



July 13, 2015

Dear Friends and Investors,

**Stocks ‘took a licking and kept on ticking’ as plunging earnings expectations, weak economic growth, and a barrage of negative international news all failed to push the major equity indices into the red.** Small cap stocks led large cap for the third consecutive quarter, with the Russell 2000 index returning **+0.42%** versus **+0.11%** for the Russell 1000 and **+0.28%** for the S&P 500.

From a style perspective, growth stocks outperformed value across all market caps. **Factor performance was mixed**, though, with high quality factors outperforming among small cap stocks but underperforming among large cap. Unfortunately, **dividend payers underperformed across all market caps and were one of the worst performing factors in Q2 and for the first half of the year.**

Q2 2015 Composite Performance Summary <sup>1</sup>														
	Small Cap Value		Small-Mid Cap Value		Dividend All-Cap Value		Dividend All-Cap Value II		Focused Absolute Value		Independent Value		Long-Short Equity	
	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD
<b>Gross</b>	2.96%	5.88%	1.91%	5.59%	-2.76%	-1.94%	-2.84%	-2.60%	-0.46%	0.99%	-0.24%	-0.92%	0.19%	0.87%
<b>Net</b>	2.76%	5.48%	1.74%	5.22%	-2.92%	-2.26%	-2.93%	-2.79%	-0.71%	0.48%	-0.49%	-1.42%	-0.11%	0.26%
<b>Benchmark<sup>2</sup></b>	-1.20%	0.76%	-1.27%	1.71%	0.00%	-0.51%	0.00%	-0.51%	0.00%	-0.51%	-1.20%	0.76%	0.14%	1.94%
+ / -	+4.16%	+5.12%	+3.18%	+3.88%	-2.76%	-1.43%	-2.84%	-2.09%	-0.46%	+1.50%	+0.96%	-1.68%	+0.05%	-1.07%

**It was a terrific quarter for River Road’s smaller cap strategies, with all outperforming their respective benchmarks.** The top-performing strategy from both an absolute and relative return perspective was **Small Cap Value (SCV)**, followed by **Small-Mid Cap Value (SMID)**. SCV and SMID are also leading the firm year-to-date, benefiting from strong stock selection and, to a lesser extent, positive sector allocation.

As the team notes in their commentary, **the SCV and SMID Strategies have benefited from the improved performance of higher quality companies in the smaller cap space.** This is especially encouraging following an extended period of both above average index returns and unfavorable factor headwinds. While the SCV and SMID Strategies are still modestly underperforming on a three- and five-year basis, they are quickly reclaiming lost ground. On a longer-term basis, the SCV Strategy has delivered on both its return objective (index +200 to +400 bps, gross/annualized) **AND** its objective of outperforming the index with significantly less volatility. **Since its inception in 1998, the Strategy Composite has outperformed by more than +300 bps gross/annualized (more than +200 bps net/annualized) with a standard deviation that is just 76% of the index.** We believe that is a significant risk *and* reward benefit for clients who chose our active, proprietary Absolute Value® approach over a passive alternative.

The River Road **Independent Value Strategy®** also outperformed its benchmark during the quarter. The Strategy remains positioned in a contrarian manner, with record-high cash levels and the majority of its holdings among the short list of industries that have experienced significant bear markets during this extended market recovery. This deliberately patient stance and allocation to out-of-favor industries are consistent with the long-term Independent Value objective of generating attractive **absolute** returns and avoiding permanent losses. It is also consistent with the Strategy’s positioning in prior cycles during periods of broad overvaluation, such as we see today in the small cap market and in the Strategy’s target universe of 300 stocks.

River Road’s **Long-Short Equity** Strategy also delivered positive gross absolute and relative performance in Q2 (net absolute and relative performance was slightly negative). Results were aided by strong stock selection in the Strategy’s long portfolio and an average net market exposure of 64%, partially offset by disappointing performance within the Strategy’s short portfolio.

<sup>1</sup> Please see the attached 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; FAV – Russell 3000 Value; Independent Value – Russell 2000 Value; Long-Short Equity – Russell 3000.



River Road's **Dividend All-Cap Value** Strategies (including DAV and DAV II) underperformed their benchmark during Q2, driven by weak performance among a few key holdings and the general underperformance of dividend paying stocks. Similarly, River Road's **Focused Absolute Value (FAV)** Strategy lagged in Q2, primarily due to stock performance among large cap holdings. However, **the all-cap FAV Strategy continues to lead its benchmark year-to-date, driven by especially robust returns among its small cap holdings.** The FAV Strategy is a concentrated portfolio (20 to 30 holdings) of the River Road analyst team's highest conviction recommendations from among the firm's existing portfolio holdings.<sup>3</sup> The ability to move across the market cap spectrum has been a key source of outperformance in 2015 and since inception.

From a firm perspective, **we completed the move to our new office space in late June.** This was our first move in 10 years and was welcomed by all on staff, particularly those who had been residing in temporary quarters as we had outgrown our existing space. We were also pleased that, thanks to a year of careful planning, we were able to complete the move without any significant technical or logistical issues. **While we remain in our existing building, please note that the suite number did change from 1600 to 2000,** as we now occupy floor 20 and part of floor 21 at Louisville's Meidinger Tower. We hope that you will have an opportunity to visit our new headquarters, where we would look forward to giving you a tour.

We hope you enjoy reading the attached market commentary and outlook and welcome your questions and feedback. **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*

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<sup>3</sup> The target number of portfolio holdings is a working guideline. The actual number may vary depending on market conditions and other factors. Focused Absolute Value may continue to hold a stock that has been sold out of all other River Road strategies.



#### **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](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 our proprietary 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 typically 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, 2015, 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: 1.18%, 2.76%, 5.48%, 4.31%, 13.67%, 13.46%, 8.04%, and 10.50%. As of June 30, 2015, 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: 0.13%, -1.20%, 0.76%, 0.78%, 15.50%, 14.81%, 6.87%, and 8.25%.

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 our proprietary 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 typically between \$250 million to \$10 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, 2015, 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: 0.26%, 1.74%, 5.22%, 2.91%, 13.24%, 14.31%, and 5.92%. As of June 30, 2015, returns for the Russell 2500 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: -1.05%, -1.27%, 1.71%, 0.99%, 16.99%, 16.24%, and 6.18%.

#### 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 our proprietary 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, 2015, 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: -3.51%, -2.92%, -2.26%, 2.43%, 13.84%, 14.72%, 8.65%, and 10.96%. As of June 30, 2015, 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: -1.83%, 0.00%, -0.51%, 3.86%, 17.20%, 16.36%, 7.03%, and 8.76%.

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, 2015, 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: -3.70%, -2.93%, -2.79%, 2.59%, 13.69%, 11.76%. As of June 30, 2015, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: -1.83%, 0.00%, -0.51%, 3.86%, 17.20%, 13.21%.

#### 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 intrinsic 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 typically 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, 2015, 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: -1.40%, -0.49%, -1.42%, -6.57%, 2.75%, 7.38%, 8.14%, and 9.13%. As of June 30, 2015, 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: 0.13%, -1.20%, 0.76%, 0.78%, 15.50%, 14.81%, 6.87%, and 9.49%.

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 our proprietary Absolute Value® and selling short equity securities that trade a premium to our proprietary 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, 2015, 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: -1.42%, -0.11%, 0.26%, -0.19%, 7.04%, 9.26%. As of June 30, 2015, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: -1.67%, 0.14%, 1.94%, 7.29%, 17.73%, 17.54%.

#### Focused Absolute Value Composite Disclosures:

Inception Date: January 1, 2009. **The team of analysts involved with recommending investments for Focused Absolute Value has changed and may continue to change over time.** The 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. Prior to September 30, 2014, the composite was known as the Research Fund Composite.

The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in equity securities that trade at a discount to our proprietary 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, 2015, net of fees returns for the Focused Absolute Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -3.34%, -0.71%, 0.48%, 5.01%, 17.791%, 19.55%, and 20.31%. As of June 30, 2015, 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: -1.83%, 0.00%, -0.51%, 3.86%, 17.20%, 16.36%, and 14.66%.

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