

# Dividend All-Cap Value II

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF MARCH 31, 2018



## 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 II (DAV II) 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:

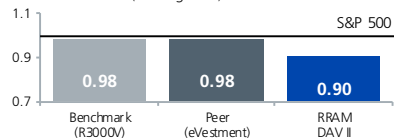
- Minimum market capitalization of \$1 B at the time of purchase
- Indicated dividend yield of at least 2%

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 16% 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**  
29 years of experience;  
managed Portfolio since inception  
Bellarmine University, BA  
Boston College, MBA



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

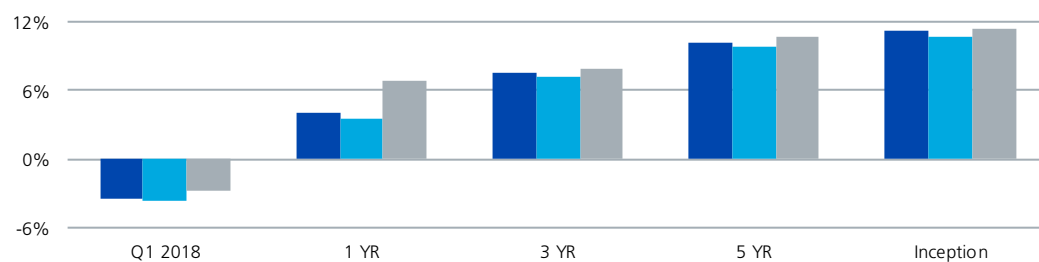


**James C. Shircliff, CFA**  
45 years of experience;  
managed Portfolio since inception  
University of Louisville, BS



**Andrew R. McIntosh, CFA**  
14 years of experience;  
managed Portfolio since 2018  
University of Iowa, BBA

## Performance Summary



	Q1 2018	1 YR	3 YR	5 YR	Inception
DAV II Composite - Gross	-3.54%	3.97%	7.51%	10.21%	11.26%
DAV II Composite - Net	-3.63%	3.59%	7.10%	9.76%	10.68%
Russell 3000 Value	-2.82%	6.81%	7.87%	10.71%	11.44%
Out / Underperformance	-0.72%	-2.84%	-0.36%	-0.50%	-0.18%

Portfolio Yield: 3.64%<sup>1</sup>

Performance is shown gross and net of fees. Inception date: January 1, 2011. Out/underperformance compares Dividend All-Cap Value II 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. 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

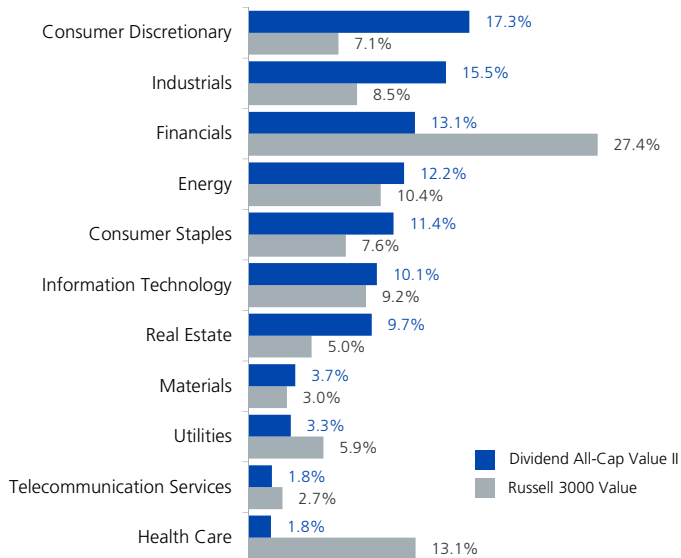
**Equity investors experienced plenty of thrills and chills during the first quarter of 2018 as volatility soared to multi-year highs.** Stocks began the year with the S&P 500 delivering its best January performance in 21 years. This was followed by a plunge into correction territory, before finishing the quarter only slightly lower. Despite the volatility, **small caps modestly outperformed large caps** with the Russell 2000 returning **-0.08%** versus **-0.69%** for the Russell 1000. From a style perspective, **growth outperformed value across all market caps.**

While the Portfolio performed well as downside volatility picked up, **higher-yielding stocks broadly underperformed**, weighing on quarterly results. The sector with the highest contribution to relative return in the Portfolio for Q1 was **Consumer Discretionary**. The top contributing holding in Q1 was a leading U.S. oil refiner, **Marathon Petroleum Corp. (MPC)**. In February, **the company completed the last round of dropdowns to its affiliated MLP, MPLX LP**, and exchanged its general partner units for limited partner units, resulting in a 64% ownership in the MLP. **This was the final step of the firm's strategic plan to unlock shareholder value – a key point in our investment thesis.** Even though this event has played out, MPC remains an attractive investment. The firm is enjoying high utilization rates in both its midstream and refining segments, and has additionally benefited from the wide crack spreads that have persisted in the wake of last year's hurricanes. The firm's retail segment, Speedway, recorded its sixth straight year of record EBITDA, topping \$1 B for the second year in a row. Additionally, the market began to focus on likely positive impacts on complex refiners such as MPC that will result from the International Marine Organization policy to reduce sulfur content in marine fuel by 2020. **The firm announced a 15% dividend increase in February.**

The sector with the lowest contribution to relative return in the Portfolio for Q1 was **Information Technology**. The largest negative contributor during the quarter was specialty glass manufacturer **Corning Inc. (GLW)**. Corning reported a strong Q4 across segments and issued favorable guidance for glass pricing and volume growth in 2018. However, **investors focused on higher capital expenditures to fund growth opportunities that are expected to pressure near-term gross margins and free cash flow.** Later in Q1, the stock underperformed on fears of increased trade-related tension with China, which represents ~22% of the firm's sales. Although GLW will maintain elevated cap ex, **the firm will strategically gain additional manufacturing capacity in key, high-demand products** such as Gen 10.5 glass and fiber optic cable, **and, importantly, has already secured customer commitments for these products.** Additionally, the firm's long-term focus on the auto and biosciences channels is paying off as OEMs in Europe and China are adopting the firm's glass particle filters (GPFs) in diesel cars and pharmaceutical heavyweights Pfizer and Merck are backing the firm's new Valor glass vials to protect their valuable products. Importantly, Corning remains committed to returning capital to shareholders while funding these organic growth opportunities. The company **raised the dividend nearly +17% in February** and has reduced shares outstanding by -30% since announcing its Capital Allocation Framework in October 2015. Looking forward, management **expects to return ~\$3.5 B to shareholders through dividends and buybacks over the next two years**, nearly 15% of the current \$22.7 B market cap.

**Our outlook remains substantially unchanged from Q4.** We believe the bias of the market will be positive as long as fiscal stimulus, expanding corporate profits, accommodative monetary policy, and positive sentiment remain in place. While rising rates present a headwind for dividend focused strategies, we continue to believe that like the last period of rate increases, 2003 to 2006, this can be overcome as rising economic growth fuels strong dividend growth.

Sector Weightings



Portfolio Contribution

Top Contributors				
Symbol	Company	Yield <sup>3</sup>	Average Weight	Contribution to Return
MPC	Marathon Petroleum Corp.	2.52%	3.41%	+0.39%
MSI	Motorola Solutions Inc.	1.98%	1.59%	+0.24%
RHP	Ryman Hospitality Properties Inc.	4.39%	1.92%	+0.21%
IPG	Interpublic Group of Companies Inc.	3.65%	1.45%	+0.20%
CSCO	Cisco Systems Inc.	3.08%	1.70%	+0.15%

Bottom Contributors				
Symbol	Company	Yield <sup>3</sup>	Average Weight	Contribution to Return
GLW	Corning Inc.	2.58%	2.70%	-0.34%
VTR	Ventas Inc.	6.38%	1.58%	-0.27%
IRM	Iron Mountain Inc.	7.15%	2.40%	-0.27%
QCOM	QUALCOMM Inc.	4.11%	1.84%	-0.26%
DM	Dominion Energy Midstream Partners LP	8.29%	0.46%	-0.25%

GICS sector and market cap breakdowns reflect percent of equity; stocks without a reported sector or market cap (e.g. corporate reorganizations, mergers, acquisitions, dissolutions) are not presented. <sup>1</sup>Risk characteristics based on trailing 60 month gross of fee composite performance. <sup>2</sup>Average annual turnover since inception (January 1, 2011). <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 2018 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 II 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 II 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. 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.

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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.

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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Characteristics

	DAV II	R3000V
Number of Holdings	62	2,109
Dividend Yield <sup>3</sup>	3.64	2.45
Price / Cash Flow	13.6	14.5
ROE (5 YR Avg)	17.5	11.2
EPS Growth (5 YR)	8.3	4.8
Div / Share Growth (TTM)	7.9	7.0
Cash	0.9%	
Annualized Standard Deviation <sup>1</sup>	9.66	10.07
Annualized Alpha <sup>1</sup>	0.51	
Beta <sup>1</sup>	0.91	
Turnover <sup>2</sup>	26.57%	

Market Capitalization Breakdown

	DAV II	R3000V
Wtd Median Market Cap	\$37.41 B	\$55.25 B
Wtd Avg Market Cap	\$68.75 B	\$111.87 B
Large Cap > \$15.0 B	71.0%	75.3%
Mid-Cap \$3.0 - \$15.0 B	25.1%	18.2%
Small Cap < \$3.0 B	3.9%	6.5%

Top 10 Portfolio Holdings

Symbol	Company	% of Portfolio	Yield <sup>3</sup>
MPC	Marathon Petroleum Corp.	3.77%	2.52%
FAST	Fastenal Co.	3.37%	2.71%
BBT	BB&T Corp.	3.22%	2.54%
USB	U.S. Bancorp	2.82%	2.38%
PX	Praxair Inc.	2.64%	2.29%
GLW	Corning Inc.	2.55%	2.58%
IRM	Iron Mountain Inc.	2.43%	7.15%
UNP	Union Pacific Corp.	2.43%	2.17%
WMT	Walmart Inc.	2.34%	2.34%
TGT	Target Corp.	2.33%	3.57%

