



July 12, 2017

Dear Friends and Investors,

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. Volatility was extremely low with the index experiencing only a single day each 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!**

From a fundamental perspective, **earnings growth was likely an important driver of returns in Q2**. Despite weak economic growth, **reported earnings for the S&P 500 grew +13.8%** (according to Bank of America/Merrill Lynch) – **a five-year high!** Sales growth was the highest in more than two years and the percentage of companies beating expectations was the highest in 13 years. **Small cap earnings were positive, albeit substantially less than large cap, with reported year-over-year growth for the S&P 600 approximately +6.7%.**

**Given the trend in earnings, it is not surprising large caps continued to lead small caps** with the Russell 1000 index returning **+3.06%** for Q2 versus **+2.46%** for the Russell 2000. Large caps are also leading year to date, with the Russell 1000 returning **+9.27%** versus **+4.99%** for the Russell 2000. From a style perspective, **growth continued to significantly outperform value across all market caps**. Year to date, the Russell 3000 Growth index returned **+13.69%** versus just **+4.32%** for the Russell 3000 Value.

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	
	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD
<b>Gross</b>	5.06%	7.51%	6.06%	10.94%	0.45%	3.15%	0.68%	3.62%	3.86%	6.79%	4.46%	6.13%
<b>Net</b>	4.83%	7.07%	5.90%	10.60%	0.31%	2.86%	0.59%	3.44%	3.76%	6.61%	4.24%	5.68%
Benchmark <sup>2</sup>	0.67%	0.54%	0.32%	1.95%	1.29%	4.32%	1.29%	4.32%	1.29%	4.32%	1.62%	4.56%
+ / -	<b>+4.39%</b>	<b>+6.97%</b>	<b>+5.74%</b>	<b>+8.99%</b>	<b>-0.84%</b>	<b>-1.17%</b>	<b>-0.61%</b>	<b>-0.70%</b>	<b>+2.57%</b>	<b>+2.47%</b>	<b>+2.84%</b>	<b>+1.57%</b>

Despite these headwinds, it was a good quarter for River Road with most strategies outperforming their respective benchmarks by a significant margin. **River Road's Small Cap Value (SCV) and Small-Mid Cap Value (SMID) Composites significantly outperformed their respective benchmarks in Q2, widening their already substantial year-to-date leads.** Within both strategies, performance was driven by strong stock selection, particularly within the Consumer Discretionary, Health Care, and Financials sectors; positive sector allocation; a high level of M&A impacting portfolio holdings; and the outperformance of supporting factors in the broader small / small-mid cap value universe, including high quality, low beta, and low leverage.

River Road's **Focused Absolute Value® (FAV)** Composite also significantly outperformed its benchmark during Q2. **Both sector allocation and stock selection were positive**, with the Portfolio's Consumer Discretionary holdings making the largest contribution to relative results. From a market cap perspective, **stock selection was positive across small, mid, and large cap allocations**. The Composite's year-to-date outperformance of **+247 bps** was primarily driven by the strong performance of our mid cap holdings. From a commercial perspective, **the FAV Strategy is also growing at a significant year-over-year pace, with total assets reaching nearly \$260 MM at quarter end.**<sup>3</sup>

The **Long-Short Equity (LS)** Composite handily beat the benchmark in Q2. The long portfolio modestly outperformed the Russell 3000 (+51 bps), while robust performance in the short portfolio (+599 bps) drove relative results. Attractive performance by the Portfolio's cable investments contributed to the long portfolio's results, while two idiosyncratic short positions (a Canadian lender and a U.S.-based mall operator) made significant contributions to the short portfolio's performance.

<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> Total assets combine River Road's (1) firm assets under management (as defined by GIPS®) and (2) model portfolio assets (no control over implementation of investment decisions and no trading authority).



River Road's **Dividend All-Cap Value (DAV and DAV II)** Composites modestly underperformed the benchmark in Q2, driven by both negative stock selection and sector allocation. Strong relative stock performance in the **Energy, Information Technology, and Consumer Staples** sectors was offset by lagging performance within **Industrials** and **Consumer Discretionary**. The DAV Strategy modestly underperformed DAV II, primarily due to the Strategy's greater exposure to small cap stocks.

With regard to firm news, **we are pleased to report Brett T. Leary has joined our team in the position of Research Coordinator**. In this role, he will work closely with the investment team to support reporting, special projects, and process enhancements. Brett served as an intern at River Road for 13 months, working with the client communications and research teams. Brett graduated with a BSBA from the University of Louisville, with a double major in Economics and Finance.

From a business development perspective, **we are pleased to report strong performance in several of our strategies over the past few years has led to substantial growth in new client interest**. Additionally, an increase in searches for active small cap and concentrated, all cap strategies is contributing to the rise. **This is an encouraging development given the continuing pressure from passive strategies on active management**. Further, we are excited about the pipeline of new investment solutions the team is developing for clients. We will have more details about these initiatives in the coming quarters.

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 June 30, 2017, 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: 2.57%, 4.83%, 7.07%, 26.19%, 10.23%, 13.53%, 6.11%, and 10.78%. As of June 30, 2017, 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: 3.50%, 0.67%, 0.54%, 24.86%, 7.02%, 13.39%, 5.92%, and 8.46%.

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 June 30, 2017, 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, 10 year, and Inception to Date periods: 2.87%, 5.90%, 10.60%, 27.07%, 10.34%, 13.65%, 7.08%, and 7.48%. As of June 30, 2017, 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: 2.66%, 0.32%, 1.95%, 18.36%, 6.21%, 13.69%, 6.52%, and 6.71%.

### 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 June 30, 2017, 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: 1.58%, 0.31%, 2.86%, 13.43%, 7.64%, 12.43%, 7.03%, and 10.87%. As of June 30, 2017, 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: 1.78%, 1.29%, 4.32%, 16.21%, 7.32%, 13.89%, 5.59%, and 8.81%.

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 June 30, 2017, 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: 1.57%, 0.59%, 3.44%, 13.70%, 8.04%, 12.56%, and 11.49%. As of June 30, 2017, 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: 1.78%, 1.29%, 4.32%, 16.21%, 7.32%, 13.89%, and 11.93%.

### 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 benchmarks for the composite are the Blended Index and the Russell 3000. The Blended Index was added as a benchmark effective 10/31/2016. The Blended Index represents a 50% weighting of the Russell 3000 Index and a 50% weighting of the BofA Merrill Lynch U.S. T-Bill 0-3 Month Index; rebalanced daily.

As of June 30, 2017, 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: 0.44%, 4.24%, 5.68%, 13.20%, 3.56%, 6.42%, and 8.17%. As of June 30, 2017, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 0.90%, 3.02%, 8.93%, 18.51%, 9.10%, 14.58%, and 15.34%.

### 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 Value. Fully invested is as defined by RRAM.

As of June 30, 2017, 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: 1.64%, 3.76%, 6.61%, 26.15%, 10.42%, 16.06%, and 18.76%. As of June 30, 2017, 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: 1.78%, 1.29%, 4.32%, 16.21%, 7.32%, 13.89%, and 13.32%.

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