



K E E L E Y
Funds

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 12/31/16. 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 August 15, 2007.**

Risks: Smaller and medium-sized company stocks are more volatile and less liquid than larger, more established company securities.

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.

Small-Mid Cap Value Fund

Fourth Quarter 2016 Commentary

The market entered the final quarter of a bullish 2016 with some trepidation. Stock market implications surrounding the U.S. presidential election and the Federal Reserve's (Fed) interest rate hike raised investor caution. But the uncertainty was quickly dismissed and a risk-on rally ensued post the Trump victory. U.S. equity markets finished the year strong, with the S&P 500 Index gaining 12.0% for the year and 3.8% for the quarter. Small cap stocks were especially strong, and value outperformed growth across all market caps. Among U.S. equities, the Russell 2500 Value Index gained 25.2% for the year, rising 9.3% in the fourth quarter. Midcap value stocks also finished the year in bullish fashion with the Russell Mid Cap Value Index closing the year up 20% and the quarter up 5.5%.

Energy and Financials were particularly strong in the fourth quarter. The Energy sector continued to rebound from last year's plummeting oil prices as crude gained 11.4% in the fourth quarter (up 45% for the year) following OPEC's decision to cut production. The Fed's interest rate hike had a positive effect on Financials this quarter, though rising interest rates may pose challenges for high dividend yielding stocks in Telecom, Utilities, and Consumer Staples sectors. Given the uncertainty surrounding the Affordable Care Act (Obamacare) and potential reforms by the new administration, Health Care stocks struggled in the fourth quarter. In our view, the U.S. economy looks relatively healthy – GDP gained 3.5 percent in the third quarter (its best quarterly change in two years), and the unemployment rate closed 2016 at 4.7%. We are also encouraged by generally positive earnings growth and believe that companies should see positive growth and revenues in 2017.

For the fourth quarter of 2016, the Keeley Small-Mid Cap Value Fund underperformed the Russell 2500 Value Index, gaining 7.75% versus 9.34%. The Utilities sector was the leading contributor this quarter and the Fund benefited from both an overweight position as well as positive stock selection. Given the volatility in Health Care, the Fund's underweight allocation also helped relative performance. Additionally, despite rising interest rates, the Fund benefited from positive stock selection effects in Real Estate, as well as avoiding Telecom.

The majority of the Fund's relative underperformance this quarter was caused by a meaningful underweight in the leading Financials sector as well as a significant overweight in the lagging Consumer Discretionary sector. Additionally, the Fund's performance was hurt by stock selection in Technology and Energy sectors.

The strength in Financials drove positive results this quarter, and the Fund's top performers were all in this sector: Hanmi Financial (HAFC), Voya Financial (VOYA) and UMB Financial Corporation (UMBF). All three companies would be beneficiaries of higher interest rates, a lower corporate tax rate, and less regulation. Hanmi and UMB also will benefit from continued cost cutting/operational improvements to increase their operating efficiency and margins. Although Voya's management claims they have fully hedged their closed block variable annuity book, the perceptible risk declines as rates rise.

The underperforming Consumer Discretionary sector contained the Fund's bottom performer this quarter, PVH Corp. (PVH). The company has continued to beat earnings expectations by virtue of the turnaround in their Calvin Klein business. However, the macroeconomic backdrop of poor sales at apparel retailers and department stores has been too large a headwind.

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Rising interest rates also negatively impacted a number of the Fund's Real Estate Investment Trust (REIT) holdings. Leading detractors in this space included Spirit Realty Capital (SRC) and Iron Mountain, Inc. (IRM).

Over the course of 2016, we noticed a lot of mean reversion tendencies within the Fund. Sectors or stocks that had a rough month or quarter rebounded the following quarter, or vice versa. Similar behavior occurred between growth and value stocks as well as large caps versus small caps. We believe this type of activity is likely to persist in 2017, especially as markets grapple with the uncertainty of a Trump administration. Rising interest rates should benefit Financials, yet Health Care will likely be volatile given the uncertainty surrounding Obamacare. Looking forward, we are excited about the prospects for more corporate changes in the small-mid cap value space.

Though we are disappointed by the Fund's relative underperformance this quarter, we are encouraged by the amount of performance dispersion that took shape. Within the Russell 2500 Value Index, the worst-performing sector was Health Care, declining -4.5%, while the top performing sector was Financials, up 21%. We believe this dispersion is highly advantageous for active stock pickers, particularly when it comes to the inefficiencies in the small and mid cap value segments. In addition, when markets shun or avoid particular stocks due to the lack of readily available information, we believe in our investment process to identify those names that are undergoing some form of transformation. These transformations include ownership changes (spin-offs, divestitures, de-mutualizations), operating changes (new management, cost cutting, M&A) and capital restructurings (emergence from bankruptcy, refinancing, capital reallocation). We also look forward to taking advantage of shifts in the marketplace, including regulatory changes and industry consolidation.

As always, thank you for your support of the Keeley Small-Mid Cap Value Fund.

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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 1.39% for Class A Shares and 1.14% 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 January 31, 2017 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 12/31/2016)

	KSMVX	KSMVX	Russell 2500
	<u>No Load</u>	<u>Load</u>	Value
1 Year	20.64%	15.18%	25.20%
5 Year	13.99%	12.95%	15.04%
Since Inception**	7.28%	6.75%	8.22%
Expense Ratio (Gross)**		1.44%	
Waiver/Expense Reimbursement**		-0.04%	
Expense Ratio (Net)**		1.40%	

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

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 Asset Management Corp. ("KAMCO") 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 KAMCO 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 KAMCO. (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. Prior to September 30, 2016, holdings returns were based upon price percentage change.

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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. 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. The KEELEY All Cap Value Fund, KEELEY Small-Mid Cap Value Fund, KEELEY Small Cap Value Fund, KEELEY Small Cap Dividend Value Fund and KEELEY Mid Cap Dividend Value Fund are distributed by Keeley Investment Corp.

The top ten holdings of KSMVX as of December 31, 2016 include Hanmi Financial Corporation (3.41%), Voya Financial, Inc. (3.29%), Tribune Media Co. (3.07%), UMB Financial Corporation (3.01%), Air Lease Corporation (2.74%), John Bean Technologies Corporation (2.71%), BOK Financial Corporation (2.66%), Allied World Assurance Company Holdings (2.55%), CSRA, Inc. (2.38%), and Energen Corporation (2.34%).

KEELEY Funds

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