



KEELEY  
*fun ds*

**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](http://www.KeeleyFunds.com)*

This summary represents the views of the portfolio managers as of 09/30/14. 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, 2011.**

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](http://www.keeleyfunds.com). The prospectus/summary prospectus should be read carefully before investing.**

[www.KeeleyFunds.com](http://www.KeeleyFunds.com)

The Disciplined  
Discovery of Value®

## KEELEY Mid Cap Dividend Value Fund

Third Quarter, 2014 Commentary

In the third calendar quarter of 2014, the KEELEY Mid Cap Dividend Value Fund (KMDVX) fell 2.17 percent compared to a 2.65 percent decrease for the Russell Mid Cap Value Index. After a lengthy hiatus, volatility returned to the markets in the third quarter. The weakness was especially evident in small cap stocks, where the divergence between small- and large-cap stocks was substantial. The S&P 500 Index posted a positive return in the third quarter, climbing just over 1 percent compared to the broad sell-off that occurred in small and mid-cap companies. Heightened geopolitical risks were the primary culprit, as uncertainty in foreign markets added to global growth concerns and pressured investors to shun risk. Fortunately, economic news on the domestic front was more positive. Better export growth, improving housing activity, and continued low interest rates has allowed the economy to recover from the negative effects of the harsh weather early in the year. However, subpar projections for long term GDP growth remain a significant hurdle and puts further pressure on a fragile consumer to pick up the slack. From sector perspective the quarter was mixed, with six of ten economic sectors in the Russell Mid Cap Value Index producing negative returns. The majority of our relative outperformance came from strong stock selection in the financials and industrials sectors. Our sector allocation detracted during the quarter, as an underweight position to the strong performing health care sector and an overweight position to the lagging energy sector negatively impacted the Fund. Lastly, factors were an important component to our performance during the quarter as many of the portfolios characteristics possess favorable traits for this type of an environment. Specifically, lower P/E stocks outperformed. Dividend payers also outperformed non-dividend payers which clearly was a nice tailwind during a challenging quarter.

Avago Technologies Limited (AVGO) was the Fund's top performing position during the quarter after rising over 20 percent and adding 41 basis points of return to the Fund. Shares of the semiconductor manufacturer rose sharply in September after posting strong earnings results amid strong momentum in the smartphone market where Apple is a customer. Also, due to strong cash flow the company announced a dividend increase of 10.3 percent, year-over-year.

Despite a difficult quarter for energy related stocks, El Paso Pipeline Partners (EPB) was the portfolio's second best performing name, rising over 11 percent and adding 24 basis points of performance to the Fund. Shares of the natural gas Master Limited Partnership climbed in August when Kinder Morgan announced that they would acquire and consolidate all of Richard Kinder's pipeline empire in an effort to lower cost of capital and allow Kinder Morgan to more easily expand and pursue acquisitions. In a stock deal value at approximately \$70 billion, all of Kinder Morgan's publicly traded companies would be housed under one roof, creating North America's largest energy infrastructure company.

The largest detractor during the quarter was Seaworld Entertainment Inc. (SEAS) which fell over 33 percent and cost the portfolio 36 basis points of return. Shares of the theme park and entertainment Company were negatively impacted after a disappointing earnings report that was combined with poor forward looking guidance. We sold the stock upon the news.

After eight straight quarters of positive returns, the Russell Mid Cap Value Index was negative in the third quarter. Although we always strive to produce positive absolute returns, one of the goals of this portfolio is to protect capital in more challenging equity environments, and we are

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# KEELEY Mid Cap Dividend Value Fund

Third Quarter 2014 Commentary

pleased that the Fund outperformed on a relative basis in the third quarter. But where do we go from here? A wide variety of factors determine the future direction of the market. In our opinion they generally break down into five categories and even the five can be interrelated: the economy, interest rates, valuation, sentiment, and random events. Since random events are difficult to predict, we decided to stick with discussing the other four.

**The Economy** – The US economy continues to grow at a modest rate and the rest of the world is growing, albeit even more slowly than the US. Over the last several months, we would say that expectations for growth have declined, particularly in Europe. At this point, we believe that the level of growth in the economy is probably supportive of equities, but the recent trend in expectations is not.

**Interest Rates** – Rates are flat, up, or down so far this year depending on which part of the curve you look at. At the short-end, rates are unchanged due to the Fed's Zero Interest Rate Policy (ZIRP). At the long-end, rates have come down a fair amount since the beginning of the year. They are still well above the lows set at the end of 2012, but they are about the same as where they were a year ago. In the middle of the curve (2s, 5s, and 7s) rates are above the year ago level and in some cases pretty close to multi-year highs. The Fed has signaled it will be ending its bond buying programs. In addition, the timing of when it is expected to increase short-term rates has probably come in a little over the last year. It is good to remember that the market has struggled the last couple of times the Fed stepped away from quantitative easing.

**Valuation** – Valuations are not a big challenge and after recent volatility look much more attractive than they were at the beginning of the year. The S&P 500 Index is about in line with its historical average since 1999 and is probably more attractive than average if you factor in the low level of interest rates. A more interesting story is told in the relative value of small cap stocks versus large. For much of the past few years, small caps were much more expensive. Comparing the relative valuation today vs. where it was at the beginning of the year shows how much more attractive small cap stocks are relative to large cap than they were at the beginning of the year. If volatility persists we expect this equation to tilt even more heavily in our favor (of small and mid-cap) as investors may continue to avoid risk.

Taking these four factors into account (Economy – slight positive, Interest rates – negative, Valuation – neutral, Sentiment – neutral), we conclude that the market is probably okay and we are most likely through the worst of the small and mid-cap underperformance. We are still sticking with the +/-5% for the year that we expected at the beginning of the year. That means a bit more churning, but no real progress in the fourth quarter. Regardless, we will continue to do what we do; seek out cheap stocks of good companies with some improvement on the horizon. And with the additional volatility in recent months, we are clearly seeing a greater opportunity set with which to perform our work.

Thank you for your support of the Mid Cap Dividend Value Fund.

# KEELEY Mid Cap Dividend Value Fund

Third Quarter 2014 Commentary

\*\*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, 2015.

## AVERAGE ANNUAL TOTAL RETURNS (as of 09/30/2014)

	<b>KMDVX</b>	<b>KMDVX</b>	<b>Russell Mid</b>
	<u>No Load</u>	<u>Load</u>	<b>Cap Value</b>
<b>1 Year</b>	<b>15.37%</b>	<b>10.19%</b>	<b>17.46%</b>
<b>Since Inception**</b>	<b>22.78%</b>	<b>20.92%</b>	<b>26.46%</b>
<b>Expense Ratio (Gross)**</b>		<b>1.87%</b>	
<b>Waiver/Expense Reimbursement**</b>		<b>0.48%</b>	
<b>Expense Ratio (Net)**</b>		<b>1.39%</b>	

*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) For the purpose of assigning portfolio security holdings to a particular sector and/or industry, KAMCO assigns the securities in accordance with the sector and industry classifications of the Global Industry Classification Standard (GICS) developed by MSCI and Standard and Poor's (to the extent available) as a primary source and FactSet (to the extent available) as a secondary source for this information. In the event KAMCO securities information vendors do not classify a security's issuer to a particular sector or industry or if the published classification appears to be incorrect, KAMCO may classify the security's issuer according to its own judgment, using other securities information vendors, the company description and other publicly available information about the company's peer group. 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.

# KEELEY Mid Cap Dividend Value Fund

Third Quarter 2014 Commentary

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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 Mid Cap Value Index is an unmanaged index that measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth rates. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. The Russell 2000 Value Index measures the performance of 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. 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 Mid Cap Value Fund, KEELEY Small-Mid Cap Value Fund, KEELEY Small Cap Value Fund, KEELEY Small Cap Dividend Value Fund, KEELEY Mid Cap Dividend Value Fund, and KEELEY Alternative Value Fund are distributed by Keeley Investment Corp.

The top ten holdings of KMDVX as of September 30, 2014 include ITT Corp. (2.53%), Avago Technologies Ltd. (2.44), Broadridge Financial Solutions, Inc. (2.43%), CIGNA Corp. (2.28%), Lincoln Financial Corp. (2.20%), American Water Works Company, Inc. (1.90%), Ameriprise Financial, Inc. (1.89%), Ryder System, Inc. (1.85%), CIT Group, Inc. (1.81%), and Arthur J. Gallagher & Co. (1.79%).

## KEELEY Funds

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