

# Focused Absolute Value®

A HIGH CONVICTION STRATEGY | QUARTERLY UPDATE AS OF DECEMBER 31, 2016



## Investment Objective

Long-term Total Return = Russell 3000 Value index plus a minimum of +200 bps

## Strategy Highlights

**Focused Absolute Value® is a concentrated, all cap value strategy composed of what the firm believes are the 20 to 30 “best ideas” recommended by River Road analysts from the broader universe of firm holdings.<sup>1</sup>**

The Strategy combines the firm’s proven investment processes, with the stock picking skills of River Road portfolio managers and collective insights and opinions of the firm’s analyst team.

The Strategy seeks to remain fully invested at all times, is index independent, and is highly opportunistic. The minimum market cap for investment is \$250 MM (at the time of initial purchase).

## Portfolio Managers



### R. Andrew Beck

17 years of experience;  
managed Portfolio since inception

University of Louisville, BS  
Babson College, MBA

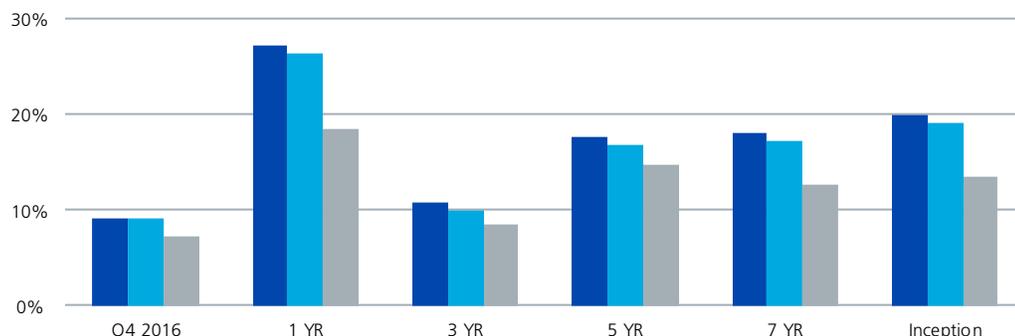


### Thomas S. Forsha, CFA

18 years of experience;  
managed Portfolio since inception

The Ohio State University, BS  
University of Chicago, MBA

## Performance Summary



	Q4 2016	1 YR	3 YR	5 YR	7 YR	Inception
FAV Composite - Gross	9.20%	27.14%	10.82%	17.74%	18.12%	19.99%
FAV Composite - Net	9.11%	26.44%	10.06%	16.90%	17.26%	19.07%
Russell 3000 Value	7.24%	18.40%	8.55%	14.81%	12.75%	13.60%
Out / Underperformance	+1.96%	+8.74%	+2.27%	+2.93%	+5.37%	+6.39%

Performance is shown gross and net of fees as of December 31, 2016. Inception date: January 1, 2009. Out/underperformance compares Focused Absolute Value® gross performance and Russell 3000 Value. If a holding is liquidated from all RRAM portfolios, the stock must be sold from the Focused Absolute Value® Portfolio within a reasonable period of time (as defined by the portfolio managers). Source: River Road Asset Management LLC and Russell Investment Group. Past performance is no guarantee of future results. Please see reverse side for important disclosure information.

## Portfolio Review

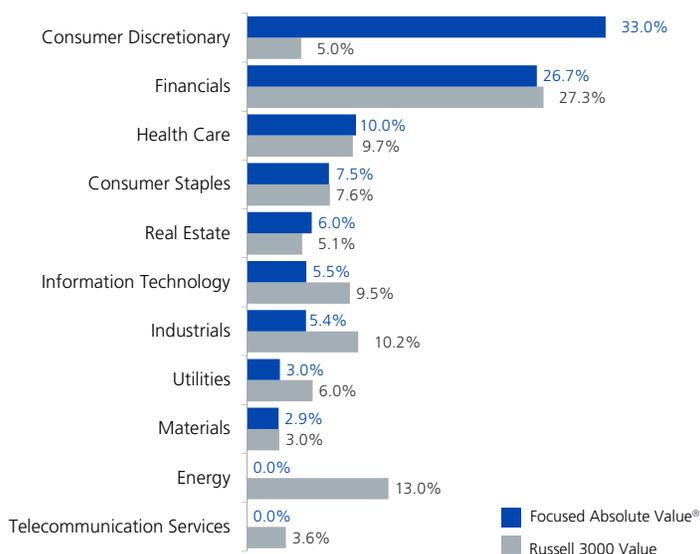
**Stocks soared in Q4 following a stunning election upset that saw Republicans win the White House and retain a majority in Congress**, resulting in a radical, pro-growth regime change in Washington. Following a weak start to the quarter, small cap stocks led the post-election rally as investors bet on lower taxes, increased infrastructure spending, and broad deregulation. **For 2016, small caps also outperformed large cap, delivering the best relative performance since 2010.**

During the quarter, our holdings within **Industrials** and **Consumer Staples**, most of which were smaller cap companies, had the largest positive impact on relative return. The top contributing holding in the Portfolio during Q4 was **Spirit AeroSystems Holdings Inc. (SPR)**, the largest independent non-OEM designer, manufacturer, and key supplier of aerostructures for Boeing and Airbus. Spirit has 84% of revenue under long-term exclusive contracts, a backlog with seven years of visibility, and a well-respected management team willing to aggressively use its ample free cash flow to repurchase shares. At the beginning of November, **SPR announced strong quarterly results** with revenue growth of +7%, EBIT margin expansion of +50 bps, and a sharp rise in free cash flow. This also marked the second straight quarter management **increased annual guidance**. Supporting our thesis, SPR repurchased **approximately 6% of shares during the quarter, authorized a new buyback for another ~9% of the company, and initiated a \$0.10 per share quarterly dividend.**

During Q4, both allocation to and stock selection within the **Financials** sector posed a headwind of **-226 bps** to relative return. The bottom contributing holding during the quarter was **Premier Inc. (CI A) (PINC)**, a healthcare group purchasing organization (GPO) and data analytics provider. Premier’s GPO business allows members to lower costs by aggregating demand and increasing bargaining power with suppliers. The data analytics business provides intelligence across the entire continuum of care, thus illuminating cost savings opportunities as well as facilitating the transition to value-based and bundled payments. **Retention rates of 99% and 94% for the GPO and data analytics businesses, respectively, provide a high level of visibility into future cash flows. More than 70% of customers have a relationship spanning over a decade, strongly implying PINC is adding value for its members.** On November 7, PINC announced quarterly results in line with our expectations, and annual guidance was maintained. However, the stock languished after the election, likely due to the perception that a Republican sweep will slow the shift toward value-based and bundled payments. However, **we believe PINC’s two complementary businesses are part of the solution to lower the cost of healthcare delivery in the United States, which is a focus for Republicans and Democrats alike.**

**We remain positive about the fundamental positioning of the Portfolio relative to our benchmark.** According to FactSet, price/cash flow for the Portfolio stands at **9.6x** compared to **13.4x** for the index and from a quality perspective, the Portfolio’s return on equity (five-year average) is **13.0%** versus **11.9%**. **While the market outlook is highly uncertain, the FAV Strategy has historically thrived in periods of elevated risk and volatility, which we believe our high quality businesses and attractive valuations will continue to support.**

### Sector Weightings



### Portfolio Contribution

Top Contributors		Average Weight	Contribution to Return
SPR	Spirit AeroSystems Holdings Inc. (CI A)	3.49%	+1.14%
GEO	GEO Group Inc.	2.28%	+1.11%
WFC	Wells Fargo & Co.	3.77%	+0.89%
TWX	Time Warner Inc.	3.92%	+0.82%
USB	U.S. Bancorp	4.04%	+0.81%

Bottom Contributors		Average Weight	Contribution to Return
PINC	Premier Inc. (CI A)	5.19%	-0.37%
OAK	Oaktree Capital Group LLC (CI A)	2.96%	-0.33%
VSTO	Vista Outdoor Inc.	1.21%	-0.29%
LB	L Brands Inc.	3.48%	-0.23%
LVNTA/	Liberty Interactive Corp. Ventures Series A/	4.26%	-0.14%
LEXEA	Liberty Expedia Holdings Inc. (CI A)		

Data as of December 31, 2016. Totals may not sum due to rounding. <sup>1</sup>Excludes negative earnings. <sup>2</sup>Risk characteristics based on trailing 60 month gross of fee composite performance. <sup>3</sup>Average annual turnover since inception (January 1, 2009). Source: River Road Asset Management LLC, FactSet Research Systems Inc., and Russell Investment Group.

Portfolio contribution calculated for the Q4 2016 period. To receive information regarding the methodology for calculating the top/bottom contributors or a list showing every holding's contribution to the overall Focused Absolute Value® Composite and/or representative portfolio performance contact thomas.mueller@riverroadam.com. The holdings identified do not represent all of the securities purchased, sold, or recommended. Past performance is no guarantee of future results.

*Representative Portfolios* - Unless otherwise noted as Composite, the data presented is based on representative portfolios within the Focused Absolute Value® Strategy. Since no single representative portfolio is available to represent the strategy since inception, different representative portfolios are used for different periods (using the same selection criteria) to create a continuous representative portfolio. All representative portfolio data is shown as supplemental information to the Focused Absolute Value® Composite presentation.

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. The Focused Absolute Value® 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. 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 U.S. dollar is the currency used to express performance. Performance includes the reinvestment of income.

The official benchmark for the Focused Absolute Value® Composite is the Russell 3000 Value. All other indexes are shown for additional information only.

**The team of analysts involved with recommending investments for Focused Absolute Value® has changed and may continue to change over time.**

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in our composite at the time you receive this report or that securities sold have not been repurchased. Characteristics and sector weightings may not be indicative of this strategy's current or future investments. It should not be assumed that any of the holdings discussed herein were or will be profitable or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. This information is shown as supplemental information only and complements the full disclosure presentation.

Sector, Industry Group, Industry, or Sub-industry group levels are provided from the Global Industry Classification Standard ("GICS"), developed and exclusively owned by MSCI, Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P"), unless otherwise stated that they have been reclassified or classified by RRAM. Reclassifications/classifications by RRAM are not supported by S&P or MSCI. All GICS data is provided "As Is" with no warranties. RRAM does classify securities that are not automatically classified by MSCI and S&P.

Most company share-related characteristics exclude outliers. Outlier exclusion methods include interquartile and inverse interquartile; the universe for determining outliers is the Russell 3000. For more information, please contact RRAM. Contribution of child securities is aggregated with that of the parent for the purpose of assessing top and bottom contributors.

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### Portfolio Characteristics

	FAV	R3000V
Number of Holdings	30	2,065
Price / Earnings <sup>1</sup>	17.1	19.8
Price / Cash Flow	9.6	13.4
Price / Book	1.87	1.94
ROE (5 YR Avg)	13.0	11.9
EPS Growth (5 YR)	9.0	5.4
LT Growth Forecast	11.1	7.6
Annualized Standard Deviation <sup>2</sup>	12.11	10.66
Annualized Alpha <sup>2</sup>	2.13	
Beta <sup>2</sup>	1.04	
Turnover <sup>3</sup>	134.26%	

### Market Capitalization Breakdown

	FAV	R3000V
Wtd Median Market Cap	\$11.23 B	\$52.26 B
Wtd Avg Market Cap	\$58.40 B	\$109.93 B
Large Cap > \$15.0 B	39.1%	73.7%
Mid Cap \$2.0 - \$15.0 B	44.8%	21.6%
Small Cap < \$2.0 B	16.1%	4.7%

### Top 10 Holdings

Symbol	Company	% of Portfolio
PINC	Premier Inc. (CI A)	6.14%
BRK.B	Berkshire Hathaway Inc. (CI B)	5.87%
FNFV	Fidelity National Financial Inc. - FNFV Group	4.54%
WTM	White Mountains Insurance Group Ltd.	4.19%
CVS	CVS Health Corp.	4.10%
WFC	Wells Fargo & Co.	3.99%
TWX	Time Warner Inc.	3.95%
CMCSA	Comcast Corp. (CI A)	3.86%
DVA	DaVita Inc.	3.83%
USB	U.S. Bancorp	3.82%

