



January 15, 2014

Dear Friends and Investors,

Stocks surged in the fourth quarter of 2013, capping **one of the best annual performances on record**. Fueled by unprecedented liquidity, improving global growth, low inflation, and an emerging belief that the Fed will exit QE in an orderly fashion, the S&P 500 soared **+10.51%** in Q4, for a total return of **+32.39%** in 2013. This represents the index's best year since 1997 and its eleventh-best annual performance since 1926.

Small cap stocks also delivered robust returns in 2013, with the Russell 2000 index returning **+8.72%** for Q4 and **+38.82%** for 2013. It was the fourth-best year on record (since 1979) for the Russell 2000 index and the single-best since 2003. **Historically, such robust returns are reserved for the years immediately following a recession**, when stocks are emerging from a bear market. It is unusual to see such strong performance four years into a recovery, particularly when profit growth is weak and forward expectations are declining.

From a style perspective, growth outperformed value for the second consecutive year, as did high beta, low quality, and non-dividend paying stocks. Valuations remain stretched, particularly in the small cap space where **most measures are at or above pre-crisis peak levels**.

Q4 2013 Composite Performance Summary <sup>1</sup>														
	Small Cap Value		SMID Cap Value		DAV		DAV II		Independent Value		Long-Short Equity		Research Fund	
	Q4 2013	YTD	Q4 2013	YTD	Q4 2013	YTD	Q4 2013	YTD	Q4 2013	YTD	Q4 2013	YTD	Q4 2013	YTD
<b>Gross</b>	6.10%	32.33%	4.89%	29.96%	8.70%	33.69%	8.96%	33.84%	3.64%	8.59%	5.49%	20.01%	11.40%	40.15%
<b>Net</b>	5.90%	31.31%	4.70%	28.97%	8.52%	32.82%	8.84%	33.10%	3.38%	7.54%	5.17%	18.58%	11.12%	38.75%
<b>Benchmark<sup>2</sup></b>	9.30%	34.52%	8.83%	33.32%	9.95%	32.69%	9.95%	32.69%	9.30%	34.52%	10.10%	33.55%	9.95%	32.69%
+/-	-3.20%	-2.19%	-3.94%	-3.36%	-1.25%	+1.00%	-0.99%	+1.15%	-5.66%	-25.93%	-4.61%	-13.54%	+1.45%	+7.46%

River Road's **Small Cap Value (SCV)** and **Small-Mid Cap Value (SMID)** Strategies posted strong absolute returns for 2013, but fell short of their respective benchmarks. Both Portfolios led their benchmarks for much of the year, but fell behind during the late-December surge. A major driver of Portfolio returns in 2013 was M&A activity. While overall M&A transactions were down sharply in 2013, **M&A activity within the Portfolios set a record level**. Given the market's robust returns and high beta/low quality leadership, we are pleased with the performance of both strategies, including their exceptionally low volatility during the year.

The **Dividend All-Cap Value** Strategies (including DAV and DAV II) **had a terrific year**, outperforming their relevant benchmark despite a shift in interest rate expectations and the significant underperformance of high dividend-paying stocks. According to Ned Davis Research, the highest yielding companies in the S&P 500 returned just **+18.6%** versus **+39.0%** for the lowest yielding. Over the past 12 months, unattractive valuations on high yielding stocks led the DAV management team to both establish and increase positions in lower yielding companies (2% to 3%). Typically, these were more cyclical firms with high dividend growth potential. **While these changes lowered the Portfolio's yield during 2013, they contributed to strong total return**.

We are also pleased with the performance of our **Long-Short Equity** Strategy, which returned **+20.01%** (+18.58% net) for 2013 versus **+14.62%** for the Morningstar Long-Short Equity Category.<sup>3</sup> While the Portfolio lagged the broader equity market, its upside capture was in line with our expectation for a period of aggressive returns (particularly given that heavily shorted and lower quality stocks were among the best performing groups). **The Long-Short Strategy delivered this return while exhibiting a beta of just 0.44.**<sup>4</sup> Following a strong year of asset growth, the pipeline for RRAM's Long-Short Strategy remains robust and we anticipate the Strategy will be a significant contributor to overall firm growth in the year ahead.

The River Road **Independent Value** Strategy lagged its benchmark for 2013, due largely to the Portfolio's high cash balance (61% average weight) and increased allocation to out-of-favor industries. While this positioning resulted in significant relative underperformance for the year, these actions are consistent with the current valuation environment and

<sup>1</sup> Please see the attached Market & Portfolio Commentary for important performance disclosures. Past performance is no guarantee of future results.

<sup>2</sup> Benchmarks: SCV – Russell 2000 Value; SMID – Russell 2500 Value; DAV – Russell 3000 Value; DAV II – Russell 3000 Value; Independent Value – Russell 2000 Value; Long-Short Equity – Russell 3000; Research Fund – Russell 3000 Value.

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<sup>4</sup> Beta calculated gross of fees for the Long-Short Composite. Inception Date: July 1, 2010.



the Portfolio's objective of generating attractive absolute returns over a market cycle while avoiding permanent capital impairment.

**The best performing investment strategy (for the second consecutive year) from both an absolute and relative perspective was River Road's Research Fund.** The Research Fund is managed by our analyst team, under the supervision of portfolio managers Andrew Beck and Thomas Forsha. The Research Fund consists of **the analyst team's highest conviction picks from among all of the firm's existing Portfolio holdings.** The Research Fund is concentrated (20 to 30 holdings), benchmark independent, and seeks to remain fully invested at all times.<sup>5</sup> The Research Fund is also highly opportunistic, which results in higher portfolio turnover than a typical RRAM strategy.

The Research Fund was initially created as a learning tool to develop the portfolio management and leadership skills of our analyst team. To the credit of our analysts, it has delivered fantastic investment results over the past five years, returning **+25.85%** annualized (+24.59% net) since inception (January 1, 2009) versus **+16.75%** for the benchmark. Additionally, **it has generated that performance while exhibiting a beta of just 0.84.**<sup>6</sup>

In late Q4, the Research Fund was opened (for the first time and on a very limited basis) to external capital. The **limited capacity** in the Strategy will initially be made available only to those clients and advisors that have an existing relationship with RRAM. The Strategy is only available in a separate account mandate. If you are interested in receiving additional information, please contact Michele Robbins or Katrina O'Leary at 502.371.4100.

RRAM experienced significant growth in 2013. **The firm hired four new associates, while extending the team's 16-year track record of no investment team turnover.** We added many new and exciting client relationships, including some of the world's largest institutional investors. Overall, the firm's total AUM grew +44%, to \$10.3 B. While new client interest was primarily focused on the firm's dividend-oriented and Long-Short Strategies, **the Small Cap and SMID Strategies experienced a significant increase in interest during Q3 and Q4.** Based on current and anticipated activity, we expect 2014 will be another exciting year for River Road.

From an operational perspective, effective with January 2014 reporting, River Road will no longer report supplemental data, such as attribution and portfolio characteristics, at the composite level; rather, **representative portfolios will be utilized.** Representative portfolios, selected from each composite, provide a more meaningful assessment of how our strategies are managed by minimizing the impact of client-directed restrictions and cash flows. This change is based upon best practices and supports our continuing efforts to offer clients *THE* premiere operating platform within our industry.

Finally, at the beginning of each New Year we like to reiterate to our associates, our clients, and our business partners our pledge to **pursue investment excellence with passion and discipline; to continue to invest in our firm, our associates, and in our portfolios;** and, to **always maintain the unique culture and values that we embraced on the day we founded River Road.**

We hope you enjoy reading the attached Market Commentary and Outlook. **Thank you for your business.**

R. Andrew Beck  
*President & CEO, Senior Portfolio Manager*

James C. Shircliff, CFA  
*Chief Investment Officer*

Henry W. Sanders, III, CFA  
*EVP & Senior Portfolio Manager*



<sup>5</sup> The target number of portfolio holdings is a working guideline. The actual number may vary depending on market conditions and other factors.

<sup>6</sup> Beta calculated gross of fees.



#### Disclosures:

River Road Asset Management, LLC ("RRAM" or "the Firm") is a registered investment adviser formed in April 2005 and is owned by Aviva Investors North America Holdings, Inc., a wholly-owned affiliate of UK-based Aviva PLC. This presentation may be presented by an employee of Aviva Investors, Aviva Investors Americas, or another Aviva entity, which are affiliates of RRAM. RRAM claims compliance with the Global Investment Performance Standards (GIPS®). The firm maintains a complete list and description of composites and a presentation that complies with the requirements of the GIPS® standards, which is available upon request by contacting Thomas D. Mueller, CPA, CFA at (502) 371-4100 or [thomas.mueller@riverroadam.com](mailto:thomas.mueller@riverroadam.com).

For all composites, the U.S. Dollar is the currency used to express performance and performance includes the reinvestment of all income.

#### Small Cap Value Equity Composite Disclosures:

Inception date: January 1, 1998. The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in small cap value domestic equity securities that trade at a discount to the firm's estimate of absolute value. For this composite, RRAM defines a small cap company as one whose market capitalization is less than \$3 billion. The Manager selects securities from a universe of companies with a market capitalization at the time of initial purchase between \$50 million and \$3 billion, employing a value-driven, bottom-up fundamental approach. The official benchmarks for the Small Cap Value Equity Composite are the Russell 2000 Value and Russell 2000. *Russell 2000 Value* – Unmanaged index constructed to provide a comprehensive and unbiased barometer of the small cap value market. *Russell 2000* – Unmanaged index that contains the 2,000 smallest common stocks in the Russell 3000, which contains the 3,000 largest stocks in the U.S. based on total market capitalization.

As of December 31, 2013, net of fees returns for the Small Cap Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: -1.47%, 5.90%, 31.31%, 31.31%, 13.72%, 16.41%, 11.00%, and 11.15%. As of December 31, 2013, returns for the Russell 2000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: 1.88%, 9.30%, 34.52%, 34.52%, 14.49%, 17.64%, 8.61%, and 8.72%. As of December 31, 2013, returns for the Russell 2000 are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: 1.97%, 8.72%, 38.82%, 38.82%, 15.67%, 20.08%, 9.07%, and 7.70%.

Performance presented prior to April 1, 2005 occurred while the Portfolio Management Team was affiliated with a prior firm and the Portfolio Management Team members were the only individuals primarily responsible for selecting the securities to buy and sell. A review of this track record for compliance with portability requirements of the GIPS® standards was conducted by Ashland Partners & Company.

#### Small-Mid Cap Value Equity Composite Disclosures:

Inception Date: March 1, 2007. The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in small-mid cap value domestic equity securities that trade at a discount to the firm's estimate of absolute value. For this composite, RRAM defines a small to mid cap company as one whose market capitalization is less than \$6 billion. RRAM selects securities from a universe of companies with a market capitalization at the time of initial purchase between \$250 million to \$6 billion, employing a value driven, bottom-up fundamental approach. The official benchmark of the Small-Mid Cap Value Composite Portfolio is the Russell 2500 Value - Unmanaged index constructed to provide a comprehensive and unbiased barometer of the small to mid-cap value market.

As of December 31, 2013, net of fees returns for the Small-Mid Cap Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year and Inception to Date periods: -0.91%, 4.70%, 28.97%, 28.97%, 14.69%, 17.30% and 6.41%. As of December 31, 2013, returns for the Russell 2500 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year and Inception to Date periods: 2.40%, 8.83%, 33.32%, 33.32%, 15.38%, 19.61% and 6.25%.

#### Dividend All-Cap Value Composite (DAV) and Dividend All-Cap Value II Composite (DAV II) Disclosures:

Inception Date DAV: October 1, 2003. Inception Date DAV II: January 1, 2011. The composites contain fully discretionary accounts that seek to provide long term capital appreciation and high current income by investing primarily in a diversified, all-cap basket of income producing equity securities that trade at a discount to the firm's estimate of absolute value. The composites are primarily invested in dividend-paying common stocks. The composites may also be invested in a broad range of foreign stocks, publicly traded partnerships, convertible preferred stocks, Real Estate Investment Trusts ("REITs"), investment companies, and royalty income trusts. For the DAV II Composite only, the securities must have a market capitalization of typically at least \$1 billion at the time of initial purchase. RRAM employs a value-driven, bottom-up approach. The official benchmark for the composites is the Russell 3000 Value - Unmanaged index constructed to provide a comprehensive and unbiased barometer of the broad value market.

As of December 31, 2013, net of fees returns for the Dividend All-Cap Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 Year, and Inception to Date periods: 1.77%, 8.52%, 32.82%, 32.82%, 15.33%, 17.27%, 10.79%, and 11.86%. As of December 31, 2013, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 Year, and Inception to Date periods: 2.48%, 9.95%, 32.69%, 32.69%, 15.93%, 16.75%, 7.66%, and 8.88%.

Performance for the DAV Composite presented prior to April 1, 2005 occurred while the Portfolio Management Team was affiliated with a prior firm and the Portfolio Management Team members were the only individuals primarily responsible for selecting the securities to buy and sell. A review of this track record for compliance with portability requirements of the GIPS® standards was conducted by Ashland Partners & Company.

As of December 31, 2013, net of fees returns for the Dividend All-Cap Value II Composite are as follows for the month, QTD, YTD, 1 year, 3 Year, and Inception to Date periods: 1.90%, 8.84%, 33.10%, 33.10%, 15.23%, and 15.23%. As of December 31, 2013, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 Year, and Inception to Date periods: 2.48%, 9.95%, 32.69%, 32.69%, 15.93%, and 15.93%.

#### Independent Value Composite Disclosures:

Inception Date: November 1, 1998. The composite contains fully discretionary accounts that seek attractive absolute returns over a market cycle by primarily investing in small cap equity securities that trade at a discount to the firm's estimate of absolute value. For this composite, RRAM defines a small cap company as one whose market capitalization is less than \$5 billion. The Manager selects securities from a universe of companies with a market capitalization at the time of initial purchase between \$100 million and \$5 billion, employing a value-driven, bottom-up fundamental approach. The official benchmark for the Independent Value Equity Composite is the Russell 2000 Value – Unmanaged index constructed to provide a comprehensive and unbiased barometer of the small cap value market.

As of December 31, 2013, net of fees returns for the Independent Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: 0.69%, 3.38%, 7.54%, 7.54%, 8.20%, 14.35%, 9.81%, and 10.30%. As of December 31, 2013, returns for the Russell 2000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: 1.88%, 9.30%, 34.52%, 34.52%, 14.49%, 17.64%, 8.61%, and 10.12%.

The Independent Value Equity Composite was created September 1, 2010. Performance presented prior to September 1, 2010 occurred while the portfolio manager was affiliated with a prior firm and the portfolio manager was the only individual primarily responsible for selecting securities to buy and sell for the relevant strategy composite. A review of this track record for compliance with portability requirements of the GIPS® standards was conducted by Ashland Partners.

#### Long-Short Equity Composite Disclosures:

Inception date: July 1, 2010. The composite contains a fully discretionary account that seeks equity-like returns with reduced volatility over a full market cycle by investing primarily in long equity securities that trade at a discount to the firm's estimate of absolute value and selling short equity securities that trade a premium to the firm's estimate of Absolute Value. The composite will invest in short securities. The long and short portfolios will typically represent 50-100% and 10-90% of the total composite, respectively. Additionally, the composite may use options, futures, and other derivatives but these will not represent a significant portion of the composite. The official benchmark for the Long-Short Equity Composite is the Russell 3000 - Unmanaged index that contains the 3,000 largest stocks in the U.S. based on total market capitalization.

As of December 31, 2013, net of fees returns for the Long-Short Equity Composite are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 1.33%, 5.17%, 18.58%, 18.58%, 11.65% and 13.96%. As of December 31, 2013, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 2.64%, 10.10%, 33.55%, 33.55%, 16.24%, and 21.08%.

#### Research Fund Composite Disclosures:

Inception Date: January 1, 2009. **The team of analysts involved with selecting investments for the Research Fund has changed and may continue to change over time.** The supervising portfolio managers may not have historically approved all trades prior to execution. Fully invested is as defined by RRAM and this standard may change over time.

The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in equity securities that trade at a discount to the firm's estimate of absolute value. The clients for these accounts are current employees of RRAM. For this composite, RRAM selects securities from a universe of companies that are held by other RRAM strategies, which typically includes all market capitalizations. RRAM employs a value-driven, bottom-up fundamental approach. The official benchmark for the composite is the Russell 3000 Value -Unmanaged index constructed to provide a comprehensive and unbiased barometer of the broad value market.

As of December 31, 2013, net of fees returns for the Research Fund Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 Year, and Inception to Date periods: 2.37%, 11.12%, 38.75%, 38.75%, 20.13%, 24.59% and 24.59%. As of December 31, 2013, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 Year, and Inception to Date periods: 2.48%, 9.95%, 32.69%, 32.69%, 15.93%, 16.75%, and 16.75%.