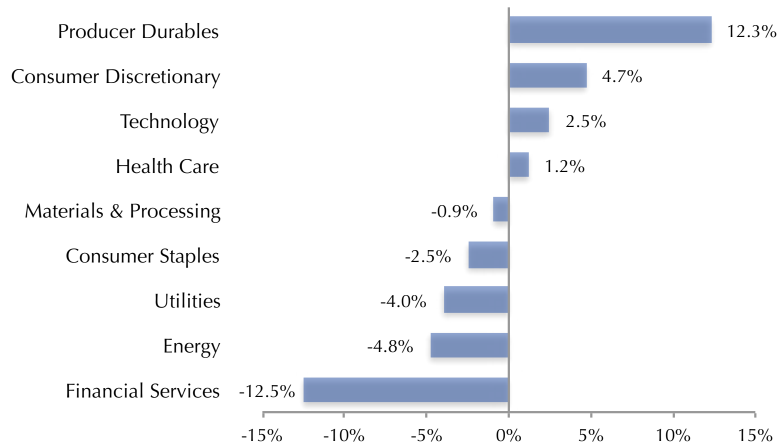
SECTORS OF NOTE

SMID-CAP COMPOSITE COMMENTARY

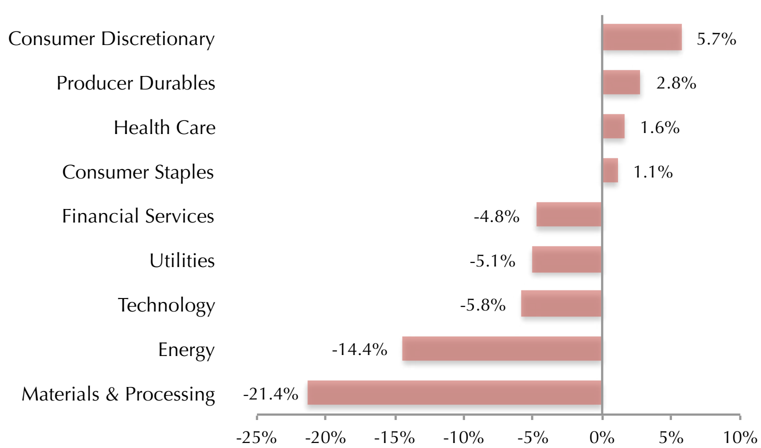
CONTRIBUTION DIFFERENCE DARUMA VS. R2500



DARUMA SECTOR OVER/ UNDERWEIGHT VS. R2500



RETURNS DIFFERENCE DARUMA VS. R2500



Sources: FactSet, Russell Investments & Daruma Capital Management

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DECILE ANALYSIS

SMID-CAP COMPOSITE COMMENTARY

YEAR TO DATE

The “trend is your friend” stocks that performed well at the beginning of the year continued to do so, and those that did poorly just kept on underperforming. The best performers are concentrated in Health Care, Technology, and a medley of Consumer Discretionary stocks. The worst performing stocks were dispersed broadly across sectors. Through the end of September anyway, investors have shunned the “safety” trade (low P/E, dividend yielders, and those stocks with low short-interest). They chased growth and momentum regardless of valuation.

THIRD QUARTER

While the “trend was your friend” year to date, the bonds of friendship started to weaken in the third quarter. Winners and losers continued to ride their respective price momentum waves, but with less oomph, not unlike the ocean nearing neap tide. The smallest of the smid-caps continued to be shunned.

3Q 2018

Decile	1	2	3	4	5	6	7	8	9	10
Market Cap (Largest to Smallest)	11.1%	3.9%	7.0%	6.1%	4.1%	6.2%	1.3%	1.1%	0.8%	-12.6%
P/E Ratio (Lowest to Highest)*	-0.3%	0.5%	6.0%	5.4%	1.8%	6.2%	7.1%	3.2%	5.1%	-1.2%
Dividend Yield (Highest to Lowest)**	-1.3%	0.1%	0.0%	4.0%	4.9%	-	-	-	-	4.3%
Short Interest (Lowest to Highest)	0.0%	2.4%	2.8%	4.0%	2.7%	6.2%	1.7%	3.9%	4.6%	0.7%
Beta (Lowest to Highest)	3.3%	3.4%	1.1%	5.5%	2.1%	1.6%	1.6%	2.4%	3.9%	4.0%
Sales Growth (Best to Worst)	5.4%	6.1%	4.2%	2.4%	3.7%	4.1%	3.1%	-1.3%	-0.7%	0.6%
Analyst Ratings (Best to Worst)	3.8%	4.6%	3.5%	4.2%	5.9%	4.1%	2.9%	0.5%	0.5%	-1.4%
Institutional Ownership (Most to Least)***(*)	5.7%	3.0%	5.2%	3.2%	2.8%	2.1%	3.4%	2.8%	3.2%	-2.5%
% Chg 1H 2018 (Best to Worst)^	7.6%	5.7%	5.3%	1.0%	1.2%	1.4%	2.8%	2.9%	0.5%	-1.1%
% Chg in 2017 (Best to Worst)^^	1.9%	3.4%	6.1%	3.5%	1.7%	2.1%	1.8%	2.2%	1.6%	2.4%

2018 YTD

Decile	1	2	3	4	5	6	7	8	9	10
Market Cap (Largest to Smallest)	25.9%	14.1%	16.2%	24.8%	16.6%	23.6%	11.0%	16.5%	13.9%	-9.4%
P/E Ratio (Lowest to Highest)*	10.3%	7.2%	18.4%	16.7%	11.1%	18.2%	24.5%	17.2%	30.5%	13.2%
Dividend Yield (Highest to Lowest)**	-0.4%	3.5%	4.9%	11.8%	12.3%	-	-	-	-	23.7%
Short Interest (Lowest to Highest)	5.5%	13.1%	10.5%	14.2%	13.7%	16.8%	15.5%	26.7%	27.2%	10.5%
Beta (Lowest to Highest)	14.1%	11.1%	8.2%	17.4%	10.5%	11.0%	10.2%	12.6%	18.0%	43.3%
Sales Growth (Best to Worst)	34.8%	29.3%	15.2%	11.5%	12.7%	10.7%	9.1%	9.2%	2.5%	20.5%
Analyst Ratings (Best to Worst)	24.2%	23.0%	13.2%	23.4%	17.4%	13.0%	11.9%	6.9%	11.5%	6.7%
Institutional Ownership (Most to Least)***(*)	14.7%	11.7%	14.5%	9.8%	15.9%	15.8%	21.7%	26.1%	15.2%	8.6%
% Chg 1H 2018 (Best to Worst)^	110.5%	41.6%	27.1%	14.0%	8.6%	3.9%	0.6%	-4.9%	-15.2%	-32.7%
% Chg in 2017 (Best to Worst)^^	18.9%	19.0%	15.8%	17.4%	7.6%	8.5%	12.0%	7.7%	8.9%	36.2%

Sources: Bloomberg, Russell Investments & Daruma Capital Management

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

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

*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 1H 2018 excludes stocks without complete performance

^^% Change in 2017 excludes stocks without complete performance

Note: Due to Russell Rebalance on 6/22/18 - actual benchmark returns may vary from decile results.

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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 09/30/18 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.

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