

# Dividend All-Cap Value

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF MARCH 31, 2017



## Investment Objectives

- Long-term Total Return > Russell 3000 Value index plus 200 to 400 bps
- Target Yield > Russell 3000 Value index plus 150 bps

## Strategy Highlights

River Road's Dividend All-Cap Value (DAV) Strategy utilizes a fundamentally driven research process to identify attractive purchase candidates from an all cap universe of high yielding equity securities. This Strategy invests in well-managed, financially strong companies with high and growing dividends, targeting companies that are also trading at a meaningful discount to our assessed valuation. Typical investment criteria include:

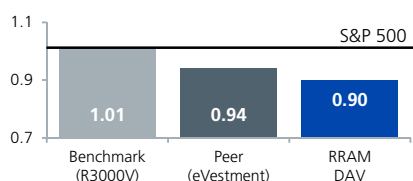
- Minimum market capitalization of \$300 MM at the time of initial purchase
- Indicated dividend yield of at least 2%

The stock selection process is complemented by a risk averse approach that employs balanced diversification and a structured sell discipline.

## Low Volatility Returns

- Target Volatility < Russell 3000 Value
- Ranked among the top 26% of peers over the prior five-year period<sup>2</sup>

### Beta vs S&P 500 (Trailing 5 YR)<sup>2</sup>



## Portfolio Managers



**Henry W. Sanders III, CFA**  
28 years of experience;  
managed Portfolio since inception  
Bellarmine University, BA  
Boston College, MBA

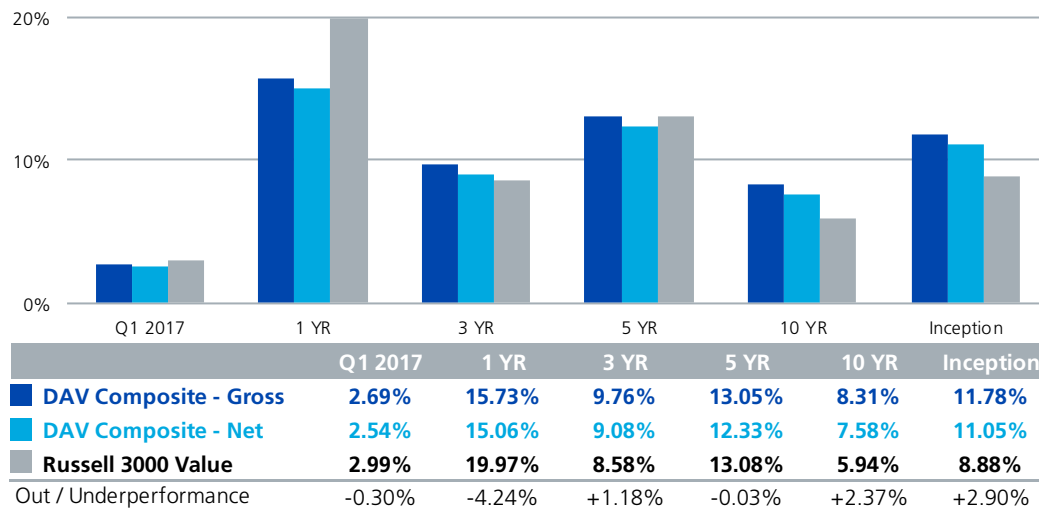


**Thomas S. Forsha, CFA**  
19 years of experience;  
managed Portfolio since July 2007  
The Ohio State University, BS  
University of Chicago, MBA



**James C. Shircliff, CFA**  
44 years of experience;  
managed Portfolio since inception  
University of Louisville, BS

## Performance Summary



Portfolio Yield: 3.54%<sup>1</sup>

Performance is shown gross and net of fees as of March 31, 2017. Inception date: October 1, 2003. Out/underperformance compares Dividend All-Cap Value gross performance and Russell 3000 Value. <sup>1</sup>Gross of fees; indicated portfolio yield does not anticipate special dividends. Information based on a representative portfolio within the Strategy. <sup>2</sup>Volatility, measured as beta and standard deviation, is based on trailing 60 month gross of fee composite performance. Average peer beta presented; peer information provided for the eVestment US All Cap Value Equity Universe. eA collects information directly from investment management firms and other sources believed to be reliable from which it conducts quarterly reviews to classify all products and create peer universes. River Road does not pay eA to be included in the universe, and may not be included in the universe, but does pay for access to this service and data. Source: River Road Asset Management, LLC, eVestment Alliance (eA), FactSet Research Systems, Inc., Russell Investment Group, and Standard and Poor's. Past performance is no guarantee of future results. Please see reverse side for important disclosure information.

## Portfolio Review

The optimism that dominated markets in the wake of Inauguration Day continued to drive the market higher in Q1, but appeared to falter as the political process reached a fever pitch in the waning days of the first quarter. Sharp divisions between the two U.S. political parties were to be expected, but the seeming inability to bring the Republican Party together around healthcare reform has left many **wondering if President Donald Trump can effectively deliver on other parts of his platform, namely comprehensive tax and regulatory reform.** Combined with the changes in many areas of foreign policy including Brexit, North Korea, trade and NATO, it is little surprise that the market seemed a bit uneasy at the end of the period.

Despite the weakness at the end of the period, the S&P 500 advanced **+6.07%** in Q1, in large part due to the continued improvement in earnings. Over the course of the quarter, expected growth for Q1 S&P 500 earnings declined from **+12.5%** to **+9.1%**, but this would still mark **the strongest year-over-year growth in S&P 500 earnings since Q4 2011.** Projections for 2017 have moderated as well, however at **+9.8%** the analyst community appears to **expect robust, but achievable growth for the remainder of the year.**

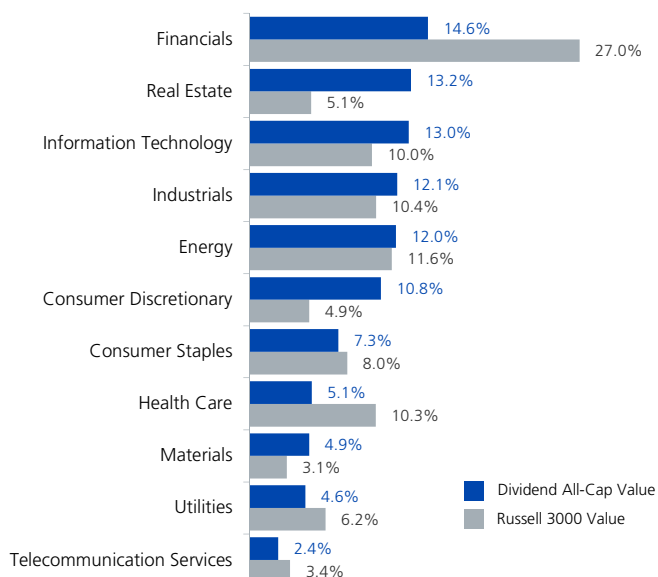
**Dividend stocks trailed marginally**, and expensive, defensive sectors led. However, among the broad market, neither cyclical nor defensive sectors assumed leadership in Q1 in what was best classified as a reversal from the post-election period.

The sector with the highest contribution to relative return in the Portfolio for Q1 was **Real Estate.** The top contributing holding during the quarter was **GEO Group Inc. (GEO)**, a REIT offering correctional and detention facilities and services to federal, state, local, and foreign governments. The stock's steady march higher since the November presidential election continued in Q1, supported by a respectable Q4 earnings report and solid 2017 guidance. GEO investors received another piece of good news in late February when newly confirmed **U.S. Attorney General Jeff Sessions issued a memo rescinding an August 18, 2016 directive from then-Deputy Attorney General Sally Yates instructing the BOP to reduce – and ultimately end – its use of privately operated prisons.**

The sector with the lowest contribution to relative return in the Portfolio for Q1 was **Information Technology.** The bottom contributing holding during the quarter was discount retailer **Target Corp. (TGT).** The company traded down following Q4 results and its investor meeting which included **disappointing guidance for FY 2017** well below both our expectations and Wall Street consensus. Management outlined its strategic plan, including lower gross margins to ensure competitive pricing, supply chain and digital infrastructure investments to enhance the customer experience, and refocused merchandising, including launching additional private label brands. While we view management's plan as necessary to continue to support the changing mix in sales and combat competitive pressure, we were surprised by the magnitude of the guidance reduction. **We reviewed and lowered TGT's assessed valuation and conviction to account for increased uncertainty in the business model and our estimates.**

From a valuation perspective, risks remain elevated, and it appears that the market is heading for near-term disappointment on the fiscal policy front. However, to the extent that equity investors' risk tolerance decreases, **we would expect the historical downside protection pattern of the Strategy will hold.**

### Sector Weightings



### Portfolio Contribution

Top Contributors		Yield <sup>3</sup>	Average Weight	Contribution to Return
GEO	GEO Group Inc.	6.04%	1.84%	+0.49%
UL	Unilever PLC Sponsored ADR	2.83%	1.63%	+0.33%
IRM	Iron Mountain Inc.	6.17%	2.90%	+0.32%
CNK	Cinemark Holdings Inc.	2.62%	2.08%	+0.31%
AYR	Aircastle Ltd.	4.31%	1.56%	+0.25%

Bottom Contributors		Yield <sup>3</sup>	Average Weight	Contribution to Return
TGT	Target Corp.	4.35%	1.69%	-0.45%
QCOM	QUALCOMM Inc.	3.70%	1.69%	-0.22%
VZ	Verizon Communications Inc.	4.74%	2.37%	-0.20%
CSGS	CSG Systems International Inc.	2.09%	0.74%	-0.18%
CMP	Compass Minerals International Inc.	4.24%	1.42%	-0.18%

### Portfolio Characteristics

	DAV	R3000V
Number of Holdings	61	2,044
Dividend Yield <sup>3</sup>	3.54	2.40
Price / Cash Flow	13.5	13.8
ROE (5 YR Avg)	17.5	11.8
EPS Growth (5 YR)	7.2	4.4
Div / Share Growth (TTM)	7.6	6.7
Cash	4.3%	
Annualized Standard Deviation <sup>1</sup>	9.80	10.58
Annualized Alpha <sup>1</sup>	1.58	
Beta <sup>1</sup>	0.87	
Turnover <sup>2</sup>	35.54%	

### Market Capitalization Breakdown

	DAV	R3000V
Wtd Median Market Cap	\$26.69 B	\$53.04 B
Wtd Avg Market Cap	\$67.00 B	\$111.51 B
Large Cap > \$15.0 B	63.7%	74.3%
Mid-Cap \$2.0 - \$15.0 B	30.0%	21.3%
Small Cap < \$2.0 B	6.3%	4.4%

### Top 10 Holdings

Symbol	Company	% of Portfolio	Yield <sup>3</sup>
MSFT	Microsoft Corp.	3.04%	2.37%
IRM	Iron Mountain Inc.	2.91%	6.17%
USB	U.S. Bancorp	2.68%	2.17%
BBT	BB&T Corp.	2.59%	2.68%
PX	Praxair Inc.	2.44%	2.66%
FAST	Fastenal Co.	2.38%	2.49%
OMC	Omnicom Group Inc.	2.34%	2.55%
VZ	Verizon Communications Inc.	2.28%	4.74%
GLW	Corning Inc.	2.24%	2.30%
MPC	Marathon Petroleum Corp.	2.21%	2.85%

Data as of March 31, 2017. GICS sector breakdown reflects percent of equity. Totals may not sum due to rounding. <sup>1</sup>Risk characteristics based on trailing 60 month gross of fee composite performance. <sup>2</sup>Average annual turnover since inception (October 1, 2003). <sup>3</sup>Gross of fees; indicated yield does not anticipate special dividends. Source: River Road Asset Management, LLC, eVestment Alliance (eA), FactSet Research Systems Inc., Russell Investment Group, and Standard and Poor's.

Portfolio contribution calculated for the Q1 2017 period. To receive information regarding the methodology for calculating the top/bottom contributors or a list showing every holding's contribution to the overall Dividend All-Cap 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, information is based on representative portfolios within the Dividend All-Cap 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. For any periods prior to April 1, 2006, Dividend All-Cap Value Composite data was used and combined with the representative portfolio data because underlying transaction information for representative portfolios is not available in the necessary format prior to April 1, 2006. All representative portfolio information shown supplemental to the Dividend All-Cap Value Composite presentation.

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The official benchmark for the composite is the Russell 3000 Value. All other indices are shown as additional information only.

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.

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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"). All GICS data is provided "As Is" with no warranties. River Road Asset Management 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.

eVestment US All Cap Value Equity - US Equity products that invest primarily in small, mid, and large capitalization stocks with fundamental characteristics showing them to be underpriced or in slower growing economic sectors. The expected benchmarks for this universe would include the Russell 3000 Value, S&P 500, or Russell 1000 Value. Managers in this category will typically indicate a "Primary Capitalization Emphasis" equal to All Cap and a "Primary Style Emphasis" equal to Value.

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