



April 16, 2018

Dear Friends and Investors,

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.**

Q1 2018 Composite Performance Summary ¹						
	Small Cap Value	Small-Mid Cap Value	Dividend All-Cap Value	Dividend All-Cap Value II	Focused Absolute Value®	Long-Short Equity
Gross	0.14%	1.25%	-3.60%	-3.54%	0.05%	-1.29%
Net	-0.08%	1.09%	-3.74%	-3.63%	-0.04%	-1.50%
Benchmark ²	-2.64%	-2.65%	-2.82%	-2.82%	-2.82%	-0.04%
+ / -	+2.78%	+3.90%	-0.78%	-0.72%	+2.87%	-1.25%

Inflation fears and volatility resulted in a mixed quarter for River Road strategies, with those focused primarily on capital appreciation performing well, while those focused on dividend-paying stocks and hedging downside risk lagged their respective benchmarks. Following a strong 2017, the firm's **Small Cap Value (SCV) and Small-Mid Cap Value (SMID) Strategies continued to outperform. Results were driven by strong stock selection,** primarily within the Information Technology (IT) and Consumer Staples sectors. **The Portfolios also benefited from having no allocation to REITs and an underweight allocation to the Energy sector.** The SMID Strategy outperformed SCV, primarily due to a larger positive contribution from stock selection within the Consumer Discretionary sector.

Please note the SCV Strategy will increase its upper market cap limit from \$3 B to \$4 B (at the time of initial purchase), effective May 1. This is the first time in 15 years the Strategy has formally altered its market cap guidelines. While representing only a minor expansion of the Strategy's opportunity set, this increase was necessitated by progressive and permanent inflation in the capitalization structure of the Strategy's benchmark.

River Road's **Focused Absolute Value® (FAV) Composite also outperformed during Q1,** returning **+0.05%** (-0.04% net) compared to **-2.82%** for the benchmark. Strong stock selection within the Consumer Discretionary sector drove the majority of outperformance, followed by stock selection within the Consumer Staples, Health Care, and IT sectors. Additionally, in a reversal from the prior quarter, **the Portfolio's small and mid cap holdings significantly outperformed large cap.**

River Road's **Dividend All-Cap Value Strategies (DAV and DAV II)** modestly underperformed the benchmark in Q1. **While the Portfolios performed well as downside volatility picked up, higher-yielding stocks broadly underperformed, weighing on quarterly results.** Strong stock selection in the Consumer Discretionary and Real Estate sectors provided the most significant positive impacts on Q1 results. The largest negative impacts were from stock selection in **Information Technology** and an overweight allocation to **Real Estate.**

The **Long-Short Equity (LS) Strategy** underperformed its blended index in Q1, as **slight underperformance in the long portfolio (-16 bps versus the Russell 3000) and the Strategy's drawdown hedging process (-83 bps) negatively impacted results.**³ With regard to long-only performance, the Strategy continues to face relative headwinds from the outperformance of more growth-oriented stocks in the core benchmark. From a hedging perspective, the Strategy's process is intended to seek to protect capital during significant market corrections. However, the Strategy's hedging feature can negatively impact relative results when the market quickly whipsaws into and out of correction territory, as it did during Q1.

¹ Please see the attached disclosures. Past performance is no guarantee of future results.

² 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.

³ 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.



With regard to firm news, we are excited to announce several promotions and position changes. Former Senior Equity Research Analyst, **Andrew R. McIntosh, CFA**, has been promoted to **Associate Portfolio Manager** for the firm's DAV Strategies. Andrew has supported the DAV Strategies as an analyst since he joined River Road in 2011. Prior to joining River Road, Andrew served as *Structured Finance Analyst* on a portfolio of subprime and second-lien securities at AEGON USA Investment Management LLC. Andrew received his B.B.A. in Finance from the University of Iowa. Additionally, he earned the Chartered Financial Analyst® designation in 2006 and is a member of the CFA Institute. He is a past president of the CFA Society Louisville and serves on its board of directors.

In his new role, Andrew will continue to maintain select analyst responsibilities as he transitions into the responsibilities of a portfolio manager. With this change, Portfolio Manager James C. Shircliff, CFA will begin phasing out of his formal portfolio management responsibilities on the DAV Strategies over the next 12 to 18 months. Following this transition, Jim will continue to contribute new ideas to all strategies in his role as a Senior Portfolio Manager for the firm's SCV and SMID Strategies.

Meagan N. Snyder, JD has been promoted to **Deputy Chief Compliance Officer**. Meagan joined River Road in 2007 as *Operations Coordinator*. Meagan earned a B.A. in English from the University of Kentucky and a JD from the Louis D. Brandeis School of Law at the University of Louisville. Meagan is a Kentucky licensed attorney and has for many years been instrumental in shaping the firm's robust approach to compliance and related areas.

Jeffrey B. Hoskins, CFA has been promoted to **Senior Equity Research Analyst**. Jeff has made a significant contribution to the firm's broader research efforts since joining River Road in 2013. Prior to joining the firm, Jeff worked at BMO Capital Markets where his research covered the Media/Entertainment and Gaming industries. Jeff has more than 20 years of investment research experience, which includes various positions at The Seidler Cos. Inc. and SunTrust Equitable Securities.

Jeff graduated from Vanderbilt University with a B.A. in United States History and an M.B.A. with concentrations in Finance and Accounting. He earned the Chartered Financial Analyst® designation in 2000 and is a member of the CFA Institute. Additionally, he is a member of the CFA Society Louisville and serves on its board of directors.

Additionally, River Road's Chief Risk Officer, **Greg E. Deuser, CFA**, has assumed the expanded role of **Chief Risk & Analytics Officer**. In this new role, Greg will directly supervise the firm's portfolio analytics team and work more closely with investment team members managing portfolio data and analytics. This change reflects our belief that portfolio data and analytics, including our vast database of proprietary stock characteristics compiled over many years, will provide River Road with an increasingly important strategic advantage. It also reflects the growing requirements of our clients as it relates to performance measurement and insight.

Greg is a 30+ year veteran of the investment management industry. He began his career with River Road as Director of Research & Risk Management shortly after the firm was founded in 2005. **Greg has made remarkable contributions to River Road during the past 12 years and we look forward to elevating our portfolio analytics capabilities under his leadership.**

Finally, **we are thrilled to make available a list of our investment team's 'Weekly Reading Recommendations.'** Developed and curated by Long-Short Equity Portfolio Manager, **Matt W. Moran, CFA**, the list has historically been restricted to internal staff. However, based on numerous client inquiries, we have decided to make the recommendations available to clients and their advisors. As a subscriber, you will discover the list includes a wide array of topics and perspectives, including those that challenge our own. You may sign up for the weekly email distribution by visiting our website at riverroadam.com.

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

R. Andrew Beck
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James C. Shircliff, CFA
*Chief Investment Officer &
Senior Portfolio Manager*

Henry W. Sanders, III, CFA
*Executive Vice President &
Senior Portfolio Manager*



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 March 31, 2018, 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: 1.74%, -0.08%, -0.08%, 9.80%, 11.39%, 10.63%, 8.41%, and 10.61%. As of March 31, 2018, 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: 1.24%, -2.64%, -2.64%, 5.13%, 7.87%, 9.96%, 8.61%, and 8.36%.

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 March 31, 2018, 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: 0.70%, 1.09%, 1.09%, 11.95%, 11.98%, 10.63%, 9.43%, and 7.50%. As of March 31, 2018, 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: 1.10%, -2.65%, -2.65%, 5.72%, 7.26%, 9.88%, 9.34%, and 6.74%.

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 March 31, 2018, 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: -1.54%, -3.74%, -3.74%, 2.77%, 6.59%, 9.34%, 8.28%, and 10.46%. As of March 31, 2018, 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: -1.54%, -2.82%, -2.82%, 6.81%, 7.87%, 10.71%, 7.84%, and 8.73%.

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 March 31, 2018, 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: -1.55%, -3.63%, -3.63%, 3.59%, 7.10%, 9.76%, and 10.68%. As of March 31, 2018, 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: -1.54%, -2.82%, -2.82%, 6.81%, 7.87%, 10.71%, and 11.44%.

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 March 31, 2018, 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: -0.12%, -0.04%, -0.04%, 8.20%, 9.83%, 12.82%, and 17.64%. As of March 31, 2018, 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: -1.54%, -2.82%, -2.82%, 6.81%, 7.87%, 10.71%, and 12.82%.

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 March 31, 2018, 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: 0.53%, -1.50%, -1.50%, 6.48%, 4.32%, 4.44%, and 7.65%. As of March 31, 2018, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -2.01%, -0.64%, -0.64%, 13.81%, 10.22%, 13.03%, and 15.23%.

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 March 31, 2018, 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: -1.43%, -2.10%, -2.10%, 15.77%, 5.51%, and 3.89%. As of March 31, 2018, returns for the MSCI EAFE Gross are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: -1.70%, -1.41%, -1.41%, 15.32%, 6.05%, and 4.31%. As of March 31, 2018, returns for the iShares MSCI EAFE ETF are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: -1.95%, -1.72%, -1.72%, 14.52%, 5.43%, and 3.69%.

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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