KEELEY Funds

Third Quarter 2018 Commentary

Small Cap Dividend Value Fund

To Our Shareholders,

For the quarter ended September 30, 2018, the KEELEY Small Cap Dividend Value Fund's net asset value ("NAV") per Class A share fell 1.48% versus an 1.60% gain for the Russell 2000 Value Index. For the year-to-date period, the Fund is up 2.53% compared with a 7.14% rise in the benchmark.

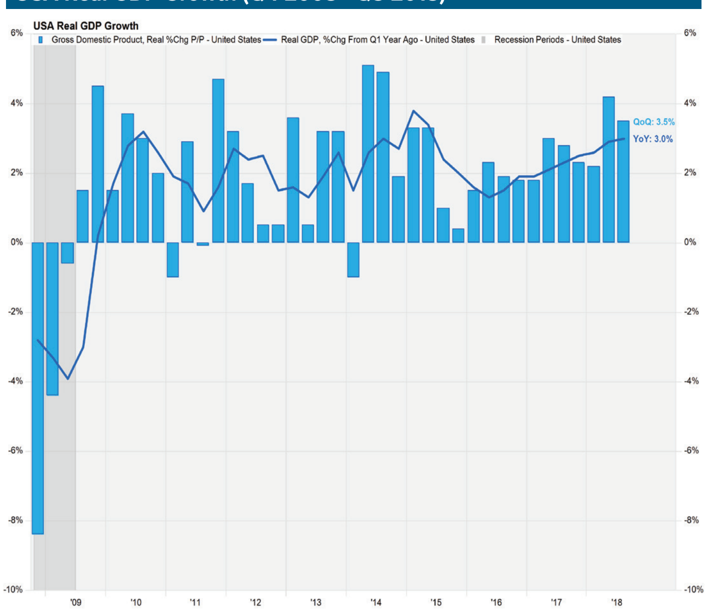
Commentary

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 back 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 trade war on one front as NAFTA

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 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.

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 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.

The third quarter of 2018 was one of the Fund's most difficult quarters on a relative basis since its inception nine years ago, as the lower beta, dividend-paying stocks, which are favored by the Fund, lagged their opposites by significant amounts during this period. According to analysts at Jefferies, non-dividend-paying stocks in the Russell 2000 Value index increased 3.55% while high yielding stocks were up 0.27% and low yielders were up 0.86%. As has been the case for much of the year, larger cap stocks outperformed small caps; the Russell 1000 Index gained 7.4% while the Russell 2000 Index advanced 3.6%. In addition, the Russell 2000 Growth Index continued to outpace the Russell 2000 Value Index, 5.5% vs. 1.6%. These trends continued those we have seen most of this year except for the brief pullback in late January and early February.

While the backdrop of the market challenged the Fund, we also had some setbacks in particular stocks. One of the ways we discuss performance is to disaggregate it into the impact from sector allocation and stock selection decisions. As we have pointed out in the past, stock selection typically drives most of the Fund's relative performance. This quarter was no exception as sector allocation was a slight positive, but stock selection had a negative impact. The sector allocation impact primarily came from the new Communications Services sector. This sector used to be within the Consumer Discretionary and Technology sectors and mostly includes Media, Internet, and Telecommunications companies. The Fund's holdings were centered on Media companies and were overweight against the Russell 2000 Value Index in this new sector, as we have favored these types of names in the Fund's historical allocation to the previously more broad Consumer Discretionary and Technology sectors.

The Fund's negative impact from stock selection arose mostly from two sectors Consumer Discretionary and Financials, with smaller negative relative contributions from Industrials and Technology.

The Financials sector is more than twice as large as any other sector within the Russell 2000 Value Index, so small variances in portfolio decision-making can still cause it to be one of the most impactful sectors from a performance perspective. That said, the Fund held a handful of stocks that were down double-digit percentages during the quarter. While we think the decline in most of these stocks is temporary, the Fund exited its position in Brightsphere Investment Group after it reported disappointing flow trends in its second quarter results.

The weakness in results within the Consumer Discretionary sector arose mostly from two stocks, Winnebago Industries and Hamilton Beach Brands, which we discuss later in this report.

The Fund's performance in the Industrials sector was mixed, but on balance unfavorable for the quarter as earnings shortfalls and/or disappointing guidance from Deluxe Corporation, Matthews International, and Astec Industries weighed on the Fund's results.

The Fund's biggest contributor and biggest detractor both came from the Technology sector as Hackett rose sharply and Plantronics fell. We discuss both stocks below.

The market has sold off sharply since the end of the quarter and we are writing this update as stocks have traded down for a few days in a row. It is our expectation that the Fund's strategy of holding dividend-paying small cap stocks is designed to provide better downside protection, and it has done so in most negative quarters since inception. We believe the Fund will continue to deliver accordingly over the long-term.

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 do not perceive conditions that would lead to a 40%-50% drop like investors 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 seems to be a lot of noise, the Trump Administration appears to be making some progress on trade and on 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.

Let's Talk Stocks

The top three contributors in the quarter were:

Hackett Group (HCKT - $19.85 – NASDAQ) is a consulting firm that serves large global clients and specializes in benchmarking and implementing best practices. As these technology applications have moved to the cloud, Hackett has retooled its business to serve client initiatives in this area. This transformation created some disruption and caused some disappointment in 2017, but now appears to be gaining traction in revenues and earnings. A solid second quarter provided some evidence of this and drove shares higher.

Berry Petroleum (BRY - $14.96 - NASDAQ) is an independent oil exploration and production company. This is the Fund's second time around with Berry as it held the stock prior to the company's acquisition by Linn Energy in 2013. Linn was a casualty of the decline in oil prices in 2014, and Berry's assets ended up in the hands of Linn's creditors. We participated in the company's recent initial public offering, which marked its return to the public equity markets, because we believed the shares were undervalued. With a new management team, solid hedging program, and low leverage, we believe that Berry is positioned to deliver good results. At the same time, the offering was not well received. We believe that investors did not appreciate the consistency of Berry's business and were overly concerned about the stock overhang from its current shareholders. This may have created an opportunity that contributed early yet remains interesting.

KBR Inc. (KBR - $18.39 – NYSE) is a leading industrial services company that, through a series of acquisitions, has transformed its business from providing engineering and construction services to global energy producers to having a balanced revenue mix between those services and providing operational support services to US government clients. A combination of factors contributed to gains in the quarter. These included a rebound from weakness earlier in the year, solid second quarter earnings results, and several large new contract wins.

The three largest detractors in the quarter were:

Plantronics Inc. (PLT - $57.00 – NYSE) is the leading maker of headsets for business telephony and computing applications. During the quarter, it completed its acquisition of Polycom, the leading provider of videoconferencing systems. The announcement of the deal drove the stock higher in the first half of the year, but the shares gave back some ground during the third quarter. We believe this was mostly driven by concerns about the leverage Plantronics is taking on in the deal. With the anticipated earnings accretion, we do not think the incremental debt will be a burden.

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Hamilton Beach Brands (HBB - $18.50 – NYSE) designs, manufactures, and sells small kitchen appliances, along with operating a small chain of retail kitchen supplies stores. It appears that the stock came under pressure due to some profit-taking after strength in the second quarter. In addition, reported results were negatively impacted by higher expenses that reduced margins and by the continued under-performance at its kitchen supply retail segment. The "core" Hamilton Beach business was strong and posted nice top-line growth. We believe that the outlook remains favorable and the elevated expenses should start to abate.

Winnebago Industries (WGO - $26.92 - NYSE) is a leading manufacturer of motorized and towable recreational vehicles (motorhomes, travel trailers, and fifth wheels). The stock has come under pressure on concerns of a peak in the RV cycle and inflationary impacts from steel and aluminum tariffs. In certain parts of the country, dealer inventories looked higher than anticipated due to a late start in the selling season because of a late spring. Winnebago, however, continues to buck the trend by posting solid results as the company gains market share in the towable segment. The overall outlook remains favorable with added excitement from the recent acquisition of iconic boat manufacturer Chris-Craft.

Conclusion

In conclusion, thank you for investing alongside us 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, 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)

	KSDVX No Load	KSDVX Load	Russell 2000 Value
1 Year	5.44%	0.69%	9.33%
5 Year	8.32%	7.32%	9.91%
Since Inception**	12.62%	12.03%	12.84%

Expense Ratio (Gross)**	1.61%
Waiver/Expense Reimbursement**	-0.20%
Expense Ratio (Net)**	1.41%

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 (%)
Ensign Group, Inc.	2.49%	Nexstar Media Group, Inc. Class A	2.08%
Chemed Corporation	2.23%	Hackett Group, Inc.	2.02%
Wintrust Financial Corporation	2.16%	Mercer International Inc.	2.02%
BancorpSouth Bank	2.16%	Sabra Health Care REIT, Inc.	1.99%
KBR, Inc.	2.09%	Cypress Semiconductor Corporation	1.96%

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 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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