



July 17, 2014

Dear Friends and Investors,

Stocks traded higher in Q2 as investors became increasingly confident about a second half rebound in economic growth. Delivering a sixth consecutive quarterly gain, the S&P 500 index returned **+5.23%**, to close the quarter at an all-time high. **The index also exhibited its lowest volatility since 2007**, helping to extend the period without at least a -10% correction to a staggering 683 trading days – more than twice the 331 average during a secular bull market.

Small cap stocks lagged large cap for the third consecutive quarter, with the Russell 2000 index returning **+2.05%** for Q2 versus **+5.12%** for the Russell 1000. **The small cap index also displayed significantly higher volatility than the broader market**, dropping **-9.3%** from March 4 to May 15 before bouncing back sharply. However, it was the eighth consecutive quarterly gain for the Russell 2000, marking **the longest winning streak since 1995/1996**.

Highlighting the strength in financial assets (and the influence of current monetary policy) was investors' reaction to the massive negative revision to Q1 GDP released on June 25. Initially reported at +0.1%, and later revised to -1.0%, the final revision was a stunning **-2.9%**, representing **the worst quarterly GDP growth on record for any non-recessionary period**. Dismissing the report as irrelevant to current and future conditions, stocks closed higher on the day.

Q2 2014 Composite Performance Summary¹

	Small Cap Value		SMID Cap Value		DAV		DAV II		Independent Value		Long-Short Equity		Research Fund	
	Q2 2014	YTD	Q2 2014	YTD	Q2 2014	YTD	Q2 2014	YTD	Q2 2014	YTD	Q2 2014	YTD	Q2 2014	YTD
Gross	-0.54%	1.71%	1.66%	3.00%	4.57%	5.25%	4.64%	5.24%	3.35%	4.14%	2.63%	-0.67%	6.37%	5.98%
Net	-0.72%	1.33%	1.47%	2.62%	4.40%	4.92%	4.53%	5.03%	3.10%	3.62%	2.32%	-1.26%	6.10%	5.45%
Benchmark²	2.38%	4.20%	4.20%	7.87%	4.89%	7.95%	4.89%	7.95%	2.38%	4.20%	4.87%	6.94%	4.89%	7.95%
+ / -	-2.92%	-2.49%	-2.54%	-4.87%	-0.32%	-2.70%	-0.25%	-2.71%	+0.97%	-0.06%	-2.24%	-7.61%	+1.48%	-1.97%

The top performing strategy for Q2 was the River Road Research Fund, which returned **+6.37%** (+6.10% net) for the quarter versus **+4.89%** for the benchmark. The Research Fund continues to rebound strongly (including since quarter-end) from a weak Q1. The Research Fund is managed by our analyst team, under the supervision of Andrew Beck and Thomas Forsha, and consists of the team's highest conviction picks from among all of the firm's existing holdings. The Research Fund is concentrated (20 to 30 holdings), benchmark independent, and seeks to remain fully invested at all times.³

To the credit of our analysts, the Strategy has delivered fantastic investment results in the period since inception,⁴ outperforming the benchmark every calendar year, returning **+24.57%** annualized (+23.33% net) versus **+16.74%** for the benchmark, while exhibiting less volatility. We have not yet begun formally marketing the Research Fund; however, it is open (on a limited basis) to external capital. If you are interested in receiving additional information, please contact Michele Robbins or Katrina O'Leary at 502.371.4100.

The River Road **Independent Value Strategy™** also delivered attractive Q2 performance, returning **+3.35%** (+3.10% net) versus **+2.38%** for the benchmark Russell 2000 Value index. Strong absolute performance was primarily due to stock selection within commodities sectors, including Materials (+147 bps) and Energy (+72 bps). The equity-only portion of the Portfolio also performed well, returning **+11.69%**.⁵

The **Dividend All-Cap Value (DAV and DAV II) Strategies** slightly underperformed the benchmark as the market advanced in Q2. Strong stock selection in Consumer Staples and Industrials was offset by the continued underperformance in Consumer Discretionary holdings. Interest-rate sensitive stocks, Utilities and REITs in particular, benefited as long-term interest rates continued their decline in the period, while the higher quality, lower yielding stocks to which the Strategy has increasingly allocated, trailed modestly. This positioning, which was implemented throughout 2012, had a strong positive impact on 2013 relative results, but has been a modest headwind in 1H 2014.

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 The target number of portfolio holdings is a working guideline. The actual number may vary depending on market conditions and other factors. The Research Fund may continue to hold a stock that has been sold out of all other River Road strategies.

⁴ Research Fund inception: January 1, 2009.

⁵ Stock selection contribution and equity-only performance 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. Stock selection contribution based on a representative portfolio within the Strategy.



The River Road **Small Cap Value (SCV) Strategy** returned **-0.54%** (-0.72% net) for Q2 versus **+2.38%** for the Russell 2000 Value index. The Portfolio's performance during Q2 was negatively impacted by poor stock performance, primarily within the Energy and Materials sectors (where correlations to the benchmark tend to be low), partially offset by strength within the Financials and Consumer Staples sectors. While disappointed with this quarter's SCV performance, we firmly believe the drivers of the Portfolio's security-specific underperformance were largely temporary headwinds.

Similarly, the **Small-Mid Cap Value (SMID) Strategy** lagged its benchmark during the quarter, returning **+1.66%** (+1.47% net) for Q2 versus **+4.20%** for the Russell 2500 Value index. Despite a high overlap percentage, the SMID Strategy outperformed Small Cap with strength coming from significant positions in mid cap holdings. However, the Strategy faced a much tougher headwind relative to benchmark performance.

Finally, the River Road **Long-Short Equity Strategy** returned **+2.63%** (+2.32% net) versus **+4.87%** for the Russell 3000, with an average net market exposure of 46%. Strong long portfolio performance (**+6.48%**) was offset by low net market exposure and poor short portfolio performance (**+7.13%**).⁶

With regard to firm news, **we are thrilled to announce that we closed our transaction with Affiliated Managers Group Inc. (AMG) on June 30.** As part of this agreement, River Road's employees will acquire a significant portion of the equity of the business. River Road's management team will retain autonomy in both the operation of the company and the management of its investment portfolios. Further, River Road's executive team and most senior investment personnel have entered into new, long-term (+10-year) employment agreements. River Road will also maintain a significant investment relationship with Aviva through a number of sub-advisory mandates.

We are also pleased to report that River Road hired three new associates in Q2. Among the new hires is Todd Mayberry, who joined RRAM on April 14 as an *Associate Equity Analyst*. As reported in our previous letter, Todd is a graduate of the University of Cincinnati, where he obtained a B.B.A. in Finance, and has passed all three levels of the CFA program. Todd joins RRAM with about 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 also hired Andrea Gruver, JD in the role of *Compliance and Legal Specialist* and Jessica Howard in the role of *Client Communications Coordinator*. Ms. Gruver earned a B.S. in Economics and Environmental and Renewable Resource Economics from Pennsylvania State University and a J.D. from Vanderbilt University Law School. Ms. Gruver is a Kentucky licensed attorney. Ms. Howard earned a B.A. in Marketing from the University of Kentucky. Prior to joining River Road, Ms. Howard worked as a Marketing Administrator for Sekisui S-LEC America.

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

⁶ 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. Based on a representative portfolio within the LS Strategy. Supplemental information to the LS composite presentation.



Disclosures:

River Road Asset Management, LLC ("RRAM") is a registered investment adviser formed in April 2005 and is partially owned by Affiliated Managers Group, Inc. This presentation may be presented by an employee of Affiliated Managers Group, Inc., AMG Funds, or Aston Asset Management, LLC, 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 June 30, 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%, -0.72%, 1.33%, 14.11%, 13.47%, 14.98%, 9.34%, and 10.88%. As of June 30, 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: 4.42%, 2.38%, 4.20%, 22.54%, 14.65%, 19.88%, 8.24%, and 8.72%. As of June 30, 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: 5.32%, 2.05%, 3.19%, 23.64%, 14.57%, 20.21%, 8.70%, and 7.67%.

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 \$10 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 June 30, 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: 3.44%, 1.47%, 2.62%, 14.00%, 14.33%, 16.82%, and 6.34%. As of June 30, 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: 4.33%, 4.20%, 7.87%, 24.94%, 16.02%, 21.58%, and 6.91%.

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 June 30, 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: 2.49%, 4.40%, 4.92%, 18.76%, 15.14%, 18.57%, 10.89%, and 11.78%. As of June 30, 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: 2.75%, 4.89%, 7.95%, 23.71%, 16.73%, 19.28%, 8.04%, and 9.23%.

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 June 30, 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: 2.51%, 4.53%, 5.03%, 19.00%, 14.90%, 14.53%. As of June 30, 2014, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 2.75%, 4.89%, 7.95%, 23.71%, 16.73%, 16.04%.

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 June 30, 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: 3.58%, 3.10%, 3.62%, 9.22%, 6.22%, 13.00%, 9.51%, and 10.21%. As of June 30, 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: 4.42%, 2.38%, 4.20%, 22.54%, 14.65%, 19.88%, 8.24%, 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 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 June 30, 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: 1.76%, 2.32%, -1.26%, 8.74%, 8.68%, 11.77%. As of June 30, 2014, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 2.51%, 4.87%, 6.94%, 25.22%, 16.46%, and 20.24%.

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 June 30, 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: 2.85%, 6.10%, 5.45%, 23.71%, 18.80%, 22.42%, and 23.33%. As of June 30, 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: 2.75%, 4.89%, 7.95%, 23.71%, 16.73%, 19.28%, and 16.74%.