

Dividend All-Cap Value

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF JUNE 30, 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. The Strategy invests in well-managed, financially strong companies with high and growing dividends, targeting companies that are also trading at meaningful discounts to our assessed valuations. Typical investment criteria include:

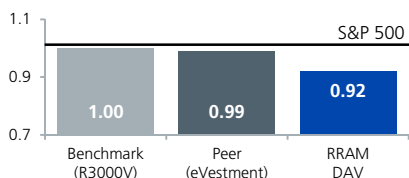
- Minimum market capitalization of \$300 MM at the time of initial purchase
- Indicated dividend yield of at least 2%

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 19% of peers over the prior five-year period²

Beta vs S&P 500 (Trailing 5 YR)²



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

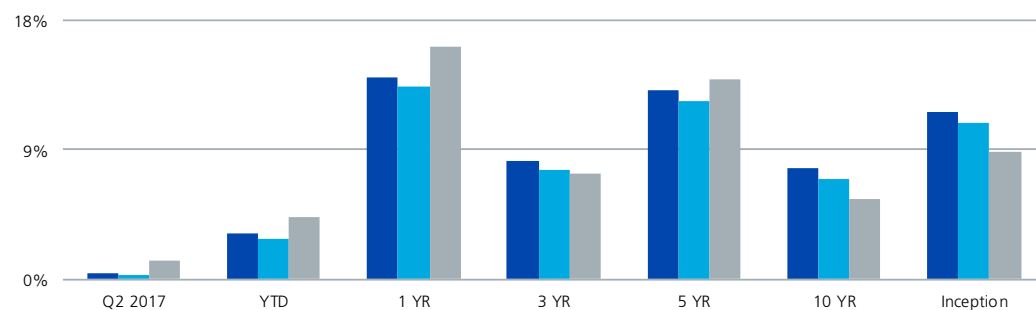


James C. Shircliff, CFA

44 years of experience; managed Portfolio since inception

University of Louisville, BS

Performance Summary



	Q2 2017	YTD	1 YR	3 YR	5 YR	10 YR	Inception
Out / Underperformance	-0.84%	-1.17%	-2.13%	+0.98%	-0.75%	+2.17%	+2.78%

Portfolio Yield: 3.60%¹

Performance information is shown gross and net of fees. Inception date: October 1, 2003. Out/underperformance compares Dividend All-Cap Value gross performance and Russell 3000 Value. ¹Gross of fees; indicated portfolio yield does not anticipate special dividends. Information based on a representative portfolio within the Strategy. ²Volatility, 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 as of the date of publication and is subject to change. 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

Despite little progress on the policy front, **the bullish trend in stocks continued throughout Q2**. Similar to Q1, the S&P 500 delivered positive performance in each month during the quarter, returning **+3.09%** for the period. Additionally, volatility was extremely low with the index experiencing only a single day of price movement that was greater than plus or minus 1%. Additionally, **the index has now gone 247 days without a -5% decline – the longest stretch in 20 years!**

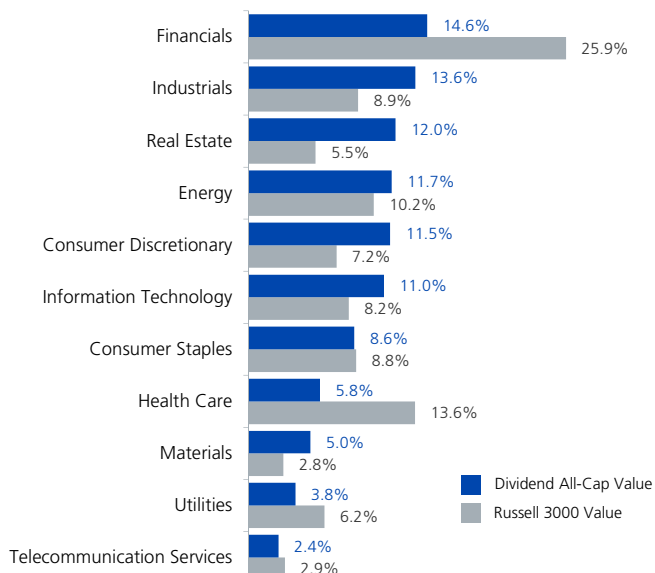
There was little difference in the performance between dividend stocks and the broader equal-weighted indices, but there was a clear performance bias toward lower yielding stocks. Across the Russell 3000 Value, S&P 500, and the Dividend All-Cap Value universe, the lowest yielding stocks substantially outperformed those with higher yields.

The top contributing holding in the Portfolio during Q2 was **Praxair Inc. (PX)**, a world-leading industrial gas producer and distributor. During the quarter, **Praxair and Linde AG (LIN-DE) signed an agreement to merge in an all-stock transaction**. Management expects about \$1.2 B in synergies which may prove conservative as **Linde's margins are significantly below Praxair's even accounting for differences in the respective business lines**. The transaction is expected to close in the second half of 2018 and may require divestitures to pass anti-trust reviews.

The two largest negative contributors in the Portfolio during the quarter, **Fastenal Co. (FAST)** and **W.W. Grainger Inc. (GWW)**, both suffered as industry-wide pricing pressure compressed margins. In April, Fastenal reported mixed results with strong organic growth of +6.2% offset by gross margin compression of -40 bps. While the organic growth was in line with our expectations, the market was disappointed. Shortly thereafter, **GWW announced an unexpected acceleration of its price rationalization effort in a bid to grow market share**. As the pricing cuts are expected to outweigh increased volumes in the near term, the firm was forced to cut full year guidance for 2017. Over time, GWW expects that it will expand market share and margins will rebound as increased volumes fuel operating leverage. It is unclear how competitors will respond to these lowered prices and whether GWW can sustain market share expansion. However, the expectation that Fastenal's differentiated go-to-market strategy and its focus on high weight/low cost fasteners should enable it to **grow at above market rates with more limited gross margin compression**.

Our outlook is little changed from Q1. From a valuation perspective, risks remain elevated, and it appears 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 attractive downside capture of the Strategy to hold.**

Sector Weightings



Portfolio Characteristics

	DAV	R3000V
Number of Holdings	64	2,118
Dividend Yield ³	3.60	2.40
Price / Cash Flow	13.4	13.5
ROE (5 YR Avg)	17.1	11.8
EPS Growth (5 YR)	8.4	5.3
Div / Share Growth (TTM)	7.8	6.2
Cash	3.7%	
Annualized Standard Deviation ¹	9.48	9.95
Annualized Alpha ¹	0.74	
Beta ¹	0.89	
Turnover ²	35.54%	

Portfolio Contribution

Top Contributors	Yield ³	Average Weight	Contribution to Return
PX Praxair Inc.	2.38%	2.65%	+0.31%
GLW Corning Inc.	2.06%	2.39%	+0.27%
NVO Novo Nordisk A/S Sponsored ADR (CI B)	1.89%	1.16%	+0.24%
UL Unilever PLC Sponsored ADR	2.61%	1.67%	+0.17%
STAY.U Extended Stay America Inc.	4.34%	1.12%	+0.16%

Bottom Contributors	Yield ³	Average Weight	Contribution to Return
FAST Fastenal Co.	2.94%	2.10%	-0.36%
GWW W.W. Grainger Inc.	2.84%	0.98%	-0.30%
CNK Cinemark Holdings Inc.	2.99%	2.07%	-0.26%
NCMI National CineMedia Inc.	11.86%	0.33%	-0.23%
SBRA Sabra Health Care REIT Inc.	7.14%	1.41%	-0.18%

Market Capitalization Breakdown

	DAV	R3000V
Wtd Median Market Cap	\$27.65 B	\$52.40 B
Wtd Avg Market Cap	\$59.00 B	\$106.08 B
Large Cap > \$15.0 B	60.4%	73.9%
Mid-Cap \$3.0 - \$15.0 B	31.3%	19.4%
Small Cap < \$3.0 B	8.3%	6.7%

Top 10 Holdings

Symbol	Company	% of Portfolio	Yield ³
IRM	Iron Mountain Inc.	2.79%	6.40%
PX	Praxair Inc.	2.72%	2.38%
USB	U.S. Bancorp	2.70%	2.16%
BBT	BB&T Corp.	2.63%	2.64%
GLW	Corning Inc.	2.49%	2.06%
MPC	Marathon Petroleum Corp.	2.29%	2.75%
VZ	Verizon Communications Inc.	2.09%	5.17%
NFG	National Fuel Gas Co.	2.07%	2.97%
FUN	Cedar Fair LP	2.01%	4.74%
FAST	Fastenal Co.	2.00%	2.94%

GICS sector and market cap breakdowns reflect percent of equity. Totals may not sum due to rounding. ¹Risk characteristics based on trailing 60 month gross of fee composite performance. ²Average annual turnover since inception (October 1, 2003). ³Gross 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 Q2 2017 period. For the purpose of assessing top and bottom contributors, the contribution of child securities is aggregated with that of the parent for corporate actions that occurred during the most recent calendar quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended. 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 D. Mueller, CFA, CPA at (502) 371-4100 or thomas.mueller@riverroadam.com. Past performance is no guarantee of future results.

Representative Portfolios - Unless otherwise noted as Composite, the information presented 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 is supplemental to the 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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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.

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