



October 13, 2017

Dear Friends and Investors,

**The rally in stocks shifted into high gear during Q3, with the prospect of tax reform overcoming lofty valuations, tighter monetary policy, and escalating tensions with North Korea.** The S&P 500 index rose **+4.48%** in Q3, pushing its year-to-date advance to **+14.24%**. The stock market's bellwether index has now risen for 11 consecutive months, marking **the longest winning streak since 1959** (according to Ned Davis Research)!

**The rally was also broad, with all nine Russell style boxes and 11 of 12 major asset classes advancing.** With focus shifting to tax reform, small cap stocks rebounded sharply even as earnings growth expectations declined. For Q3, the Russell 2000 index returned **+5.67%** versus **+4.48%** for the Russell 1000. From a style perspective, growth continued to outperform value across all market caps, with **the year-to-date gap between the Russell 1000 Growth and Value indices expanding to +1,280 bps – the widest since 2009**. From a factor perspective, **high beta stocks trounced low beta in Q3**.

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>	<b>1.75%</b>	<b>9.40%</b>	<b>2.74%</b>	<b>13.98%</b>	<b>2.39%</b>	<b>5.62%</b>	<b>2.50%</b>	<b>6.21%</b>	<b>3.63%</b>	<b>10.67%</b>	<b>2.70%</b>	<b>9.00%</b>
<b>Net</b>	<b>1.54%</b>	<b>8.71%</b>	<b>2.57%</b>	<b>13.44%</b>	<b>2.25%</b>	<b>5.17%</b>	<b>2.40%</b>	<b>5.92%</b>	<b>3.55%</b>	<b>10.39%</b>	<b>2.48%</b>	<b>8.30%</b>
Benchmark <sup>2</sup>	5.11%	5.68%	3.83%	5.86%	3.27%	7.72%	3.27%	7.72%	3.27%	7.72%	2.41%	7.08%
+ / -	<b>-3.36%</b>	<b>+3.72%</b>	<b>-1.09%</b>	<b>+8.12%</b>	<b>-0.88%</b>	<b>-2.10%</b>	<b>-0.77%</b>	<b>-1.51%</b>	<b>+0.36%</b>	<b>+2.95%</b>	<b>+0.29%</b>	<b>+1.92%</b>

**Given the 'risk-on' nature of the rally, the quarter was challenging for most River Road strategies.** The best absolute and relative performance was delivered by **Focused Absolute Value® (FAV)**, which modestly outperformed the benchmark during Q3. Strong stock selection within Consumer Discretionary and Industrials was partially offset by underperformance in Health Care and Consumer Staples. From a market cap perspective, the Strategy's mid and large cap stocks outperformed while stock selection within small caps was a headwind. From a commercial perspective, **the FAV Strategy continues to grow at a significant pace, with total assets reaching \$335 MM at quarter end.**<sup>3</sup>

The **Long-Short Equity (LS)** Strategy also modestly outperformed its benchmark in Q3. The long portfolio underperformed the Russell 3000 (-23 bps), while the short portfolio outperformed (+104 bps). An aerospace supplier and an independent refiner positively contributed to the long portfolio's results, while two idiosyncratic short positions (a specialty pharmaceutical company and a theater company) made significant positive contributions to the short portfolio's performance. We are particularly pleased with the Strategy's year-to-date performance, given average net exposure of just 57%. For the year-to-date period, the long portfolio has underperformed by **-311 bps**, largely due to stylistic headwinds versus the core index, while **the short portfolio has outperformed by +1,110 bps, returning +2.8% versus +13.9% for the Russell 3000.**<sup>4</sup>

River Road's **Dividend All-Cap Value (DAV and DAV II)** Strategies trailed the benchmark in Q3. Stock selection was negative in eight of 11 sectors, as **the rally presented a myriad of stylistic challenges for the Portfolios including the underweight in no and low yielding stocks versus the benchmark.** The DAV Strategy modestly underperformed DAV II, primarily due to the Strategy's larger position in small cap holdings.

**River Road's Small Cap Value (SCV) and Small-Mid Cap Value (SMID)** Strategies underperformed in Q3 as a result of both factor and stock-specific challenges. The bulk of the Portfolios' underperformance occurred during the September surge and was driven primarily by poor stock selection within the Consumer Staples and Consumer Discretionary sectors. A significant factor headwind was also evident with the highest beta stocks within the Russell 2000 Value index returning

<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) strategy assets and (2) model portfolio assets (no control over implementation of investment decisions and no trading authority). \$76 MM of total assets are model portfolio assets invested in the Strategy. Total assets provided as supplemental information and subject to change.

<sup>4</sup> Relative long and short portfolio performance is gross of fees. Gross of fees performance does not reflect the effect of management fees (performance would have been lower). Please refer to the net of fees performance provided when considering this Strategy. The long portfolio and short portfolio information is based on a representative portfolio within the Strategy and excludes the impact of cash. Short portfolio performance excludes the impact of the cost to borrow and index hedges applied during the drawdown plan.



**+9.14%** for Q3 versus **+3.73%** for the lowest (according to Jefferies). Historically, strong performance by high beta stocks has been a significant headwind for the Small Cap Value Strategy. **Fortunately, high quality stocks continue to outperform, which is evident in the Portfolio's attractive performance for the year-to-date period.**

With regard to firm news, **we are pleased to provide an update on the firm's international initiative.** One year ago, we announced that **William W. Yang, CFA**, a well-regarded international equity investment manager, had joined our firm. William brought nearly 15 years of international investment experience to the organization. Over the past 12 months, people across the firm have worked diligently to ensure a seamless integration for William and his **International Equity ADR Strategy** with the broader resources and institutional processes at River Road.

Thus far, the integration has proven highly successful! William is a great cultural fit for River Road – he is engaged with the team, sharing his insights and actively soliciting feedback. We have been impressed with his knowledge of global markets and remarkable work ethic. While William has been managing assets for a select group of former clients, **we expect to formally introduce River Road's International Equity ADR (iADR) Strategy during the first half of 2018.**

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

R. Andrew Beck  
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## **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, 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: 4.47%, 1.54%, 8.71%, 22.20%, 13.43%, 13.22%, 6.83%, and 10.72%. As of September 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: 7.08%, 5.11%, 5.68%, 20.55%, 12.12%, 13.27%, 7.14%, and 8.62%.

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, 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: 2.73%, 2.57%, 13.44%, 24.97%, 13.67%, 13.54%, 7.87%, and 7.56%. As of September 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: 4.85%, 3.83%, 5.86%, 15.75%, 9.94%, 13.25%, 7.59%, and 6.92%.

### 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, 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: 3.12%, 2.25%, 5.17%, 12.19%, 8.58%, 12.02%, 7.41%, and 10.84%. As of September 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: 3.26%, 3.27%, 7.72%, 15.53%, 8.79%, 13.20%, 6.01%, and 8.90%.

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, 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: 3.33%, 2.40%, 5.92%, 12.69%, 8.74%, 12.31%, and 11.43%. As of September 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: 3.26%, 3.27%, 7.72%, 15.53%, 8.79%, 13.20%, and 11.99%.

### 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 September 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: 0.72%, 2.48%, 8.30%, 13.25%, 4.52%, 6.18%, and 8.24%. As of September 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: 2.44%, 4.57%, 13.91%, 18.71%, 10.74%, 14.23%, and 15.48%.

### 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 September 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: 1.51%, 3.55%, 10.39%, 20.44%, 12.12%, 15.47%, and 18.64%. As of September 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: 3.26%, 3.27%, 7.72%, 15.53%, 8.79%, 13.20%, and 13.33%.

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