



January 16, 2018

Dear Friends and Investors,

It was **a remarkable year for equity investors** as low interest rates, low inflation, accelerating economic and profit growth, and (in the final days of the year) historic tax cuts fueled **robust returns amid record low volatility**. For the first time in history, the S&P 500 index (total return) rose every month during a calendar year. Additionally, **the index was down more than -1% in only four trading sessions throughout 2017!**

**Gains were also broad based, with all nine style boxes advancing for the quarter and the year.** In a sharp reversal from 2016, large caps outperformed small caps throughout 2017, with the Russell 1000 index returning **+21.69%** versus **+14.65%** for the Russell 2000. In a similar reversal, growth *significantly* outperformed value across all market caps. Among larger cap stocks, the Russell 1000 Growth index returned **+30.21%** for 2017 versus just **+13.66%** for the Russell 1000 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	
	Q4	2017	Q4	2017	Q4	2017	Q4	2017	Q4	2017	Q4	2017
<b>Gross</b>	<b>3.45%</b>	<b>13.17%</b>	<b>2.11%</b>	<b>16.38%</b>	<b>4.24%</b>	<b>10.10%</b>	<b>4.44%</b>	<b>10.93%</b>	<b>0.84%</b>	<b>11.60%</b>	<b>1.41%</b>	<b>10.54%</b>
<b>Net</b>	<b>3.23%</b>	<b>12.22%</b>	<b>1.95%</b>	<b>15.65%</b>	<b>4.09%</b>	<b>9.48%</b>	<b>4.35%</b>	<b>10.53%</b>	<b>0.75%</b>	<b>11.22%</b>	<b>1.20%</b>	<b>9.60%</b>
Benchmark <sup>2</sup>	2.05%	7.84%	4.25%	10.36%	5.08%	13.19%	5.08%	13.19%	5.08%	13.19%	3.27%	10.58%
+ / -	<b>+1.40%</b>	<b>+5.33%</b>	<b>-2.14%</b>	<b>+6.02%</b>	<b>-0.84%</b>	<b>-3.09%</b>	<b>-0.64%</b>	<b>-2.26%</b>	<b>-4.24%</b>	<b>-1.59%</b>	<b>-1.86%</b>	<b>-0.04%</b>

**It was a challenging year for most River Road strategies**, as high beta, high growth stocks dominated Q4 and full-year performance. **A notable exception was performance by the Small Cap Value (SCV) and Small-Mid Cap Value (SMID) Strategies**, which substantially outperformed their indices for 2017. SCV Strategy outperformance in Q4 was driven by strong stock performance within the Consumer Staples and Industrials sectors. For 2017, performance was driven by relative strength among Industrials holdings, overall positioning in the Real Estate sector, and the Portfolio's significant underweight position in Banks.

For SMID, the quarter was challenging. Relative underperformance was driven primarily by the Portfolio's diverse group of Liberty-related holdings within the Media and Internet industry groups. For 2017, **the SMID Strategy outperformed the benchmark by +602 bps** (+529 bps net), **marking the third consecutive year the Portfolio delivered strong relative results**. Performance was driven by overall positioning within the Consumer Discretionary, Energy, and Industrials sectors.

River Road's **Dividend All-Cap Value Strategies** (DAV and DAV II) posted positive absolute returns for Q4 and 2017, but fell short of their benchmark. As the market continued to advance in Q4, stock selection, sector allocation, and the Portfolios' cash balance were all a drag on results. Year to date, **strong performance within the Energy sector was offset by weak performance in Consumer Discretionary and Financials as well as the Portfolios' overall dividend bias**. The DAV II Strategy modestly outperformed DAV due to the Strategy's smaller position in small cap holdings.

River Road's **Focused Absolute Value® (FAV) Strategy** had a disappointing Q4 and 2017. For Q4, **stock selection was broadly negative as many of the Portfolio's holdings failed to keep up with the index as it moved sharply higher**. From a market cap perspective, stock selection was negative across all three capitalization tiers with mid caps posing the largest relative headwind for Q4.

FAV's underperformance for 2017 was especially disappointing given the Strategy led the index throughout much of the year. The Portfolio's Consumer Staples and Information Technology holdings posed the largest headwind to relative return, partially offset by strong stock selection in the Industrials and Real Estate sectors. While the Portfolio's mid cap holdings lagged for Q4, they outperformed by the widest margin for the year, returning **+16.14%** compared to **+13.89%** for the benchmark constituents. Fortunately, **2018 has gotten off to strong start for FAV (and all other River Road strategies)**.

<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% ICE BofAML US Treasury Bill (0-3 M) (Local Total Return); rebalanced daily.



The **Long-Short Equity (LS) Strategy** underperformed its blended index in Q4, with weak performance from long-only holdings overshadowing **strong performance from the short portfolio**. The Portfolio averaged **62%** net market exposure during the quarter. For 2017, the LS Strategy performed in line with the blended index with, once again, substantial outperformance by the short portfolio **(+1,570 bps)** overshadowing weak relative performance from the Portfolio's value-oriented long-only holdings **(-739 bps)**.<sup>3</sup> Average net exposure for 2017 was **58%**.

With regard to firm news, it was a relatively quiet year. **The development of our newest analyst, Matthew J. Wyatt, has exceeded our expectations.** Matt is a bright and highly engaging individual who has seamlessly integrated into the investment team and River Road culture. **We have also been busy integrating our newest portfolio manager, William W. Yang, CFA, and his International Equity ADR (iADR) Strategy.**

From a performance perspective, iADR delivered attractive results in 2017, returning **+26.48%** (+25.69% net) versus **+24.94%** for the iShares MSCI EAFE ETF. With the iADR Strategy now integrated into the firm's investment infrastructure, the Strategy's four-year track record completing a GIPS® independent performance and portability certification, and marketing materials near completion, we expect to make the Strategy more widely available by the second half of this year.

Looking into 2018, we will be working on a host of key initiatives. **Of primary importance is managing through the impact of tax reform on the assessed valuation of companies.** Additionally, we are focused on a series of initiatives to refine existing investment and operational processes. Finally, we will continue to develop new and effective investment solutions, as well as groom the next generation of River Road leadership. It promises to be a busy and exciting year.

In closing, we would like to reiterate to you, our associates, and business partners our pledge to **pursue investment excellence with passion and discipline; to continue investing in our firm, associates, and portfolios; and to always maintain the unique culture and values we embraced the day we founded River Road.**

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

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<sup>3</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.



## Disclosures:

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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 December 31, 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: 0.19%, 3.23%, 12.22%, 12.22%, 12.39%, 13.31%, 7.82%, and 10.76%. As of December 31, 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: -0.95%, 2.05%, 7.84%, 7.84%, 9.55%, 13.01%, 8.17%, 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 December 31, 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: 0.72%, 1.95%, 15.65%, 15.65%, 12.84%, 13.21%, 8.76%, and 7.57%. As of December 31, 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: 0.40%, 4.25%, 10.36%, 10.36%, 9.30%, 13.27%, 8.82%, and 7.17%.

### 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 December 31, 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: 0.48%, 4.09%, 9.48%, 9.48%, 8.20%, 13.09%, 8.34%, and 10.95%. As of December 31, 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: 1.28%, 5.08%, 13.19%, 13.19%, 8.71%, 13.95%, 7.19%, and 9.11%.

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 December 31, 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: 0.65%, 4.35%, 10.53%, 10.53%, 8.48%, 13.50%, and 11.67%. As of December 31, 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: 1.28%, 5.08%, 13.19%, 13.19%, 8.71%, 13.95%, and 12.33%.

### 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 ICE BofAML US Treasury Bill (0-3 M) (Local Total Return); rebalanced daily.

As of December 31, 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: 1.28%, 1.20%, 9.60%, 9.60%, 4.98%, 6.16%, and 8.13%. As of December 31, 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: 1.00%, 6.34%, 21.13%, 21.13%, 11.12%, 15.58%, and 15.86%.

### 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 December 31, 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: 1.22%, 0.75%, 11.22%, 11.22%, 10.31%, 15.58%, and 18.17%. As of December 31, 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: 1.28%, 5.08%, 13.19%, 13.19%, 8.71%, 13.95%, and 13.56%.

### International Equity ADR Composite Disclosures:

Inception Date: January 1, 2014. The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in non-U.S. companies that trade at a discount to valuation. For this composite, RRAM defines non-U.S. companies as ADRs or other non-U.S. companies traded in the United States on an exchange, OTC, or pink sheets or otherwise. Two client accounts are for current employees of RRAM. The composite was previously known as the International Value Composite and International Value Equity Composite. For comparison purposes, the composite is measured against the MSCI EAFE Gross index (ETF performance temporarily used as a proxy for the benchmark). There is no minimum account size for this composite.

As of December 31, 2017, net of fees returns for the International Equity ADR Composite are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 1.42%, 4.96%, 25.69%, 25.69%, 8.17%, and 4.69%. As of December 31, 2017, returns for the MSCI EAFE Gross index are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 1.62%, 4.27%, 25.62%, 25.62%, 8.30%, and 4.95%. As of December 31, 2017, returns for the iShares MSCI EAFE ETF are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 1.58%, 4.17%, 24.94%, 24.94%, 7.72%, and 4.38%.

Performance presented prior to October 1, 2016 occurred while the Portfolio Manager was affiliated with prior firms and the Portfolio Manager was the only individual 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 ACA Performance Services, LLC.

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