

SEPTEMBER 30, 2019

Dana Small Cap Equity Fund Market Commentary

Overview

After sprinting ahead in the first half of the year, ongoing trade frictions, political turmoil, monetary policy uncertainty, and slowing global growth weighed on small-cap stocks in Q3. The Russell 2000 Index pulled back -2.40% for the quarter, returning +14.18% for the year, lagging large-cap stocks for both periods. Earnings growth from the second quarter was negative again for small-caps. This reflection of decelerating economic activity prompted a strong rotation into value stocks in September. Although the Russell 2000 Value Index outperformed the Russell 2000 Growth Index for the quarter, the Russell 2000 Growth Index remains ahead year to date. While many market observers are noting September's shift toward value, we await further confirmation that growth's dominance of the market is fading.

The Dana Small Cap Equity Fund Institutional Share Class (the 'Fund') pulled back -3.43% in Q3, slightly lagging the benchmark. The Fed cut interest rates twice during Q3, and this gave support to risk assets, although not enough to overcome weakening earnings trends in the case of small-cap stocks. Investor focus has shifted from corporate and industry fundamentals to macroeconomic trends, particularly the path of interest rates and the potential for more rate cuts by the Fed. The Dana Small Cap Equity Fund remains invested in what we believe to be high-quality stocks with attractive relative valuations compared to peers.

Sector Contributors

HEALTH CARE

The sector fared poorly in the Index, falling -9.6% during Q3, second only to the steep decline in the Index Energy sector (-20.9%); Fund holdings held up better than their Index peers during a sour quarter; Emergent BioSolutions (EBS) survived a weak(ish) quarter that pushed revenue expectations into Q4, but rallied strongly when an anticipated HHS contract came in bigger than street expectations; Tabula Rasa Healthcare (TRHC) reported a strong quarter with EBITDA nearly 2x expected levels as organic revenue growth reaccelerated to 30%; HMS Holdings Corporation (HMSY) reported a strong quarter with margin improvement driving EBITDA growth as tech capex pays off; Horizon Therapeutics (HZNP) reported strong sales growth led by a critical growth asset.

CONSUMER STAPLES

Defensives led the Index for Q3, and both sector holdings outperformed the sector averages; Chefs' Warehouse (CHEF) delivered organic growth and margin improvement; Performance Food Group (PFGC) announced a transformative deal and accretion potential.

INFORMATION TECHNOLOGY

SYNNEX Corporation (SNX) crushed estimates after selling off during August tariff storm on closing large deals; Perficient, Inc. (PRFT) reported double-digit organic revenue growth; Cabot Microelectronics (CCMP) receive a positive initiation in July and reaffirmed guidance for their 4th quarter.



MICHAEL HONKAMP, CFA
Senior Vice President,
Portfolio Manager



DAVID STAMM, CFA
Senior Vice President,
Portfolio Manager



DUANE ROBERTS, CFA
Director of Equities,
Portfolio Manager

Sector Detractors

CONSUMER DISCRETIONARY

Rotation out of strong performers hurt Chegg, Inc.(CHGG) and Fox Factory Holdings (FOXF); CHGG reported a strong quarter and tuck-in acquisition; FOXF had a good quarter but may not have raised guidance enough, and their CFO stepped down; bounce in oversold specialty retailers hurt as fund holding Boot Barn Holdings (BOOT) couldn't participate in that bounce.

INDUSTRIALS

Timken Company (TKR) and Harsco Corporation (HSC) fell on weakness in machinery names; TKR saw accelerating weakness and reported a lower than expected quarter and reduced guidance; all end markets seeing softness and destocking; HSC bought acquisition and divestiture had messy optics for some investors.

“While many market observers are noting September’s shift toward value, we await further confirmation that growth’s dominance of the market is fading.”

Select Additions

COHERUS BIOSCIENCES, INC. (CHRS)

CHRS transitioned to a commercial stage company in January 2019 and the launch of Udenyca has exceeded the most bullish of expectations; launch validates the company’s commercial infrastructure and management; founder/CEO is former AMGN executive; CHRS trades at 10x FY20 EPS and FCF/share; primary near-term risks are drug price regulation, and the Sandoz biosimilar launch; Udenyca market share should ramp along its current trajectory and hits a mid-20% market share in FY20; biosimilars should face fewer headwinds relative to branded drugs; the future is bright, CHRS will launch its Humira biosimilar in July 2023, assuming FDA approval.

CUBIC CORPORATION (CUB)

CUB exists in the aerospace & defense sector as it provides air, ground, and cyber combat training systems used by the U.S. military and its allies; also the leading supplier of fare payment and revenue management systems used in major public transportation systems; has been trading at a historical discount to EBITDA multiples; firm is benefitting from technology upgrades in militaries and metro transportation networks; strong backlog points to further EBITDA upside in coming quarters; company offers strong visibility on sales and earnings as it harvests backlog and wins new business.

CHEGG, INC. (CHGG)

Chegg is a growing provider of electronically delivered education materials with a growing business in online tutoring materials; trailing revenue growth rates over 20% annually, scale is moving margins higher; CHGG continues to grow subscription revenue base; unique opportunity in for-profit small cap education; benefits from disruption trends and positively oriented to political pressures in student education; we continue to reduce exposure in Q3 to tariff and recessionary industries

Select Deletions

TIMKEN COMPANY (TKR)

Company is executing but at a slowing pace as broad softness in various industrial end-markets has led to pressure on near term revenue growth and margins; shares are very attractively

valued at <7x EV/EBITDA, but we expect continued downward pressure on revisions until industrial weakness improves.

URBAN OUTFITTERS, INC. (URBN)

Weak performance in Q4 and Q1 put the firm in the penalty box with investors; exposure to private label apparel manufacturing in China adds more gasoline to the fire despite cheap valuation; company is one of the best in omnichannel and DTC in small cap specialty retail; investor sensitivity to tough comparisons and falling sales and EBIT estimates put us on the sidelines.

MERIT MEDICAL SYSTEMS (MMSI)

Management shocked investors with a disappointing quarter that upended confidence in firm's ability to improve margins; management might have been forgiven if sales exceeded guidance; but a downward revision to earnings as a result of lower realized gross margins increases concern about margin visibility in coming quarters; SG&A expense growth reflects poorly on management execution.

“The Dana Small Cap Equity Fund remains invested in high-quality stocks with attractive relative valuations compared to peers.”

Portfolio

ANNUALIZED RETURNS *as of 9/30/19*

	TICKER	QTD	YTD	1 Year	3 Years	Since Inception
Dana Small Cap Equity Investor	DSCIX	-3.46%	13.85%	-12.18%	4.25%	2.41%
Dana Small Cap Equity Institutional	DSCIX	-3.43%	14.08%	-11.93%	4.54%	2.70%
Russell 2000 Index TR		-2.40%	14.18%	-8.89%	8.23%	8.01%

The gross expense ratio for the institutional class is 1.72%, and for the investor class is 1.97%.

The performance of the Fund quoted is past performance and does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data as of the most recent month may be obtained by calling 1-855-280-9648.

TOP HOLDINGS *as of 9/30/19, subject to change*

CABOT MICROELECTRONICS CORP	2.28%	Information Technology
CORESITE REALTY CORP	2.07%	Real Estate
EASTGROUP PROPERTIES, INC.	2.06%	Real Estate
CHESAPEAKE UTILITIES CORP	2.04%	Utilities
HORIZON THERAPEUTICS	2.03%	Health Care
SOUTHWEST GAS CORP	2.02%	Utilities
CENTERSTATE BANK CORP	2.00%	Financials
BANNER CORPORATION	1.99%	Financials
SYNNEX CORP	1.99%	Information Technology
STAG INDUSTRIAL, INC.	1.97%	Real Estate

9120093-UNI-11/1/2019

There is no guarantee that this, or any, investment strategy will succeed. Mutual funds involve risk, including possible loss of principal. Small cap investing involves greater risk no associated with investing in more established companies, such as greater price volatility, business risk, less liquidity, and increased competitive threat.

Before investing you should carefully consider the investment objectives, risks, charges and expenses of the Dana Funds. This and other important information about the Fund is contained in the prospectus, which can be obtained by visiting www.DanaFunds.com or by calling 855-280-9648. The prospectus should be read carefully before investing. The Dana Funds are distributed by Unified Financial Securities, LLC member FINRA. Dana Investments Advisors is not affiliated with Unified Financial Securities, LLC.