KEELEY Funds

Third Quarter 2018 Commentary

Small Cap 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 9/30/18. 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 October 1, 1993.**

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.

To Our Shareholders,

For the quarter ended September 30, 2018, the KEELEY Small Cap Value Fund's net asset value ("NAV") per Class A share declined 0.15% versus a gain of 1.60% for the Russell 2000 Value Index. Year to date, the Fund has appreciated 4.05% versus 7.14% for the Russell 2000 Value Index.

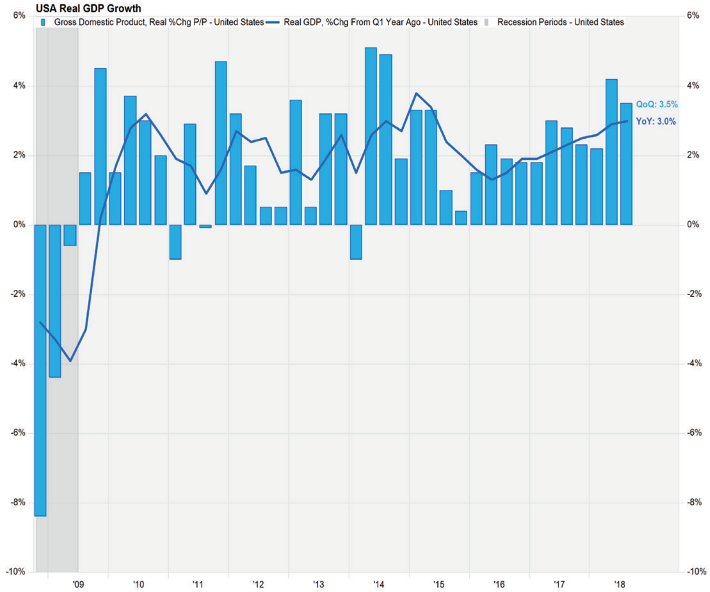
Commentary

As we move towards the end of the calendar year, the economy continues to signal domestic strength. Chief among these positive statistics is the unemployment rate, which has declined to 3.7%, the lowest level since the Vietnam War. Yet, despite tight employment conditions where many companies cite talent acquisition as a strategic concern, hourly earnings growth and inflation remain at modest levels, which we believe supports the case that the economy is not overheating. Corporate tax reform has boosted earnings growth and contributed to a general willingness to increase business investment. Likewise, the ISM Non-Manufacturing Index, which also encompasses orders and business activity, marked the highest expansionary reading since mid-2005.

Market Performance

As of September 30, 2018	3 Months	YTD	1-Year
S&P 500 Index	7.7%	10.6%	17.9%
Russell 3000 Value Index	5.4%	4.2%	9.5%
Russell 3000 Index	7.1%	10.6%	17.6%
Russell 2500 Value Index	2.7%	5.7%	10.2%
Russell Midcap Value Index	3.3%	3.1%	8.8%
Russell 2000 Index	3.6%	11.5%	15.2%
Russell 2000 Value Index	1.6%	7.1%	9.3%
Bloomberg Barclays Agg. Bond Index	0.0%	-1.6%	-1.2%

USA Real GDP Growth (Q4 2008 - Q3 2018)



Source: U.S. Bureau of Economic Analysis, Factset. Grey represents recession periods.

Stock indices, however, ended the quarter on the retreat after marking all-time highs earlier this summer. The impact was far more pronounced for small capitalization stocks. Reflecting to the start of the year, the Trump Administration's opening of a two-front trade war—in China and North America—prompted investors to reallocate towards domestically-focused small caps, which are perceived to be more insulated from such matters. We were supportive of the insulation thesis and felt it provided a reason to remain bullish. Yet in the final days of the quarter, the Trump Administration rather quickly resolved the war on one front as NAFTA was restyled the US-Mexico-Canada

Agreement (USMCA). Largely perceived by investors and companies as having "dodged a bullet", the new agreement should allow for minimal disruption to existing supply chains and provide reasonable protections, rather than the punitive repudiations implied by earlier rhetoric. With this achievement, and its contemplation as a template for China, small caps lost their perceived competitive advantage over their larger, global brethren. We do remain concerned about the prickly sparring with China, predominantly over trade issues, recognizing both the exposure of technology supply chains and the threat to US consumers through higher price levels. We continue to proactively anticipate potential exposure among our holdings.

A few companies have already preannounced lower than expected results for the third quarter citing slower sales into China, tougher restrictions at Chinese customs, and higher raw material costs. With the US economy continuing to perform well and the Fed maintaining its rate hike path, investors have begun to question, "Can it get any better?" as sales growth slows, and margins become squeezed by higher input costs (tariff impact on materials, oil as well as labor). The upcoming mid-term elections also add to this uncertainty, thus extending the environment where valuation metrics have been less relevant, with growth/momentum factors outperforming value. On this point, the performance between the lowest and highest P/E stocks is the widest it has been since 1999.

In the third quarter, sector allocation was a positive benefit to the Fund's performance due to our overweight position in the stronger performing Industrials and Consumer Discretionary sectors while being underweight weaker performing sectors such as Consumer Staples, Energy and Financials. Strong stock selection within Industrials was driven by rebounds at John Bean Technologies and ABM Industries, both of which posted strong second quarter results proving issues perceived as weakness in the first quarter were temporary, as well as continued solid performance from ITT and KBR. Our real estate stocks also continued to post positive contribution after a very strong second quarter. Healthcare REITS, Sabra and CareTrust, benefitted from strong execution after repositioning their property portfolios while Seritage refinanced its debt and fully funded its current development plans. ATI Technologies led performance within Materials as the company is seeing an increasing mix to the higher growth, higher margin aerospace end market while driving its more commodity flat rolled business towards $100mm in EBITDA.

Unfortunately, the macro uncertainties of trade, tight labor markets and rising interest rates impacted stock selection within the Consumer Discretionary, Financials and Healthcare sectors. Trade issues have slowed auto sales in China leading to weakness in Visteon and Modine while Varex has experienced delays in orders from Chinese medical imaging customers for its CT scanner engines. Concerns over tighter labor led to margin pressure at restaurants, hurting Del Taco and Denny's. And fears of higher rates, despite a flattening yield curve, has punished homebuilder TriPointe Group along with bank stocks. Lastly, within Technology, missteps in the integration of an acquisition by Diebold and Extreme Networks led to underperformance.

As we look to the end of 2018 and beyond, we do not think that the recent weakness is the start of a larger decline. That is not to say that a correction may not occur. We simply don't perceive the conditions that would lead to a 40-50% drop like we saw in the 2000-2003 and 2008-2009 time periods. Our outlook remains balanced. On the positive side the economy appears to be on solid footing, and this should benefit corporate earnings. On the political side, while there is a lot of noise, the Trump Administration appears to be making some progress on trade and security. On the negative side, some of that progress seems to come in "a one step back and two steps forward" manner. Other concerns include the remarkably easy credit market conditions, the likely impact of higher rates on US government budget deficits, and what we see as slightly elevated valuations for stocks.

Small Cap Value Fund

Let's Talk Stocks

The top three contributors in the quarter were:

John Bean Technologies Corporation (JBT - $119.30 - NYSE) is a technology solutions provider to food, beverage and air transportation industries. Its largest division, FoodTech, designs, manufactures, and services food processing systems for the preparation of meat, seafood and poultry products, ready-to-eat meals, packaged foods, juice, dairy, fruit and vegetable products. AeroTech supplies gate and ground equipment solutions to airlines, airports, the military and defense contractors. The company, which has been successfully consolidating the highly fragmented food prep industry, stumbled, posting first quarter results lower than expected due to higher installation costs, weaker product mix and operational inefficiencies at some locations. The company addressed the installation issues and announced a new restructuring program to improve margins by 200 basis points by the end of 2019. Strong second quarter results proved that first quarter issues were temporary as the stock regained all that was lost in the previous quarter. We believe that the company is well positioned to be a major beneficiary of rising global middle-class demand for safer foods.

KBR, Inc. (KBR - $21.13 - NYSE) has been transforming its business mix over the past few years by acquiring more stable Government Services businesses to offset its lumpier, legacy Engineering & Construction (E&C) business. The company reported solid 2Q18 results and increased its full year 2018 EPS forecast, also making several positive announcements demonstrating a return to growth in the E&C business. The company's Hydrocarbon Services segment won a contract to construct a methanol plant in Louisiana, and it also announced an agreement with Conoco Phillips to jointly develop low to mid-scale liquid natural gas (LNG) solutions. Investors appear optimistic regarding several potential awards for both businesses that will be announced over the next few months.

ITT, Inc. (ITT - $61.26 - NYSE) is a leading manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation and industrial markets.
The company announced strong 2Q18 results, as its Industrial Process segment has seen an inflection in orders for its pump business. CEO, Denise Ramos who has received mixed reviews from analysts, announced she will be stepping down at the end of the year. Her replacement, Luca Savi, the company's current Chief Operating Officer, has a proven background having turned around the operations at the company's two largest segments.

The three largest detractors in the quarter were:

Extreme Networks, Inc. (EXTR - $5.48 – NASDAQ) provides network equipment for wireless and wireline networks. The company has grown revenues by more than fifty percent following two fortuitous acquisitions: the networking assets from Avaya out of bankruptcy proceedings and Brocade IP Networking, disgorged from the larger Avago/Broadcom acquisition. Yet shareholders and analysts became frustrated as management's forecasting ability proved to be sloppier than that to which investors had grown accustomed. In response, we collapsed our downside price targets as the company attempted to right size businesses at both divisions. While we believe the acquisitions—acquired at very modest valuations—have strengthened the firm, propelling it into a larger customer set with much greater scale as a clear number three in the industry, we ultimately sold our position on the perception that the stock will remain in the "penalty box" until management regains investor confidence.

Visteon Corporation (VC - $92.90 - NASDAQ) designs, engineers and manufactures one of the broadest automotive cockpit electronics portfolios and is at the epicenter of the connected car revolution. Key products include instrument clusters, infotainment systems as well as autonomous driving systems. The company reported second quarter results that were below analyst expectations and lowered its forecast for the full year due to lower North American production plus a temporary slowdown in Europe which is currently undergoing a change in emissions standards testing. This coupled with negative sentiment toward auto stocks in general, amid trade war fears impacting China volumes has led to further stock price weakness. However, we believe that results should improve once the company starts delivering on its high margin backlog of business it has won over the last few years. The company has also been aggressive at buying back shares, recently completing a $400 million buyback program, and announcing a new Board authorized $500 million buyback program.

Del Taco Restaurants, Inc. (TACO - $11.81 - NASDAQ) develops, franchises, owns, and operates Del Taco quick-service Mexican-American restaurants. The stock has been under pressure as investor concern has been focused on labor cost inflation, especially in their California dominated company store base. A second concern has been the negative traffic at company owned stores, which is believed to be a result of a high level of discounting by larger quick serve (QSR) players. Further, delivery has been a strong growth driver for many of their peers and TACO will not have full delivery available to its California store base until late 2018. We expect this will aid traffic going forward, and we continue to believe the company is well positioned with its unique "fresh" menu offerings and has ample growth opportunities outside its core West Coast roots.

Conclusion

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

KEELEY Funds

Small Cap Value Fund

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 February 28, 2020 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 9/30/2018)

	KSCVX No Load	KSCVX Load	Russell 2000 Value
1 Year	5.29%	0.54%	9.33%
5 Year	4.39%	3.44%	9.91%
10 Year	6.28%	5.79%	9.52%
Since Inception**	10.67%	10.47%	10.21%

Expense Ratio (Gross)**	1.43%
Waiver/Expense Reimbursement**	-0.03%
Expense Ratio (Net)**	1.40%

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)
September 30, 2018

Name	Weight (%)	Name	Weight (%)
Air Lease Corporation Class A	3.45%	ITT, Inc.	2.70%
Nexstar Media Group, Inc. Class A	3.42%	KBR, Inc.	2.69%
John Bean Technologies Corporation	2.97%	Bank of N.T. Butterfield & Son Limited (The)	2.58%
BOK Financial Corporation	2.75%	Kennedy-Wilson Holdings, Inc.	2.32%
Opus Bank	2.72%	Sabra Health Care REIT, Inc.	2.31%

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.

Small Cap Value Fund

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Keeley Teton. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages

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. 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 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 G.distributors, LLC.

KEELEY Funds
Direct Shareholders: 800-422-2274
Investment Professionals: 800-422-2274
National Accounts: 800-533-5344
info@keeleyfunds.com

Distributed By:
G.distributors LLC
Member FINRA
800-422-2274