



KEELEY
Funds

First Quarter 2020 Commentary

Small Cap Dividend Value Fund

The performance reflected herein is for the Class A shares without load.

"Without load" does not reflect the deduction of the maximum 4.50% sales fee (load), which reduces the performance quoted. Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current to most recent month-end performance data may be obtained at www.KeeleyFunds.com

This summary represents the views of the portfolio managers as of 3/31/20. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

*The Fund's Inception date is December 1, 2009.

Risks: Smaller and medium-sized company stocks are more volatile and less liquid than larger, more established company securities. Dividend paying investments may not experience the same price appreciation as non-dividend paying investments. Portfolio companies may choose not to pay a dividend or it may be less than anticipated.

Prior to investing, investors should carefully consider the Fund's investment objective, risks, charges and expenses as detailed in the prospectus and summary prospectus. To obtain a prospectus or a summary prospectus, call us at 800.533.5344 or visit www.keeleyfunds.com. The prospectus/summary prospectus should be read carefully before investing.

To Our Shareholders,

For the quarter ended March 31, 2020, the KEELEY Small Cap Dividend Value Fund's net asset value ("NAV") per Class A share fell -35.77% versus an -35.66% decline for the Russell 2000 Value Index.

Commentary

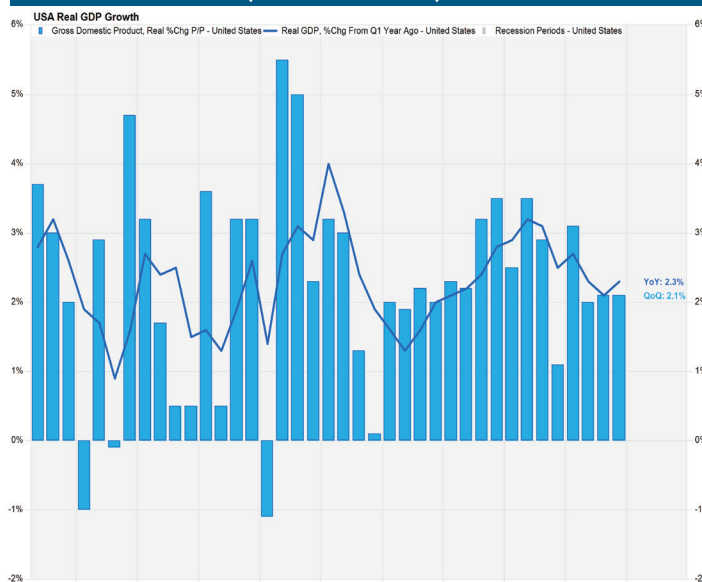
The year started out promisingly with the S&P 500 making new all-time highs in the first quarter. That changed quickly. In fact, the S&P went from a new all-time high to a bear market (down 20%) in a record sixteen days. This is faster than the thirty days it took to enter a bear market in 1929 and the thirty-eight days in 1987. The bear markets that started in 1973, 2000, and 2008 took more than two hundred days to "qualify" as bear markets.

Market Performance

As of March 31, 2020	3 Months	1-Year	3-Year
S&P 500 Index	-19.6%	-7.0%	5.1%
Russell 3000 Value Index	-27.3%	-18.0%	-2.7%
Russell 3000 Index	-20.9%	-9.1%	4.0%
Russell 2500 Value Index	-34.6%	-28.6%	-8.4%
Russell Midcap Value Index	-31.7%	-24.1%	-6.0%
Russell 2000 Index	-30.6%	-24.0%	-4.6%
Russell 2000 Value Index	-35.7%	-29.6%	-9.5%
Bloomberg Barclays Agg. Bond Index	3.1%	8.9%	4.8%

Source: eVestment.

USA Real GDP Growth (Q1 2010 - Q4 2019)



Source: U.S. Bureau of Economic Analysis, Factset.

Unlike some times when we see rapid changes in stock prices, the move largely reflected an equally quick change in the fundamental outlook. Fueling investor panic was the rapid spread in the U.S. of the coronavirus (COVID-19) pandemic, forcing hospital emergency rooms to the brink of capacity. President Trump declared a U.S. National Emergency as the contagion forced a virtual shutdown of the U.S. economy, forcing closure of factories, schools, restaurants, sporting events, hotels, entertainment, and air travel. California and New York, among other states, ordered residents to stay at home except for essential services. The impact has rippled broadly throughout the U.S. economy, disrupting supply chains, shuttering thousands of businesses and leading to a surge in jobless claims.

The most visible consequence has been the nearly 16 million jobs lost in the US in just three weeks, more are likely. For companies in the travel, hospitality, and services industries, business has slowed to a crawl or stopped altogether. Many formerly healthy companies now face serious



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financial distress. This is reflected in lower stock prices and higher corporate bond yield spreads.

The Federal Reserve acted very quickly in cutting rates to zero and has been aggressively supplying liquidity and confidence to sectors of the credit markets as they flared up. One of the problems in the 2008-2009 downturn was that some important credit markets stopped working. While the last several weeks have been bumpy, the markets have mostly functioned.

Though catastrophic, this public health crisis will eventually peak and the U.S. economy and financial markets should rebound sharply given the extraordinary liquidity measures undertaken by the U.S. Federal Reserve and global central banks, along with two trillion in fiscal stimulus appropriated by Congress. The powerful combination of monetary and fiscal accommodation should ensure access to bank lines and credit markets by companies requiring bridge financing, while increasing jobless benefits for unemployed workers. We would expect a sharp contraction in U.S. GDP for the first half of 2020, along with commensurate profit declines for U.S. companies. Assuming a peak in the infection rate in the months ahead, the economy should post a strong recovery in the second half of 2020, discounted in advance by equity markets.

As we look ahead, we see opportunity in stocks, particularly small- and mid-cap stocks. Given the high degree of near-term earnings uncertainty, it is a little difficult to know exactly where valuations are, but if we look out a year or two, stocks look attractive. Given the “shock” element to this downturn, we believe that earnings will recover at a faster pace than after the Global Financial Crisis. Given the indiscriminate sell off in equities, prices of so many excellent small and mid cap stocks have been sold down to decade low valuations. We view this market dislocation as an opportunity to reposition the portfolio for longer-term gains. We have selectively upgraded toward best of breed companies, selling at discounts to our calculation of intrinsic value based on underlying asset values, cash flow, and normalized earnings.

Our diversified portfolio holdings comprise companies with sustainable and recurring business models, strong balance sheets and dominant market positions run by top notch management teams driven to enhance shareholder value. As bottom up, fundamental stock pickers, we continue to search for mispriced business gems selling at substantial discounts to their future prospects.

Just as the virus induced market decline is unprecedented, we view the current investment environment with restrained optimism given the compelling valuations of so many excellent small cap companies. We expect to generate attractive risk adjusted returns over the next market recovery cycle.

Portfolio Results

The Fund's performance in the first quarter was essentially in line with that of its benchmark, the Russell 2000 Value Index. The Fund has generally outperformed the Index in challenging periods. In seven of the quarters when the market declined since the Fund's inception more than ten years ago, the Fund performed at least as well as the Index.

This quarter was different for a couple reasons. First, dividend-paying stocks did not do particularly well in the quarter. While the dividend-paying stocks within the benchmark did a little better than the non-dividend payers, value was a much worse place to be. Second, the Fund held positions in some areas of the market that did particularly poorly.

When we disaggregate performance into the impact of Sector Allocation decisions and Stock Selection choices, we find that Sector Allocation helped, while Stock Selection hurt. Much of the benefit came from the small weighting of cash in the portfolio, and results were also helped by a small underweight in the poor-performing Energy sector



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and a small overweight in the Utility sector. Stock Selection added to performance in four sectors, detracted in six, and was about even in one. The strongest sectors from a relative contribution standpoint were Energy, Health Care, and Industrials, while Communications Services, Consumer Staples, and Real Estate hurt the most.

- The Fund only held two health care stocks during the quarter, Ensign Group and Chemed. Both stocks did much better than the market and the health care sector as a whole, and Chemed was one of the better performing stocks in the Fund with a decline of only 1%.
- In the Industrials sector, the Fund had both stocks that outperformed and lagged, but had more stocks that declined less. Healthcare Services Group, a company that supplies laundry and food services to nursing homes, was particularly noteworthy with only a 1% decline.
- The Communications Services sector detracted most from relative performance. It is a small sector in the small-cap benchmark and the Fund held only two stocks. Unfortunately, both Cinemark Holdings and Nexstar Media were among the Fund's worst performers. While the near-term outlook for both companies is challenging (CNK due to state-ordered theater closures and NXST due to curtailments on advertising spending), both came into this downturn with a lot of liquidity. If the shutdown does not stretch beyond a few months, both companies should recover and their stock prices should rise.
- Consumer Staples is another small sector which detracted from performance. It was expensive before the pandemic and has held up better than others as people spent on food and other household consumables to fill their pantries. The Fund's one holding in the sector, Primo Water, did not really benefit from this trend as investors worried that its water delivery business, which serves offices, would be hurt by shelter in place rules. A recent update from the company suggests it is weathering the storm well.
- The Fund's real estate holdings were hurt by concerns over the health of the companies' tenants as well as the shorter-term nature of a few of the companies' leases. OUTFRONT Media, a leading outdoor advertising company, was one of the Fund's largest detractors. Ryman Hospitality, which owns the Gaylord network of convention hotels, also hurt performance as it saw significant event cancellations as the pandemic spread. Sabra Health Care, an owner of senior housing facilities also contributed to this sectors underperformance.

The Fund was more active than usual during the quarter as it bought three new positions and exited six holdings in addition to a number of adds and trims. The general theme of the activity was to further upgrade the quality of the portfolio by buying some stocks that we had historically viewed as either too large or too expensive. The sales were a combination of completing the sale of companies being acquired or that had grown larger than our market cap ranges (early in the quarter) and selling down or out of stocks that we felt might not have the balance sheet staying power to weather the recession we are entering.

Let's Talk Stocks

The top three contributors in the quarter were:

Virtu Financial (VIRT - \$20.82 – NASDAQ) is a leading electronic market-making firm. It trades thousands of different securities on hundreds of exchanges around the world. Profitability in its business is driven by volumes and bid-ask spreads. When volatility picks up, spreads usually widen and Virtu sees stronger earnings. In late March, Virtu announced that it would have record profits in the first quarter.

First Bancorp (NC) (FBNC - \$23.08 – NASDAQ) is the largest community bank headquartered in North Carolina.

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Although it has less than \$6 billion in assets, consolidation by out of state banks has given FBNC this positioning in an attractive market. The recent plunge in bank stocks has created bargains in the sector. With a strong capital base, excellent funding, and a good track record of managing credit risk, we think FBNC is one of the bargains. The reason it shows up on the contributors list is that we bought the stock late in the quarter.

Chemed Corporation (CHE - \$433.20 - NYSE) is one of the largest providers of Hospice services through its VITAS segment and provides plumbing, drain cleaning, and water restoration services through its Roto-Rooter segment. Chemed has held up relatively well during the market selloff given the durability of its two business segments neither of which is likely to see negative impacts from the COVID-19 pandemic. The hospice segment may see a pickup in admissions as a result of the virus. The balance sheet is in great shape and the company recently authorized a \$250 million stock repurchase program.

The three largest detractors in the quarter were:

Nexstar Media (NXST - \$57.73 - NASDAQ) is one of the largest television broadcasting companies in the US after its recently-closed acquisition of the Tribune television assets, Nexstar was caught in the market downdraft given its exposure to two factors of concern to investors - advertising exposure and leverage. Advertising is considered one of the fastest expenses that companies can cut, however, advertising (ex. political) makes up 40% of NXST's sales with most of its sales growth coming from retransmission fees. About 70% of these fees were renegotiated in 2019 with the remaining 30% driving growth for 2020/21. Also, with the "stay in place" restrictions nationwide, TV advertising is likely to be cut less than other forms of advertising. Political ad spend had been stronger than expected thanks to Michael Bloomberg, but the bulk of the political spend occurs after Labor Day. Regarding leverage, the company closed the Tribune deal with lower than expected debt due to asset sales and refinanced its higher cost, near-term debt such that there are no principal payments due until 2023. With a fairly variable cost structure and cost savings from the Tribune integration, the company should still generate strong free cash flows.

OUTFRONT Media (OUT - \$13.48 - NYSE) is a Real Estate Investment Trust (REIT) that is one of the leading providers of advertising space on out-of-home structures in the form of billboards and transit displays. OUTFRONT entered 2020 with solid underlying momentum after posting a record 2019. This momentum came to an abrupt halt as the virus spread and "stay at home" orders began in some of the largest population centers in the country. This led advertisers on both a local and national level to pull back spending drastically. From a geographic standpoint, New York is OUTFRONT's largest market and was a major source of growth as OUTFRONT upgrades the displays on the NYC transit system. It was not surprising to see management withdraw 2020 guidance as it is unknown how long this pandemic will last. Near-term, the business will be negatively impacted, but the longer-term prospects remain solid with attractive assets in the most desirable locations.

Marriott Vacations Worldwide (VAC - \$55.58 - NYSE) is the second-largest developer, seller, and manager of timeshare resorts. The coronavirus pandemic has caused huge disruptions in the travel and tourism industries and Marriott Vacations has not been spared. Flight cancellations and shelter in place orders have caused people to cancel vacations and disrupted new timeshare sales for Marriott. The lost sales opportunities likely cannot be made up this year. Nevertheless, the fee-based parts of the company's business lend some stability to the financial model and management recently indicated that it expects to be cash-flow neutral this year even if business does not return to normal.

Conclusion

In conclusion, thank you for your investment in the KEELEY Small Cap Dividend Value Fund. We will continue to work hard to justify your confidence and trust.



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The Fund's adviser has contractually agreed to waive a portion of its management fee or reimburse the Fund if total ordinary operating expenses during the current fiscal year as a percentage of the Fund's average net assets exceed 1.29% for Class A Shares and 1.04% for Class I Shares. The waiver excludes expenses related to taxes, interest charges, dividend expenses incurred on securities that a Fund sells short, litigation and other extraordinary expenses, brokerage commissions and other charges relating to the purchase and sale of portfolio securities. The waiver is in effect through February 28, 2021 and neither the Fund's adviser nor the Fund can discontinue the agreement prior to its expiration. **The expense ratios presented herein are for the Class A shares.

AVERAGE ANNUAL TOTAL RETURNS (as of 3/31/2020)

	KSDVX <u>No Load</u>	KSDVX <u>Load</u>	Russell 2000 Value
1 Year	-30.87%	-33.97%	-29.64%
5 Year	-3.86%	-4.74%	-2.43%
10 Year	5.03%	4.55%	4.79%
Since Inception**	6.01%	5.54%	6.35%
Expense Ratio (Gross)**		1.60%	
Waiver/Expense Reimbursement**		-0.16%	
Expense Ratio (Net)**		1.44%	

Stocks of smaller cap companies tend to be more volatile and less liquid than those of large cap companies.

Top Ten Holdings (Percent of Net Assets) March 31, 2020

Name	Weight (%)	Name	Weight (%)
Chemed Corporation	3.57%	South Jersey Industries, Inc.	2.36%
Atlantica Yield plc	3.06%	CenterState Bank Corporation	2.05%
KBR, Inc.	2.80%	OceanFirst Financial Corp.	2.01%
Ensign Group, Inc.	2.48%	Healthcare Services Group, Inc.	1.95%
Primoris Services Corporation	2.46%	Nexstar Media Group, Inc. Class A	1.89%

Performance attribution is commonly used to measure the quality of the separate decisions that go into the management of an investment portfolio compared to a benchmark index. This analysis tries to isolate the effect and measure the return contribution of market allocation, which analyzes the positive/negative impact of a portfolio's allocation to groupings such as geographic regions or market sectors, and stock selection, which analyzes the positive/negative impact of the portfolio manager's security ownership and weighting decisions within a wider grouping. The performance attribution data in this quarterly commentary was prepared by Keeley-Teton Advisors, LLC ("Keeley Teton") using the following constraints: (1) Fund portfolio holdings are as of the beginning of each day; index constituents are as of the end of the day. That means that the Fund's holdings are not included until the day after acquisition (when it is included in the portfolio as of the beginning of the next business day), and a portfolio holding that is sold is included in the analysis through the end of the day on which it is sold, and that the values at which securities are included in the analysis are the values as of the beginning of the day. For the index, securities are included at their values at the end of the day. (2) The securities' values used in the analysis are the prices used by Keeley Teton in its internal records for the Fund and the prices used by the index provider for the benchmark index. If a price from either of those sources is unavailable, pricing information from FactSet is used. Pricing information from the index provider or from FactSet may differ from the pricing information used by Keeley Teton. (3) Sector and/or industry classifications may change over time. The attribution information provided in this commentary includes summaries of attribution by market sector. Attribution is not precise and should be considered to be an approximation of the relative contribution of each of the sectors considered. The information on performance by sector reflects the aggregated gross return of the Fund's securities. Contributions to the Fund's performance by sector (computed as described above) were compared against the contributions to the aggregate return of the stocks comprising the index, by sector, as reported by FactSet Databases. Holdings returns for this commentary are calculated as total returns, which reflect any dividends or income earned during the period.



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Data provided for performance attribution are estimates based on unaudited portfolio results. Performance contributors and detractors were not realized gains or losses for the Fund during the quarter. Market performance presented solely for informational purposes. The S&P 500 Index is designed to act as a barometer for the overall U.S. stock market. The index is unmanaged, consisting of 500 stocks that are chosen on the basis of market size, liquidity, and industry grouping. The S&P 500 is a market value weighted index with each stock's weight in the index proportionate to its market value. The Russell 2000® Value Index is an unmanaged index that measures the performance of the small-cap value segment of the U.S. equity universe and includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Index is an unmanaged index that measures the performance of the smallest 2,000 companies by market capitalization of the Russell 3000® Index. The Russell 2500® Value Index is an unmanaged index that measures the performance of the small to mid-cap value segment of the U.S. equity universe and includes those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2500® Index is an unmanaged index that measures the performance of the 2,500 smallest companies by market capitalization of the Russell 3000® Index. The Russell Midcap® Value Index is an unmanaged index that measures the performance of the mid-cap value segment of the U.S. equity universe and includes those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap® Index is an unmanaged index that measures the performance of the 800 smallest companies by market capitalization of the Russell 1000® Index. The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies by market capitalization of the Russell 3000® Index. The Russell 3000® Value Index is an unmanaged index that measures the performance of the broad value segment of the U.S. equity universe and includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000® Index is an unmanaged index that measures the performance of the 3,000 largest U.S. companies by market capitalization. The Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. The S&P SmallCap 600® measures the small-cap segment of the U.S. equity market and is unmanaged. The index is designed to track companies that meet specific inclusion criteria to confirm that they are liquid and financially viable. The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of mid-sized companies reflecting the distinctive risk and return characteristics of this market segment. These Index figures do not reflect any deduction for fees, expenses or taxes, and are not available for direct investment. Securities in the Fund may not match those in the indexes and performance of the Fund will differ. KEELEY Small-Mid Cap Value Fund, KEELEY Small Cap Dividend Value Fund and KEELEY Mid Cap Dividend Value Fund are distributed by G.distributors, LLC.

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