



April 17, 2014

Dear Friends and Investors,

It was a benign quarter for stocks with most of the major U.S. indices posting modestly positive returns, including the S&P 500 **(+1.81%)** and Nasdaq **(+0.54%)**. Beneath the index returns, however, **a number of interesting cross currents and potential trend shifts emerged**. Volatility trended higher during the period, including a nearly -6% drop in the S&P 500 between mid-January and early February – **the largest decline since April-June 2012**.

Additionally, **market leadership shifted dramatically in mid-March** following comments from new Federal Reserve Chair Janet Yellen indicating the central bank may hike rates sooner rather than later. **The result was a “mini-crash” among the highest momentum stocks** and a surge among low beta, high yield, and more value-oriented groups. According to Ned Davis Research, March was the first month the highest yielding stocks in the S&P 500 outperformed the lowest yielding since June of last year, **ending the longest period of consecutive underperformance for the highest yielding stocks since 1980**.

From a size and style perspective, **small cap stocks lagged large cap for the second consecutive quarter**, with the Russell 2000 returning **+1.12%** versus **+2.05%** for the Russell 1000. Mid cap was the top performing size group, with the Russell Mid Cap index returning **+3.53%**. Additionally, **value outperformed growth across all market caps**.

| Q1 2014 Composite Performance Summary ¹ | | | | | | | |
|--|-----------------|----------------|---------------|---------------|-------------------|-------------------|---------------|
| | Small Cap Value | SMID Cap Value | DAV | DAV II | Independent Value | Long-Short Equity | Research Fund |
| | Q1 2014 | Q1 2014 | Q1 2014 | Q1 2014 | Q1 2014 | Q1 2014 | Q1 2014 |
| Gross | 2.26% | 1.32% | 0.66% | 0.57% | 0.76% | -3.21% | -0.36% |
| Net | 2.07% | 1.13% | 0.50% | 0.48% | 0.51% | -3.50% | -0.61% |
| Benchmark ² | 1.78% | 3.52% | 2.92% | 2.92% | 1.78% | 1.97% | 2.92% |
| + / - | +0.48% | -2.20% | -2.26% | -2.35% | -1.02% | -5.18% | -3.28% |

The quarter was challenging for many of our investment strategies, as high exposure to the lagging Consumer Discretionary sector and disappointing results from a handful of stocks owned across multiple strategies weighed on relative performance.

One bright spot was the River Road **Small Cap Value (SCV)** Strategy, which delivered the best absolute and relative returns in the firm for Q1. Performance was driven by a combination of factors, including strong stock performance, heightened M&A activity, and a shift toward low beta and value leadership in the small cap universe. A major driver of Portfolio returns in 2013, **M&A activity remained elevated in Q1**. **Among the four M&A events within the Portfolio were three acquisitions**, involving a diverse set of companies.

The **Small-Mid Cap Value (SMID)** Strategy lagged both SCV and its benchmark during Q1. Relative performance was negatively impacted by poor returns from a handful of stocks in the Information Technology and Consumer Discretionary sectors. Additionally, **the SMID Portfolio experienced less M&A activity than SCV and no tailwind from low beta leadership within its universe**.

The **Dividend All-Cap Value (DAV and DAV II)** Strategies also struggled against the benchmark in Q1. **Relative performance was impacted by poor stock performance and a larger than typical allocation to cheaper, lower yielding companies versus expensive, higher yielding firms that rebounded during the quarter**. This positioning, which was implemented throughout 2012, had a strong positive impact on 2013 relative results, but reversed in late Q1.

The River Road **Independent Value Strategy™** returned **+0.76%** (+0.51% net) in Q1 versus **+1.78%** for the Russell 2000 Value. While equity performance for the quarter was in line with the benchmark **(+1.69%)**,³ the Portfolio's above-average cash level continued to weigh on relative performance. The Independent Value Strategy™ focuses on an absolute return approach. According to portfolio manager Eric Cinnamon, **small cap stocks are more expensive now than at any other time during the Portfolio's 15-year history**. Indeed, a recent Bloomberg article noted, "Small-cap shares tracked by the Russell 2000 Index have rallied for seven straight quarters, the longest stretch ever, sending valuations 26 percent above levels at the height of the 1990s rally."

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

² 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.

³ Gross of fees; does not reflect the effect of management fees (performance would have been lower). Please refer to net of fees performance provided when considering this strategy. Supplemental information to the Independent Value composite presentation.



The River Road **Long-Short Equity** Strategy also struggled in Q1. The Portfolio returned **-3.21%** (-3.50% net) versus **+1.97%** for the Russell 3000, with an average net market exposure of 50%. **The primary driver of underperformance was poor stock selection**, with the long portfolio (-1.64%), individual short portfolio (+3.30%), and short hedges (+14.40%) all underperforming.⁴

Finally, the River Road **Research Fund**, which boasts the strongest three-year, five-year, and since inception track record in the firm, delivered its second worst relative quarterly performance on record, returning **-0.36%** (-0.61% net) versus **+2.92%** for the benchmark Russell 3000 Value index. More than any other River Road Strategy, the performance of the Research Fund highlights the challenges we faced as an organization last quarter as it consists of the analyst team's highest conviction picks from among all of the firm's existing Portfolio holdings. **Clearly, our style of investing (particularly among our mid and large cap holdings) was not working very well in Q1.**

With regard to firm news, on March 28, we announced that River Road agreed to enter into a strategic partnership with Affiliated Managers Group, Inc. We have hosted dozens of calls about the transaction with clients over the past few weeks and are thrilled that you share our excitement about both our choice of partner and the structure of the deal. We are pleased that the partnership with AMG **ensures our investment and operational autonomy and that our associates will own a significant percentage of equity in the firm going forward.** We are currently engaged in the SEC-mandated consent process and hope to close the transaction on or about June 30.

We are also pleased to report that **River Road hired three new associates in 2014 and announced a total of six year-end promotions.** Among the new hires is Todd Mayberry, who joined RRAM on April 14 as an *Associate Equity Analyst*. Todd is a graduate of the University of Cincinnati, where he obtained a BS in Finance, and has passed all three levels of the CFA program. Todd joins RRAM with nearly three years of financial analysis experience, most recently with PNC where he served in the corporate development program covering credit relationships in the gaming industry.

We hope you enjoy reading the attached Market Commentary and Outlook. **Thank you for investing with River Road.**

R. Andrew Beck
President & CEO, Senior Portfolio Manager

James C. Shircliff, CFA
Chief Investment Officer

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

⁴ Gross of fees; does not reflect the effect of management fees (performance would have been lower). Please refer to net of fees performance provided when considering this strategy. Excludes the impact of cash and an immaterial investment in covered call options previously held. Based on a representative portfolio within the LS Strategy. Supplemental information to the LS composite presentation.



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.

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 March 31, 2014, 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: 2.07%, 2.07%, 2.07%, 19.00%, 12.82%, 18.93%, 10.26%, and 11.11%. As of March 31, 2014, 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: 1.24%, 1.78%, 1.78%, 22.65%, 12.74%, 23.33%, 8.07%, and 8.70%. As of March 31, 2014, 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: -0.68%, 1.12%, 1.12%, 24.90%, 13.18%, 24.31%, 8.53%, and 7.65%.

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 March 31, 2014, 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: 1.87%, 1.13%, 1.13%, 15.01%, 12.96%, 19.39%, and 6.35%. As of March 31, 2014, 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: 1.37%, 3.52%, 3.52%, 21.76%, 13.88%, 24.81%, and 6.54%.

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 March 31, 2014, 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: 1.13%, 0.50%, 0.50%, 17.15%, 14.06%, 19.86%, 10.32%, and 11.62%. As of March 31, 2014, 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: 2.30%, 2.92%, 2.92%, 21.65%, 14.63%, 21.88%, 7.62%, and 8.96%.

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 March 31, 2014, 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: 1.35%, 0.48%, 0.48%, 17.36%, 13.74%, 14.16%. As of March 31, 2014, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 2.30%, 2.92%, 2.92%, 21.65%, 14.63%, and 15.66%.

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 March 31, 2014, 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: -0.85%, 0.51%, 0.51%, 4.79%, 5.79%, 16.04%, 9.45%, and 10.17%. As of March 31, 2014, 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: 1.24%, 1.78%, 1.78%, 22.65%, 12.74%, 23.33%, 8.07%, and 10.08%.

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 at 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 March 31, 2014, 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: -0.60%, -3.50%, -3.50%, 7.07%, 8.36%, and 11.91%. As of March 31, 2014, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 0.53%, 1.97%, 1.97%, 22.61%, 14.61%, and 20.19%.

Representative Portfolios – Where indicated, data presented is based on representative portfolios within the LS Strategy. Since no single representative portfolio is available to represent the strategy since inception, data for historical periods combines two or more representative portfolios, using the same criteria, within the LS Strategy to create a continuous representative portfolio.

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 March 31, 2014, 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: 1.57%, -0.61%, -0.61%, 22.35%, 16.19%, 26.51%, and 23.17%. As of March 31, 2014, 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: 2.30%, 2.92%, 2.92%, 21.65%, 14.63%, 21.88%, and 16.54%.