KEELEY
Funds

Fourth Quarter 2018 Commentary

Small Mid 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 12/31/18. 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 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.

To Our Shareholders,

For the quarter ended December 31, 2018, the KEELEY Small-Mid Cap Value Fund's net asset value ("NAV") per Class A share declined -20.15% versus a loss of -17.12% for the Russell 2500 Value Index. For 2018, the Fund declined -17.83% versus a decline of 12.36% for the Russell 2500 Value Index.

Commentary

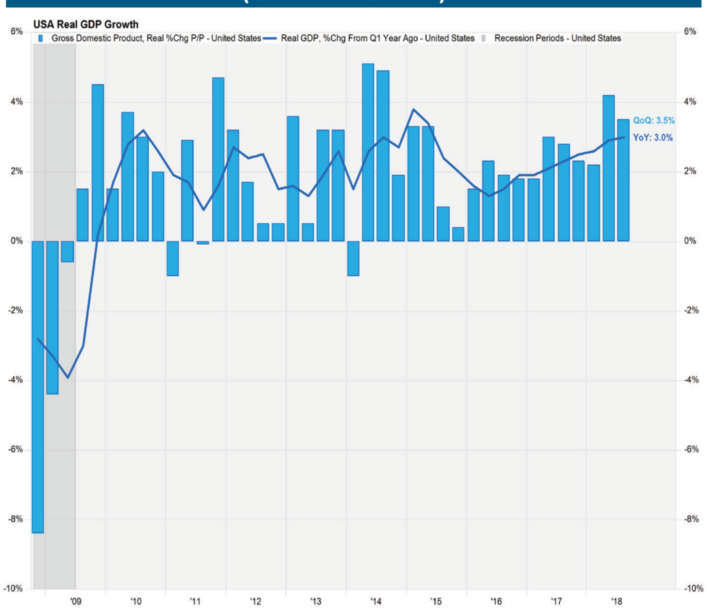
Crisis of Confidence. What began as a year with a strong note of optimism post tax reform passage, less regulation and synchronized global growth, violently reversed to close out with doubt and concern. The sharp market decline in the fourth quarter can be explained by two primary factors: U.S. Federal Reserve monetary tightening and fears over a trade war with China. These two factors have resulted in slowing global growth, collapsing oil prices, and companies re-evaluating capital spending plans. We do not believe such extreme investor pessimism is warranted, yet the fear factor of the Fed or trade wars pushing the economy into recession led to significant fund industry outflows in December. Although the International Monetary Fund (IMF) recently lowered its forecast for global growth to 3.5% for 2019 and several major banks have downgraded their 2019 forecast in recent months, none are predicting a global recession is on the horizon. The dramatic stock market weakness in the fourth quarter has created the perception of a more serious economic downturn than economic indicators are showing. Unless the Federal Reserve makes a serious policy mistake leading to a credit crisis and the Trump Administration cannot settle the trade issue with China, a recession scenario in the near-term is unlikely.

Market Performance

As of December 31, 2018	3 Months	1-Year	3-Years
S&P 500 Index	-13.5%	-4.4%	9.3%
Russell 3000 Value Index	-12.2%	-8.6%	7.0%
Russell 3000 Index	-14.3%	-5.2%	9.0%
Russell 2500 Value Index	-17.1%	-12.4%	6.6%
Russell Midcap Value Index	-15.0%	-12.3%	6.1%
Russell 2000 Index	-20.2%	-11.0%	7.4%
Russell 2000 Value Index	-18.7%	-12.9%	7.4%
Bloomberg Barclays Agg. Bond Index	1.6%	0.0%	2.1%

Source: eVestment.

USA Real GDP Growth (Q4 2008 - Q3 2018)



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

Coincident with the publication of the "List 3" tariff goods, made effective on September 24, domestic companies which reported underwhelming third quarter earnings often linked that performance to pockets of weakness within sectors exposed to trade, specifically China, starting a broader move downward among stocks. As these tariff rates were slated to double with the start of the New Year, headline relief came early in December with a cooling of political rhetoric towards China and an agreement between the two heads of state to postpone the next level of tariff increases for three months while negotiations took place. It is possible that the U.S. and China will soon reach a trade agreement, as evidenced by China's conciliatory gestures such as resuming its purchase of American soybeans, lowering duties on U.S.-made cars, and announcing it was cutting tariffs on 700 items to boost imports by $30 trillion. Trade talks between mid-level representatives for China and the US went smoothly in early January, the first discussions since President Trump declared the 90-day truce with the next round to be held at the end of January in Washington.

Along with trade disputes, which disrupt the flow of goods and raise costs within the economy, the second dominant focus of investors has been the Fed's tightening of monetary policy. In a rare display of political pressure against the Fed's independence, President Trump challenged the policy of continued rate hikes and, in doing so, heightened market expectations of a firmly dovish shift by the Fed. In the last meeting of the calendar year, the Fed raised rates once more and provided a generally dovish message about the path of future increases, while lowering the inflation outlook. Fed Chairman Powell pointed to generally strong economic conditions, but markets traded down further on the narrative that a more accommodating stance had been wanted. In doing so, the continuing positive read on the domestic economy is being overlooked. The U.S. unemployment rate, at 3.7%, is near a record 50-year low, with wages rising about 3.1%, while core inflation is 2.2%. The Fed is tightening, but, adjusted for inflation, the real Fed Funds rate is only about 25 basis points. Prior to the start of the last eight recessions, going back to 1960, the real Fed Funds rate was no less than 2 percent. The Fed has a long way to go before it truncates economic growth. At its December meeting, the Fed lowered rate increase expectations to two in 2019, delaying both towards the latter part of the year. This also allows for incoming data to potentially justify delaying such increases.

Within a quarter that saw our benchmark index move from a correction (down ten percent) to bear market territory (down twenty percent since the summer highs), the portfolio lagged. Despite strong stock selection in Utilities, Energy and Healthcare, execution and perception issues at several companies within Financials, Industrials, Real Estate and Consumer Staples detracted. NRG Energy continued to accrete value through its restructuring program (more detail below) while American Waterworks and Evergy's consistent performance in a volatile market led to outperformance within Utilities. Positive stock selection in Energy and Healthcare, the two worst performing sectors, also contributed. Missing expectations impacted us in Financials as Bank of the Butterfield came in with a lower deposit base, PacWest had a lower than expected net interest margin and lower fee income, and Synovus announced it would acquire FCB Financial when many investors felt Synovus itself was going to be sold. The Industrial space was impacted as John Bean Technologies saw food technology orders being pushed out and our two aircraft lessors, AirLease and AerCap, suffered from the misperception that the China trade war would hurt their business. Similarly, our Real Estate holdings, Sabra, Howard Hughes and Ryman Hospitality were impacted from fears of the Fed's actions lowering valuations. Lastly, after posting a better than expected third quarter, Spectrum Brands missed their fourth quarter and lowered guidance as it needs to reinvest for growth. The company sold their battery business to Energizer and instead of selling its appliance business which was being shopped, opted to sell their Global AutoCare business also to Energizer reducing leverage and opening the possibility of a large stock buyback.

While market participants are now regularly considering worst-possible outcomes, we believe that some of this recent narrative was negatively reinforced by temporary factors: tax-loss selling after a long bull run, hedge fund liquidations, high-frequency trading and indiscriminate selling by passive vehicles (take, for example, the $22 billion XLF Financial Select Sector SPDR ETF, which registered near record outflows, according to Bloomberg, on par with those leading into the much more ominous financial collapse in 2008). The volatility from the selloff led to little differentiation amongst equities and often, the small cap, less liquid names suffer disproportionately creating great values for the patient investor Likewise, broad market valuations have contracted towards five-year lows with the S&P 500 forward price to earnings ratio (P/E) under 15x, a level not seen since 2013, which contrasts sharply from the 20x P/E at the start of 2018. Within this context, we see opportunity to establish new positions in companies—those with management teams with proven track records of improving their businesses or possessing 'hidden' assets. Many excellent small cap companies are now selling at decade low valuations and we are selectively screening for bargains. Though the market can create short term perturbations within the portfolio, our focus is set towards longer term opportunity. Investors must remind themselves that stocks represent real ownership in companies and holding companies that are increasing their quality over time, will deliver satisfactory returns. We believe our experience of operating within similar environments will again prove rewarding. Given the way 2018 has closed, with sharp market moves amidst rapid news headlines, we do not expect the coming year to be an easy one. But we are optimistic about the potential opportunity and we value the trust which you have placed in us as investment managers.

Let's Talk Stocks

The top three contributors in the quarter were:

NRG Energy, Inc. (NRG - $39.60 – NYSE) is an independent producer of electricity and a seller of retail energy in deregulated markets. The company continues to benefit from the restructuring plan which started over a year ago, reshaping the company for better visibility, more stable earnings and higher cashflow. This included selling off non-core assets to reduce debt, simplifying its capital structure with the sale of its ownership in NRG Yield, and other operational improvements to enhance margins. Management has successfully executed this plan, producing significant cash that is now being redeployed through accelerated share repurchases.

Denny's Corporation (DENN - $16.21 – NASDAQ) owns and operates the Denny's restaurant brand. The company reported a solid quarter with a positive 1% growth in system wide sales despite a tough fourth quarter for most restaurant stocks. The more exciting news, which led to a one day 20% share price increase, was that the company announced plans to move to a 95% franchised model, up from 90% currently. It will use the proceeds from selling these company owned restaurants to franchisees to buy back stock. We are pleased the market has rewarded them with a higher multiple for further de-risking their business and becoming a more asset light model. We applaud the announcement, as moving to a more franchised model has been a very successful investment theme for the Fund over the years.

Lamb Weston Holdings, Inc. (LW- $73.56 – NYSE) is one of the largest producers of frozen potato food products (French fries and other starchy goodness). Through both solid demand, particularly from North American quick-service restaurants (QSRs), and steady price increases, Lamb Weston has continued to exceed consensus expectations since its spin-off from ConAgra Foods, and the company did so again at the start of the fourth quarter. Despite the market downturn later in the fourth quarter, Lamb Weston shares held up nicely, driven by investors' belief that the underlying dynamics facing the company remain favorable. In addition, some U.S. QSRs, like McDonald's reported good earnings and impressive same-store sales numbers during the quarter.

The three largest detractors in the quarter were:

Air Lease Corporation (AL - $30.21 – NYSE) is one of the leading aircraft leasing companies purchasing new commercial aircraft directly from manufacturers and leasing those aircraft to airlines worldwide at attractive returns on equity. The stock has acted poorly during the quarter due to investor concerns regarding the impact of higher interest rates on the company's leasing spreads as well as their higher exposure to emerging markets. The long lead times in ordering commercial aircraft offset these issues as AL does not lock in the lease rate until the plane is delivered. Also, it is very easy to place planes from order termination or early lease termination given the high demand. A few emerging market airlines filed for bankruptcy recently and the aircraft lessors easily re-leased these aircraft within thirty days given the increasing demand for air travel from the growing middle class.

Parsley Energy, Inc. (PE - $15.98 – NYSE) is an oil and natural gas exploration and production company operating in the Permian Basin in Texas. PE declined during the quarter mostly in-line with the steep drop in WTI oil prices since the start of November along with concerns about Permian basin midstream takeaway capacity. The company has been increasingly focused on operating and growing within cashflow at these lower oil price levels. In the fourth quarter, management announced it would drop two rigs immediately and set the 2019 capex budget 21% below street estimates in an effort to limit its outspend of cash flow in 2019 to under $250mm at $50 per barrel WTI oil. This was a welcome development that puts the company on a path to start generating free cash flow in 2020, or sooner should there be a rebound in WTI oil prices.

John Bean Technologies Corporation (JBT - $71.81 – NYSE) is a technology solutions provider to the 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. JBT has been a volatile stock over the past couple of quarters and the fourth quarter proved to be no different. The company has seen very good revenue growth in the aero side, however, the food side has been more challenging. A few large food orders were pushed out of from shipping in the third quarter and will now ship in the fourth quarter. In addition, there is some concern about margin pressure due to tariffs on the raw materials as well as the lack of any new announced acquisitions.

Conclusion

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

Small Mid 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 12/31/2018)

	KSMVX No Load	KSMVX Load	Russell 2500 Value
1 Year	-17.83%	-21.55%	-12.36%
5 Year	0.83%	-0.10%	4.16%
10 Year	12.29%	11.77%	11.62%
Since Inception**	5.65%	5.23%	6.26%

Expense Ratio (Gross)**	1.47%
Waiver/Expense Reimbursement**	-0.08%
Expense Ratio (Net)**	1.39%

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)
December 31, 2018

Name	Weight (%)	Name	Weight (%)
NRG Energy, Inc.	4.70%	Copart, Inc.	2.34%
ESCO Technologies Inc.	2.89%	Air Lease Corporation Class A	2.30%
ITT, Inc.	2.75%	Howard Hughes Corporation	2.18%
Nexstar Media Group, Inc. Class A	2.50%	CareTrust REIT Inc	2.10%
Diamondback Energy, Inc.	2.39%	Sabra Health Care REIT, Inc.	2.07%

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. Prior to September 30, 2016, holdings returns were based upon price percentage change.

Small Mid Cap Value Fund

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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. 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.

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