



October 13, 2016

Dear Friends and Investors,

The rally in stocks since February gained momentum in Q3 as the Federal Reserve again passed on the opportunity to raise rates and investors celebrated by **markedly** increasing their appetite for risk. **Across asset classes, sectors, market caps, and style factors, investors eschewed traditionally defensive investments in favor of more volatile, more cyclical, higher beta, and lower quality ones.** As a result, small caps led large cap by a wide margin (+9% versus +4%) and growth beat value across all market caps.

While the “risk-on” environment made it a challenging quarter for River Road, several strategies met or exceeded our expectations. Additionally, **a majority of River Road strategies continue to outperform their benchmarks year to date.**

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®		Long-Short Equity	
	Q3	YTD	Q3	YTD	Q3	YTD	Q3	YTD	Q3	YTD	Q3	YTD
<b>Gross</b>	5.06%	14.08%	4.46%	15.42%	3.53%	13.71%	3.42%	13.61%	8.56%	16.42%	2.75%	1.23%
<b>Net</b>	4.85%	13.38%	4.30%	14.88%	3.37%	13.19%	3.32%	13.26%	8.45%	15.89%	2.44%	0.32%
Benchmark <sup>2</sup>	8.87%	15.49%	6.18%	14.51%	3.87%	10.40%	3.87%	10.40%	3.87%	10.40%	2.25%	4.32%
+ / -	-3.81%	-1.41%	-1.72%	+0.91%	-0.34%	+3.31%	-0.45%	+3.21%	+4.69%	+6.02%	+0.50%	-3.09%

The outstanding strategy for Q3 (and year to date) was **Focused Absolute Value® (FAV)**, which beat the benchmark by **+469 bps** (+458 bps net). Both strong stock selection and sector allocation drove the positive performance with 66% of holdings outpacing the benchmark return.

**We have frequently touted FAV’s unconstrained approach as a showcase for River Road’s proprietary Absolute Value® approach.** FAV is a concentrated (20 - 30 stocks) portfolio comprised of what our analyst team believes are the “best and most timely ideas” selected from the stocks held across all River Road portfolios.<sup>3</sup> Selection is based upon the firm’s formal and highly disciplined conviction and valuation assessment criteria. Unlike many concentrated strategies, FAV seeks to be fully invested (cash ≤ 2%) at all times.<sup>3</sup> Funded in 2009, the FAV Strategy has a nearly eight-year track record, featuring both **highly attractive return AND downside volatility characteristics.**

**We believe FAV is IDEAL for inclusion in a core-satellite approach or an opportunistic/all cap allocation.** We are further pleased to announce that the FAV Strategy exceeded \$100 MM in AUM during the quarter. Achieving this important milestone comes less than seven months after the firm accepted its first separate account mandate in the Strategy. Capacity in the FAV Strategy is very limited and preference is given to existing firm relationships. For information on how to invest, please contact **Michele Robbins at (502) 371-4132.**

River Road’s **Dividend All-Cap Value Strategies** (including DAV and DAV II) modestly underperformed the benchmark in Q3. Considering the significant headwinds for our Absolute Value® style and dividend-focused strategies, in general, we were pleased with relative performance. Indeed, the firm’s value discipline served the Strategies well, as it resulted in underweighting the high-yielding, but richly-valued defensive sectors that suffered most during the quarter. For the year-to-date period, **the DAV and DAV II Composites remain ahead of the benchmark by +331 bps (+279 bps net) and +321 bps (+286 bps net), respectively.**

River Road’s **Small Cap Value (SCV) and Small-Mid Cap Value (SMID) Strategies** fell short of their respective benchmarks during the quarter. **While disappointed with relative performance, we would expect the strategies to underperform in such a strong return environment dominated by high beta, low quality factors.** Indeed, the Small Cap Value team stated in their commentary last quarter, “*Our current positioning should support the Portfolio’s relative*

<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; Long-Short Equity – 50% Russell 3000 index/50% BofA Merrill Lynch U.S. T-Bill 0-3 month index.

<sup>3</sup> Holdings, market cap, and cash limits are working policies and, as such, are subject to change without notification.



*performance if markets move modestly higher OR if they reverse course and head lower. The biggest challenge to relative performance would be a sharp, unexpected move higher..."* For the year-to-date period, SCV trails the benchmark by **-141 bps** (-211 bps net) while SMID leads by **+91 bps** (+37 bps net).

River Road's **Long-Short Equity Strategy** performed reasonably well during the quarter, beating its baseline return objective (50% R3000 Index / 50% BofA Merrill Lynch U.S. T-Bill 0-3 month index) by **+50 bps** (+19 bps net). Strong stock selection, especially in the long portfolio, helped to partly overcome the challenging macro environment.

With regard to firm news, we are thrilled to announce that **William W. Yang, CFA**, a well-regarded international equity investment manager, has joined the firm. William will serve as Portfolio Manager of the firm's new **International Value Equity Strategy**. William brings nearly 15 years of investment experience to the firm. Prior to joining River Road, he served as Senior Portfolio Manager for Boston Private Wealth LLC. William and his family will relocate to Louisville, KY from their home in Plano, TX.

Hiring William and launching **the firm's new International Value Equity Strategy are the first steps toward offering our clients a global suite of Absolute Value® investment solutions**. River Road expects to make its International Value Equity Strategy available to clients in the first half of 2017.

We hope you enjoy reading River Road's portfolio commentary and outlook and welcome your questions and feedback.

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

James C. Shircliff, CFA  
*Chief Investment Officer &  
Senior Portfolio Manager*

Henry W. Sanders, III, CFA  
*Executive Vice President &  
Senior Portfolio Manager*



## **Disclosures:**

River Road Asset Management, LLC ("RRAM") is a registered investment adviser formed in April 2005 and is majority owned by Affiliated Managers Group, Inc. This presentation may be presented by an employee of Affiliated Managers Group, Inc., AMG Funds, or another AMG 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 income.

### Small Cap Value 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 assessed valuation as determined using RRAM's proprietary Absolute Value® approach. For this composite, RRAM defines a small cap company as one whose market capitalization is less than \$3 B. The Manager selects securities from a universe of companies with a market capitalization at the time of initial purchase typically between \$50 MM and \$3 B, 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.

As of September 30, 2016, 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: -0.29%, 4.85%, 13.38%, 16.62%, 6.10%, 13.96%, 5.83%, and 10.14%. As of September 30, 2016, 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: 0.79%, 8.87%, 15.49%, 18.81%, 6.77%, 15.45%, 5.78%, and 8.02%.

Performance presented prior to April 1, 2005 occurred while the original members of the Portfolio Management Team were affiliated with a prior firm and those 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 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 assessed valuation as determined using RRAM's proprietary Absolute Value® approach. For this composite, RRAM defines a small to mid-cap company as one whose market capitalization is less than \$10 B. RRAM selects securities from a universe of companies with a market capitalization at the time of initial purchase typically between \$250 MM to \$10 B, employing a value driven, bottom-up fundamental approach. The official benchmark of the Small-Mid Cap Value Composite Portfolio is the Russell 2500 Value.

As of September 30, 2016, 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: -0.77%, 4.30%, 14.88%, 18.05%, 5.81%, 14.22%, and 5.89%. As of September 30, 2016, 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: 0.66%, 6.18%, 14.51%, 17.68%, 8.05%, 16.29%, and 6.04%.

### 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 assessed valuation as determined using RRAM's proprietary Absolute Value® approach. 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 B 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.

As of September 30, 2016, 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: -0.51%, 3.37%, 13.19%, 18.27%, 8.97%, 14.11%, 7.67%, and 10.73%. As of September 30, 2016, 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: -0.13%, 3.87%, 10.40%, 16.38%, 9.46%, 16.09%, 5.84%, and 8.40%.

Performance presented prior to April 1, 2005 occurred while the original members of the Portfolio Management Team were affiliated with a prior firm and those 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 September 30, 2016, net of fees returns for the Dividend All-Cap Value II Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -0.42%, 3.32%, 13.26%, 18.50%, 9.42%, 14.11%, and 11.21%. As of September 30, 2016, 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: -0.13%, 3.87%, 10.40%, 16.38%, 9.46%, 16.09%, and 11.38%.

### 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 assessed valuation and selling short equity securities that trade a premium to our assessed valuation as determined using RRAM's proprietary Absolute Value® approach. 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.

As of September 30, 2016, net of fees returns for the Long-Short Equity Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -1.54%, 2.44%, 0.32%, 2.08%, 1.43%, 6.18%, and 7.46%. As of September 30, 2016, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 0.16%, 4.40%, 8.18%, 14.96%, 10.44%, 16.36%, and 14.97%.

### 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 assessed valuation as determined using RRAM's proprietary Absolute Value® approach. 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. One client account is a current employee of RRAM. The official benchmark for the composite is the Russell 3000. Fully invested is as defined by RRAM.

As of September 30, 2016, 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: -1.77%, 8.45%, 15.89%, 18.31%, 10.76%, 18.23%, and 18.41%. As of September 30, 2016, 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: -0.13%, 3.87%, 10.40%, 16.38%, 9.46%, 16.09%, and 13.05%.

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