Where Every Stock Counts®

THIRD QUARTER 2018

PERFORMANCE COMMENTARY

SMALL-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.

Dear Client and Friends,

Daruma's Small-Cap composite returned 3.95% for the quarter, leading the Russell 2000 (up 3.58%) by 37 basis points. We had an excellent second quarter earnings report card from our companies, and the portfolio remained resilient in a market environment that continued to be roiled by cross-currents. We beat the Index in July, with our performance spread evenly throughout the month. August and September both started out very strong, racking up 200+ bps leads by midmonth, only to fade in the back half of the month. There were no stock specific drivers, rather performance eroded as the market rotated away from our portfolio's sector and factor exposures. The third quarter was quite productive in other ways as well. We have re-underwritten every position in the portfolio, added four new positions and completed the sale of five holdings. While we are pleased to have turned the corner this quarter in terms of our relative performance, it was not enough to overcome our first half performance. Year to date we are up 7.63% vs. 11.51% for the Benchmark, continuing to lag by 388 basis points.

3RD QTR PERFORMANCE

	Contribution (%)
Best	3.78%
Worst	-1.88%
Best Minus Worst	1.90%
Rest of Portfolio	2.05%
Total Daruma	3.95%
Russell 2000	3.58%
Return Difference	0.37%

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

All the best,

Mariko O. Gordon, CFA
Founder & CEO

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.

3RD QUARTER 2018

WINNERS AND LOSERS

SMALL-CAP COMPOSITE COMMENTARY

Top Contributors

Company	Quarter End Position Size	Contribution
Boingo Wireless	3.4%	1.65%
Pacira Pharma	2.5%	1.19%
Planet Fitness	3.9%	0.94%
Total		3.78%

Our best three contributors generated a total of 378 bps, while our worst three detractors cost us a total of 188 bps, for a net contribution of our outliers of 190 bps. The rest of the portfolio generated 205 bps.

Wireless access provider Boingo (WIFI) was up 52% in the quarter, contributing 165 bps. Boingo's stock rose on much better than expected results (22% sales growth), increased guidance, and the acquisition of Elauwit Networks (a provider of high-speed Wi-Fi to the student and multi-family housing market), which further expanded and diversified WIFI's total addressable market. The combination of a robust backlog supporting sales momentum, the company's U.S. only exposure, and the rapidly approaching 5G roll out by major carriers (Wi-Fi is needed for 5G to better penetrate buildings and to provide extra bandwidth in a world of exponential data consumption) all contributed to Boingo's image as a desirable stock with long-lived idiosyncratic drivers.

Specialty pharmaceutical company Pacira (PCRX) stock marched up 53% and contributed 119 bps amid early evidence that the Johnson and Johnson partnership is driving steady and increasing sales growth. This plus an expansion of the total addressable market resulting from FDA approval of Exparel for the nerve block applications drove the stock even higher.

Low-cost exercise chain Planet Fitness (PLNT) rose 23% and contributed 94 bps. Planet continues to 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 growing the chain and continue to chalk up impressive results.

BOINGO WIRELESS
Wireless network provider
+165 bps

PACIRA PHARMACEUTICALS
Non-opioid specialty pharmaceutical
+119 bps

PLANET FITNESS
Budget fitness centers
+94 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.

3RD QUARTER 2018 WINNERS AND LOSERS
SMALL-CAP COMPOSITE COMMENTARY

Top Detractors

Company	Quarter End Position Size	Contribution
FCB Financial	3.0%	-0.66%
Invacare Corporation	2.3%	-0.61%
Select Energy	2.8%	-0.61%
Total		-1.88%

FCB FINANCIAL HOLDINGS
Commercial bank
-66 bps

INVACARE
Medical equipment manufacturer
-61 bps

SELECT ENERGY
Oil services provider
-61 bps

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Our worst three detractors suffered idiosyncratic, stock specific hits that cost us a total of 188 bps. Florida Community Bank (FCB) was down 20% in the quarter, costing us 66 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, as Synovus was deposit heavy but struggled to grow, whereas FCB struggled to attract enough deposits to fund its conservatively underwritten, fast-growing loan book. In addition, 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.

Select Energy (WTTR) provides water and other fracking services to U.S. E&P companies. It was down 18.5% in the quarter, detracting 61 bps. This is a case of throwing out the baby with the “frack” water. Even though oil services stocks were flat (+0.53%) in the quarter, investor sentiment was quite negative for those with exposure to the Permian basin. The Permian is short on take-away capacity, raising transport costs for producers and thus stoking fears that drilling activity will be heavily curtailed and cause price wars among service providers. The lack of take-away capacity is widely acknowledged to be a temporary phenomenon (expected to lift in 2Q 2019), and although WTTR has both blue-chip customers that have committed capacity (and are thus unaffected) and only 35% Permian exposure, the stock was nevertheless swept up in the negative tide of sentiment. With likely upside to consensus expectations due to margin improvement, synergies from its Rockwater acquisition, and investments in production automation paying off next year, we find current valuations attractively low and continue to hold the stock.

Durable medical equipment maker Invacare (IVC) was down 22%, detracting 61 bps in the quarter on a soft earnings report as incremental freight costs at European operations and steel disruptions in Mexico pressured margins. Although the newly expanded respiratory product line of portable oxygen concentrators is quite impressive, the additional marketing spend planned for 2H '18 to heighten consumer awareness is being viewed skeptically by investors. On the positive side, good growth was shown in seating and mobility (high-end, custom wheelchairs) and, now that the consent decree has been lifted, the company is rebuilding share with best-in-class products that leapfrog the competition.

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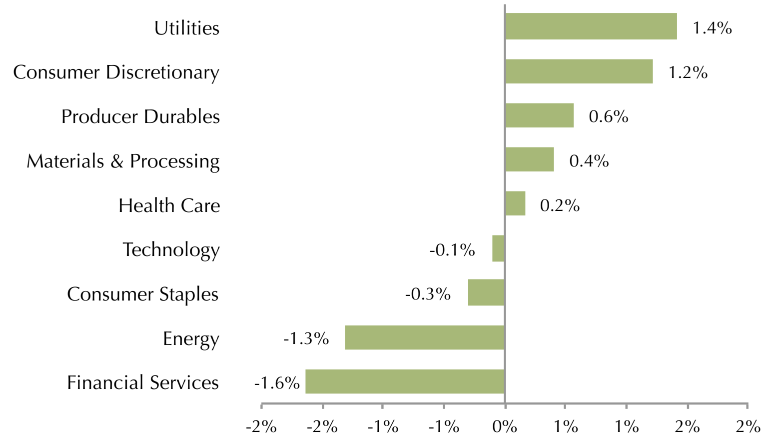
3RD QUARTER 2018

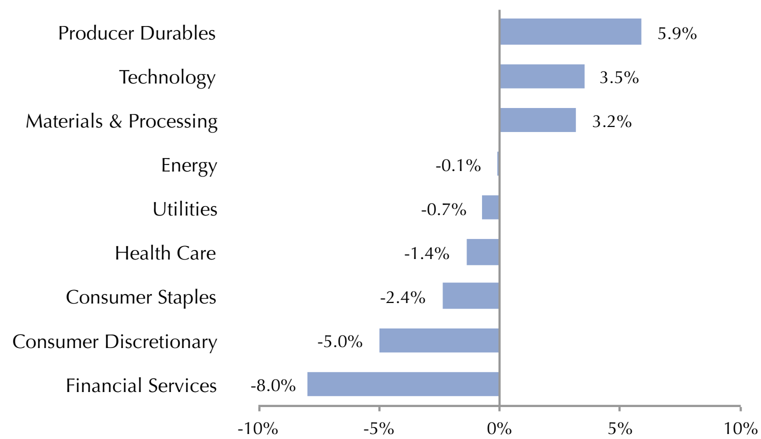
SECTORS OF NOTE

SMALL-CAP COMPOSITE COMMENTARY

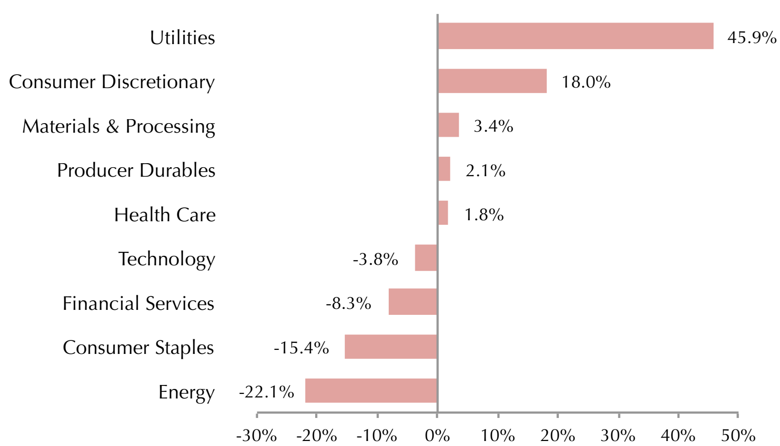
CONTRIBUTION DIFFERENCE DARUMA VS. R2000



DARUMA SECTOR OVER/ UNDERWEIGHT VS. R2000



RETURNS DIFFERENCE DARUMA VS. R2000



Sources: FactSet, Russell Investments & Daruma Capital Management

3RD QUARTER 2018

DECILE ANALYSIS

SMALL-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 small-caps continued to be shunned.

3Q 2018

Deciles	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Market Cap (Largest to Smallest)	11.6%	10.2%	4.4%	2.7%	7.1%	1.5%	0.7%	2.1%	-1.4%	-14.4%
P/E Ratio (Lowest to Highest)*	-0.9%	-1.5%	3.2%	1.6%	4.9%	5.8%	6.1%	4.2%	1.4%	0.0%
Dividend Yield (Highest to Lowest)**	-1.8%	-0.8%	0.5%	2.7%	9.9%	-	-	-	-	3.9%
Short Interest (Lowest to Highest)	-0.5%	2.0%	1.5%	3.8%	3.1%	4.8%	2.1%	2.2%	6.7%	-1.3%
Beta (Lowest to Highest)	3.6%	3.5%	-0.5%	4.9%	1.6%	1.0%	1.3%	1.6%	4.3%	3.3%
Sales Growth (Best to Worst)	3.9%	6.9%	4.3%	1.6%	3.2%	4.2%	1.7%	-2.7%	-1.0%	2.3%
Analyst Ratings (Best to Worst)	3.6%	2.1%	4.3%	3.9%	5.9%	4.5%	1.0%	-0.2%	0.3%	-3.5%
Institutional Ownership (Most to Least)***(*)	5.5%	2.0%	5.1%	2.5%	2.6%	2.8%	2.2%	2.3%	2.4%	-3.2%
% Chg 1H 2018 (Best to Worst)^	7.0%	5.1%	4.9%	0.3%	1.1%	0.1%	2.8%	3.1%	-0.4%	-1.4%
% Chg in 2017 (Best to Worst)^^	0.7%	3.2%	5.1%	3.7%	0.4%	2.0%	0.3%	1.9%	2.3%	2.0%

2018 YTD

Deciles	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Market Cap (Largest to Smallest)	35.9%	32.7%	15.3%	17.4%	25.4%	10.0%	21.2%	10.3%	8.6%	-10.4%
P/E Ratio (Lowest to Highest)*	3.3%	8.6%	18.6%	14.4%	14.4%	26.5%	32.8%	20.5%	16.5%	11.4%
Dividend Yield (Highest to Lowest)**	-0.2%	4.5%	6.5%	14.0%	19.4%	-	-	-	-	24.1%
Short Interest (Lowest to Highest)	5.7%	10.7%	12.3%	16.9%	15.7%	18.0%	17.9%	35.1%	24.7%	9.6%
Beta (Lowest to Highest)	14.4%	14.5%	8.4%	18.7%	10.6%	11.0%	11.4%	16.2%	17.3%	46.4%
Sales Growth (Best to Worst)	34.4%	32.1%	14.5%	13.1%	15.0%	11.9%	10.0%	9.9%	8.3%	11.1%
Analyst Ratings (Best to Worst)	24.7%	19.4%	17.8%	24.4%	20.7%	15.9%	10.7%	7.5%	18.6%	-4.8%
Institutional Ownership (Most to Least)***(*)	14.8%	11.5%	16.9%	14.5%	18.9%	17.3%	28.8%	20.4%	17.7%	6.0%
% Chg 1H 2018 (Best to Worst)^	120.1%	44.2%	28.6%	14.7%	9.6%	3.4%	1.1%	-4.6%	-16.3%	-33.8%
% Chg in 2017 (Best to Worst)^^	18.2%	21.9%	16.9%	19.8%	7.1%	10.6%	10.5%	7.3%	11.1%	41.0%

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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3RD QUARTER 2018
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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/small-cap. These holdings and certain other performance information contained in this presentation supplement the Small-Cap Composite Presentation, which is available on our website at https://www.darumanyc.com/disclosures/equity-composite-presentation-small-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 Small-Cap Equity strategy is the Russell 2000. The Russell 2000 includes approximately 2000 of the smallest U.S. common stocks based on a combination of their market cap and current membership in the Russell 3000. The Russell 2000 Value Index includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values, while the Russell 2000 Growth Index includes those with higher price-to-value ratios and higher forecasted growth values.

The Small-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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