CHARTWELL INVESTMENT PARTNERS

Berwyn Strategies Current Outlook and Investment Strategy

"Diligence is the Mother of Good Fortune" -Miguel de Cervantes (pre-eminent Spanish writer (1546 -1616))

Summary

- The long-term bull market was interrupted in February as investors became concerned over the possibility of a trade war. As the quarter ended, stock prices were slightly lower for the threemonth period.

- We expect the current period of "consolidation" to continue for the near term, followed by a resumption of the bull market.

- The U.S. economy remains strong. Stabilization of the dollar, strength in oil prices and the recent relative strength of small-cap stocks are positive signs.

- After carefully reviewing end of the year security positions, the investment team initiated a significant number of portfolio changes in the first quarter. The new entrants reflect our valueoriented philosophy and are expected to produce solid long-term gains.

Background

The first quarter of this year was characterized by wide intra-day trading swings caused by investors' concerns over the potential for a trade war, Federal Reserve Board interest rate hikes and political uncertainties attributed to the Mueller investigation. Despite the stock market's wild swings during the quarter, the major indices were basically unchanged as March ended; the Dow Jones Industrial Average (DJIA), Standard &Poor's Index (SPX) and Russell 2000 lost 1.96 percent, 0.76 percent and 0.08 percent, respectively, for the three-month period.

A portrayal of market volatility that characterized the last two months of the quarter, is offered in Figure 1, an illustration of the Chicago Board of Exchange Volatility Index, VIX. The VIX was created in 1994 as a tool to measure the level of fear and uncertainty amongst investors. As shown in the illustration, after a quiescent preceding period, the level of volatility skyrocketed in February and finally began to ease towards the end of April. In the opinion of many investors, periods of fear and uncertainty are positive emotions in that they discourage excessive speculation and in the long run, create a more stable marketplace. The return of volatility may be emotionally disturbing, but at this stage in the bull market, it is a constructive development in our opinion.

CBOE VOLATILITY INDEX
07/24/2017 - 04/18/2018

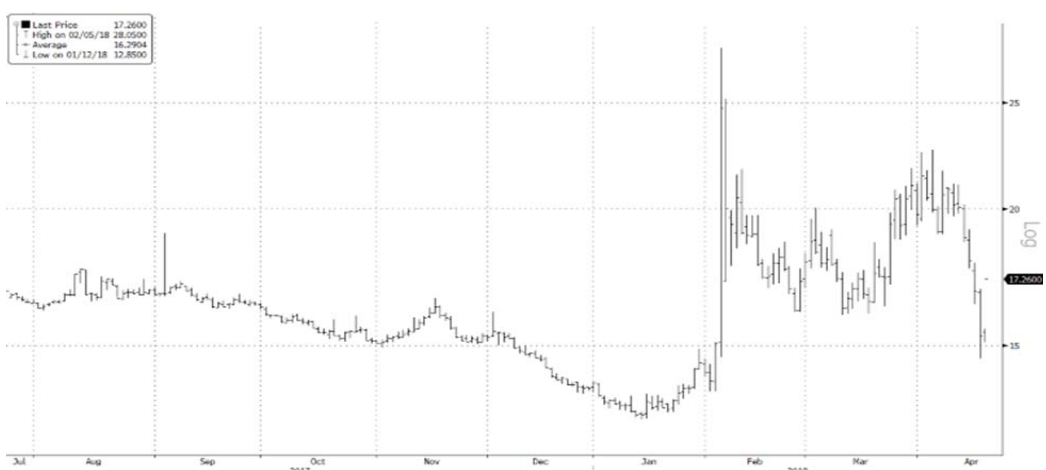

FIGURE 1: INDICATOR OF INVESTOR FEAR AND UNCERTAINTY
Source: Bloomberg

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U.S. DOLLAR TRADING HISTORY
05/04/2017 - 05/04/2018

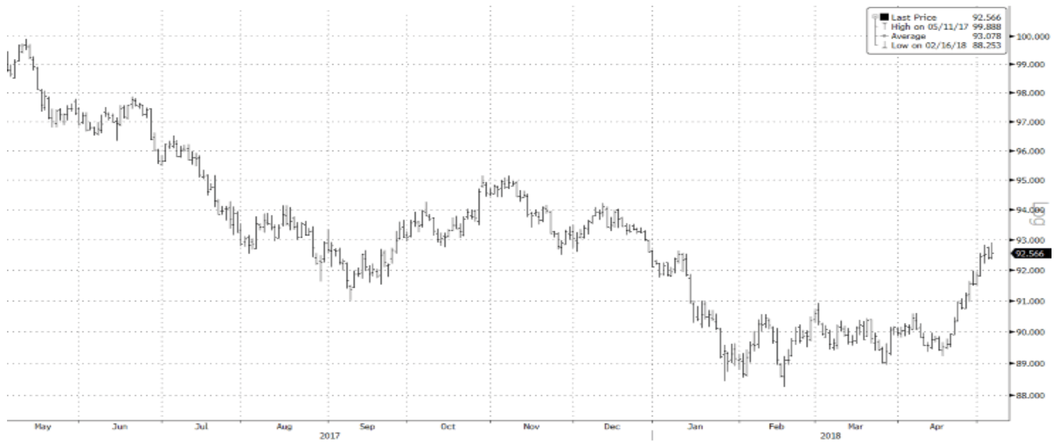

Figure 2: VALUE OF THE U.S. DOLLAR VERSUS THAT OF ITS MAJOR TRADING PARTNERS
Source: Bloomberg

In fact, the stock market had been in a steady uptrend since the election of Donald J. Trump in November 2016 and was overdue for a correction. To a large segment of investors, this advance had been regarded with suspicion and many market prognosticators viewed stocks as wildly overpriced. Consequently, many investors were more than ready to take profits as the New Year provided an opportunity to defer taxes for another twelve-month period.

From the standpoint of most market observers, the question comes to mind whether the activity in February and March represents an interruption in the secular bull market that began in March 2009, or the beginning of the end to this long advance. Even a casual observer of the stock market is aware of how some equities, such as Amazon, Facebook, Netflix and Tesla, have risen to valuations that appear to be unrealistic and may be representative of a developing speculative bubble.

As we all know, the stock market's prospects are integrally tied to the strength of the economy and corporate profits, and from this perspective, the potential for further growth appears to be bright. Most importantly, recent quarterly Gross Domestic Product (GDP) growth rates have shown improvement over those experienced in past years. While economists can measure additional indicators to gauge the outlook for the economy, the marketplace itself provides a lot of clues. One clue is the strength of the U.S. dollar, relative to that of its trading partners. As shown in Figure 2, the dollar has been weak since the beginning of 2017 when it peaked and subsequently fell 15.0 percent when it bottomed in late February of this year. However, the dollar had begun to stabilize in late January and has now rallied as April draws to a close. The stabilization and now strengthening of the dollar could be interpreted as a sign of accelerating domestic economic activity.

Another sign of economic strength, in this case global, is the rebound in the price of oil. In June 2014, the price of oil peaked at $107 per share as the world economy continued to expand following the Great Recession. As often occurs, high prices led to increased production, which precipitated a bear market in the price of oil that bottomed in February 2016 at $26 per barrel. At that time, the expectations for higher oil prices were low and oil exploration companies reduced their budgets accordingly. Surprisingly, oil prices did not stay low for very long, as shown in Figure 3 and have since climbed to over $68 per barrel. Indeed, the worldwide demand for oil has now reached the astounding level of 98 million barrels per day, which is the highest ever recorded.

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WTI OIL TRADING HISTORY
01/02/2015 - 04/26/2018

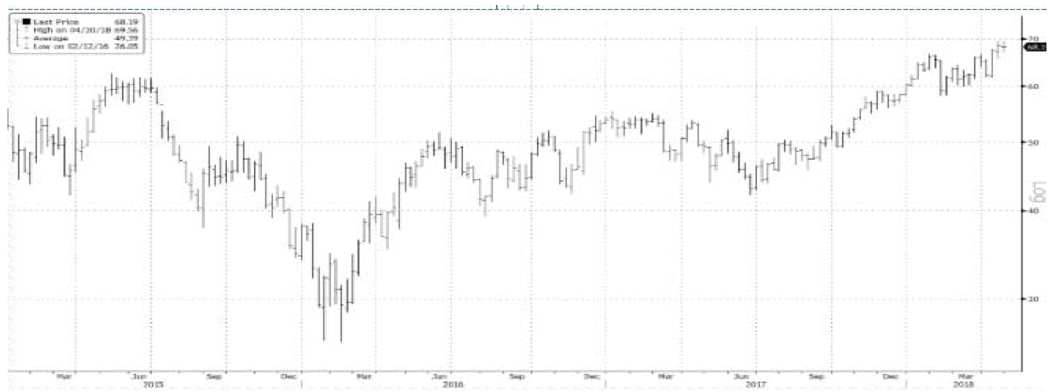

FIGURE 3: THE PRICE OF OIL BOTTOMED IN EARLY 2016 AND HAS SINCE REBOUNDED
Source: Bloomberg

More evidence that the economy is healthy and that the bull market is in a consolidation, as opposed to a topping phase, is the behavior of small-cap stocks versus large-cap stocks. In past market cycles, the prices of small-cap stocks have been more sensitive to a weakening economy than large-cap stocks. This is consistent with the fact that coming out of a recession, small-cap stocks outperform large-cap stocks. In any event, during the period of volatility described above, small-cap stocks, as measured by the Russell 2000, outperformed the S&P 500 by a clear margin, which is a reassuring sign for continued economic growth. The effect of investors' preference for large-cap stocks in 2017 has been a headwind for our portfolios and as discussed below, improved relative strength in the broader market would be a welcome change.

Current Strategy

The past three months has been an intense period as the new Individually Managed Account (IMA) investment team made a thorough review of the investments in our portfolios. The result has been a period of unusually high activity during which nine new purchases and six sales were made of stocks whose prospects were thought to be limited. The stocks added to the portfolio were Alcoa (AA), A.J. Gallagher (AJG), Applied Materials (AMAT), First Hawaiian (FHB), Hess Corporation (HES), Lions Gate Entertainment (LGF/B), Micron Technology (MU), Norwegian Cruise Line Holdings (NCLH) and Western Digital (WDC). AA and Excelon (EXC) were added to our Dividend Model (DM) accounts.

AA (1%)** is a global, vertically integrated miner, refiner and manufacturer of aluminum products. AA has recently undergone a restructuring and is one of the lowest cost producers in the industry.

AJG (1.6%) is a large insurance brokerage operation that specializes in risk management services.

AMAT (0%) Not added until early April) manufactures and services semiconductor wafer fabrication equipment for the worldwide semiconductor industry. As a leading factor in the industry, AMAT is based in Santa Clara, California, and has been consistently profitable, has a 1.6 percent dividend yield and sells at only eleven times earnings.

FHB (1.4%) is a bank holding company, based in Honolulu, that offers a complete line of banking and financial services. FHB's earnings have been growing at an impressive rate, yet the stock sells at a modest price-to-earnings ratio of 14.1 and has a dividend yield of 3.42 percent.

LGF/B (1.3%) develops and distributes motion picture, television, animation and digital media content.

HES (1.6%) is a global energy company that is focused on the exploration of oil and natural gas.

**The numbers in parentheses following each company mentioned reflect the percentage of the portfolio's net assets comprised of such securities as of 03/31/18. Holdings are subject to change. A full listing of portfolio holdings is available upon request.

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MU (0%) (Not added until early April), a Boise, Idaho, based manufacturer of memory chips and other semiconductor components was purchased as the quarter closed. MU is being priced as if the semiconductor industry is going into a recession – a view that we do not share. Now selling at less than five times projected earnings for the twelve-month period ending in August, the present stock price appears to discount any reasonable recessionary scenario.

NCLH (1.3%) is a Miami, Florida, based company that operates a fleet of 26 cruise ships having worldwide itineraries.

WDC (1.5%), a manufacturer of hard disc drives and solid-state drives, was purchased due to the continued growth in the demand for data storage.

Diana Shipping (DSX), Dime Community Savings Bank (DCOM), Hallmark Financial Services (HALL), Hallador (HNRG) and Unisys (UIS) were sold during the quarter. DSX was never able to overcome the downturn in the dry bulk ocean carrier business and was sold at a modest loss. Over the long-term, DCOM provided our accounts with a solid total return, but HALL has been disappointing, producing only a modest return. The growth prospects for HNRG, a mid-western miner of coal, seemed dim and these shares were sold at a minor loss and UIS was also sold at a loss after it rallied. Wesco Aircraft Holdings was also eliminated from our portfolios in early January, in order to accommodate one of the newer entrants.

Top 3 Contributors: The three best performing stocks in the quarter were Seagate Technology (STX)(0%), up 41.34 percent, Unisys (UIS)(0%), up 31.90 percent and Heidrick & Struggles (HSII)(2.0%), up 27.91 percent on a total return basis. STX, a manufacturer of hard disc drives, has been a strong performer, aside from the generous dividend payout. STX remains in our DM accounts at this time. HSII, the executive search firm, experienced a large increase in its first quarter earnings and we plan to hold the stock for the longer term; on the other hand, UIS had been a disappointing long-term holding and we took advantage of the rally in the stock price to exit the position.

Top 3 Detractors: The three worst performing stocks in the quarter were Winnebago Industries (WGO)(1%), a manufacturer of recreational vehicles, down 32.25 percent, Lumber Liquidators (LL)(0.9%), a retail flooring company, down 23.80 percent and Gamestop (GME)(0.8%), a retailer of video games, down 28.02 percent.

WGO has been a long-term holding that was purchased at much lower prices. In fact, most of the position had been sold in prior years. We plan to continue to sell shares of WGO opportunistically, if possible. Last year, we established a modest position in LL prior to a rally in the stock price. Now, after the first quarter decline in the stock price, we plan to complete our purchases in the weeks ahead. Finally, GME has been a frustrating situation in which the company reports reasonable earnings, pays a generous dividend, but the stock price continues to fall. The company faces competition from on-line retailers of video games and the marketplace is concerned about GME's long-term viability. We have had in-depth conversations with GME's management and are considering our options.

The volatility experienced in the first quarter gave us the opportunity to invest in a number of special situations at attractive prices, which will hopefully prove to be beneficial over the long term. However, the transactional costs probably had a negative impact on performance in the short-term. For the three-month period, the Chartwell Berwyn Growth and Chartwell Berwyn Balanced Strategies declined net 4.49 percent and 2.66 percent, respectively, which were more than the losses cited above for the major indices. Although these results were disappointing, we remain focused on our work and long-term objectives.

In 2016, our investment portfolios outperformed their reference indices, but failed to do so in 2017. As we have discussed in recent letters, in 2017 large-capitalization stocks outperformed small-capitalization stocks and this trend continued in January 2018. However, at the end of February, a reversal of this trend may have begun. Figure 4 illustrates the ratio of the Russell 2000 Value Index to the S&P 500 from January 2017 to April 2018. Clearly, from January 2017 until the end of February 2018, this ratio has been in decline indicating relative weakness in the broad market as compared to the S&P 500.

Top 3 Contributors
As of 03.31.2018

Holding	Return	Change
Seagate Technology	0%	up 41.34%
Unisys	0%	up 31.90%
Heidrick & Struggles	2%	up 27.91%

Source: Chartwell Investment Partners

Top 3 Detractors
As of 03.31.2018

Holding	Return	Change
Winnebago	1%	down 32.25%
Lumber Liquidators	0.9%	down 23.8%
Gamestop	0.8%	down 28.02%

Source: Chartwell Investment Partners

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In March and continuing into April, this trend has reversed and reflecting this change, our investment portfolios have been outperforming the large-cap indices over the past two-months. In our opinion, a strengthening economy would assist in a continuation of this trend.

RELATIVE STRENGTH OF SMALL CAP VALUE STOCKS
01/03/2017 - 05/02/2018

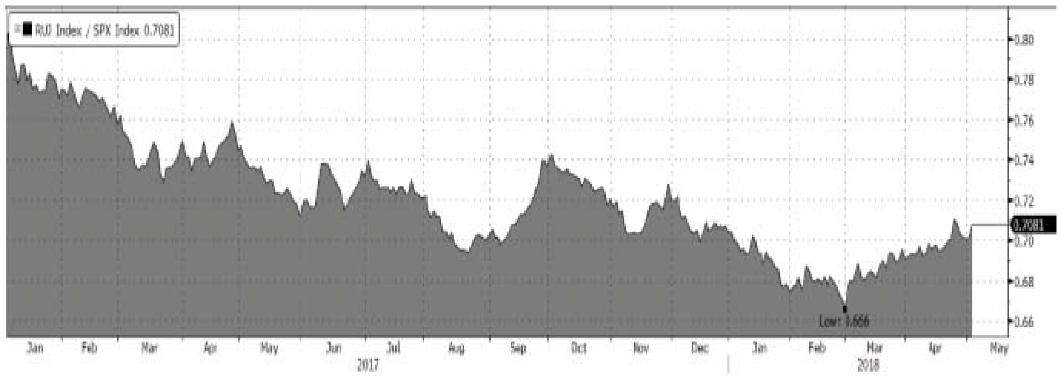

FIGURE 4: RELATIVE PERFORMANCE OF THE RUSSELL 2000 VALUE INDEX VERSUS THE S&P 500
Source: Bloomberg

Chartwell News

At the end of April, the Berwyn Fund (BERWX) was successfully merged into the Chartwell Small-Cap Value Fund (CWSIX). Prior to the merger, a special dividend distribution was made in the amount of $4.80 per share; depending upon their election, BERWX shareholders received cash, or additional shares of CWSIX. Within the next few weeks, our IMA clients will be receiving an invitation to meet with the new investment team. This will be an opportunity to meet Pete Schofield, Jeff Bilsky and Doug Kugler as well as to revisit with Bob Killen. If you have any questions about your investment account, please don't hesitate to call Mike Magee (484.324.6835), or Bob Killen (610.407.4851).

Past performance is no guarantee of future performance. Investment involves a risk of loss.

This commentary is for informational purposes only. It is not an offer to buy or sell any security and should not be construed as investment advice. The views in this report were those of the Adviser at the time of writing this report and may not reflect our views on the date this report is first published or anytime thereafter.

*The Chartwell Berwyn Growth Strategy Composite includes all fully discretionary, fee-paying equity accounts with a growth objective whose asset size is $300,000 or greater at the beginning of the measurement period.

*The Chartwell Berwyn Balanced Strategy Composite includes all fully discretionary, fee-paying accounts with a balance between growth and income as a principal objective whose asset size is $300,000 or greater at the beginning of the measurement period.

The composites do not include accounts where total cash flows exceed 10% of the account's value during any quarterly period or accounts holding securities purchased by anyone other than the Advisor. No accounts using leverage or short positions are included in the composites. An individual client's account may have performed better or worse than the composites' returns presented above. The composites contain taxable and non-taxable accounts. The returns are before taxes and net of all advisory fees and commission charges. The net performance results for each composite are presented after deducting the actual fee charged to each account in the composite based on the management fee schedule in the Firm's Brochure or the fee negotiated between the account holder and Chartwell. Returns include the reinvestment of dividends and interest (total return). Returns for other Chartwell composites are available upon request.

As of 03/31/2018, Chartwell managed $8.3 billion in assets, $7.8 billion as advisor and $0.5 billion as sub-advisor. During the most recent quarter, the Chartwell Berwyn Growth Strategy Composite consisted of 19 accounts which represented 16.0% of total Berwyn Strategy Individually Managed Accounts and 0.3% of total Chartwell assets. During the most recent quarter, the Chartwell Berwyn Balanced Strategy Composite consisted of 30 accounts which represented 40.3% of total Berwyn Strategy Individually Managed Accounts and 0.6% of total Chartwell assets.

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Chartwell Investment Partners LLC, is an investment management firm dedicated solely to the investment advisory business. Chartwell's philosophy is to rely on proprietary, bottom-up research to find high-quality investments across its various product offerings.

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