

# Focused Absolute Value®

A HIGH CONVICTION STRATEGY | QUARTERLY UPDATE AS OF MARCH 31, 2018



## Investment Objective

Long-term total return = Russell 3000 Value index plus a minimum of +200 bps

## Strategy Highlights

**Focused Absolute Value® is a concentrated, all cap strategy comprised of the firm's 'best and most timely' ideas selected from among the stocks held across all RRAM strategies, as recommended by the analyst team.<sup>1</sup>**

The Strategy combines the firm's proven investment processes with the stock picking skills of River Road portfolio managers and collective insights and opinions of the firm's analyst team.

The Strategy seeks to remain fully invested at all times, is index independent, and is highly opportunistic. The minimum market cap for investment is \$250 MM (at the time of initial purchase).

## Portfolio Managers



### R. Andrew Beck

President & CEO,  
Senior Portfolio Manager

19 years of experience;  
managed Portfolio since inception

University of Louisville, BS  
Babson College, MBA



### Thomas S. Forsha, CFA

Co-Chief Investment Officer & Portfolio  
Manager

20 years of experience;  
managed Portfolio since inception

The Ohio State University, BS  
University of Chicago, MBA

## Analyst Liaison



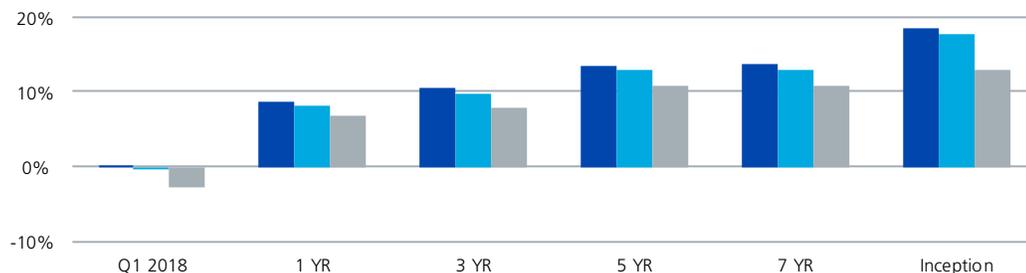
### Ashley L. Abney, CPA

Senior Equity Research Analyst

12 years of experience

Centre College, BS

## Performance Summary



	Q1 2018	1 YR	3 YR	5 YR	7 YR	Inception
FAV Composite - Gross	0.05%	8.58%	10.40%	13.51%	13.75%	18.48%
FAV Composite - Net	-0.04%	8.20%	9.83%	12.82%	13.02%	17.64%
Russell 3000 Value	-2.82%	6.81%	7.87%	10.71%	10.87%	12.82%
Out / Underperformance	+2.87%	+1.77%	+2.53%	+2.80%	+2.88%	+5.66%

Performance is shown gross and net of fees. Inception date: January 1, 2009. Out/underperformance compares Focused Absolute Value® gross performance and Russell 3000 Value. <sup>1</sup>If a holding is liquidated from all RRAM portfolios, the stock must be sold from the Focused Absolute Value® Portfolio within a reasonable period of time (as defined by the portfolio managers). Source: River Road Asset Management LLC and Russell Investment Group. 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.**

River Road's **Focused Absolute Value® (FAV) Composite outperformed during Q1.** Strong stock selection within the Consumer Discretionary sector drove the majority of outperformance, followed by stock selection within the Consumer Staples, Health Care, and Information Technology sectors. Additionally, in a reversal from the prior quarter, **the Portfolio's small and mid cap holdings significantly outperformed large cap.**

The top contributing holding in the Portfolio during Q1 was **Advance Auto Parts Inc. (AAP)**, an automotive retailer of aftermarket replacement parts, accessories, batteries, and maintenance items. **AAP reported Q4 2017 results ahead of expectations, demonstrating continued progress on the multi-year turnaround effort.** SG&A expense improved on lower labor costs and free cash flow improved dramatically from better inventory management and lower capital expenditures. CEO Tom Greco later purchased \$1 MM of AAP shares on the open market at \$115.77/share.

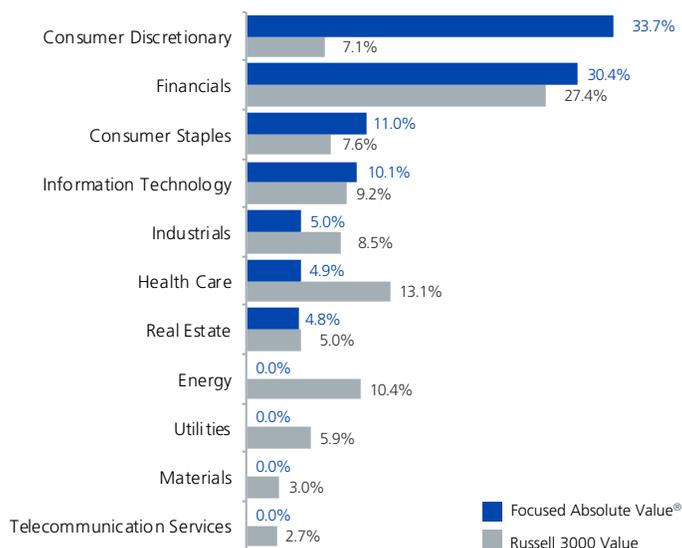
The bottom contributing holding in the Portfolio during Q1 was **Comcast Corp. (CI A) (CMCSA)**, the nation's largest provider of high-speed internet, the #2 provider of cable services, and owner of NBC Universal. **In late February, Comcast surprised investors by announcing an unsolicited bid for Sky plc, the premier UK-based pay-TV operator** (Sky has more than two times the customers of its closest competitor). Sell-side analysts were quick to criticize the company's bid suggesting CMCSA was overpaying and incorrectly comparing Sky's assets to those of U.S.-based satellite providers. In addition to being the dominant pay-TV operator, Sky has a significant portion of exclusive content, including must-have sports such as the English Premier League, Sky News, and exclusive rights to HBO and Showtime. Comcast management has a history of strong capital allocation decisions with outsized shareholder returns, including the planned \$5 B buyback this year and a 21% dividend increase. **While there remains uncertainty surrounding the future of the Sky assets,<sup>1</sup> we continue to view Comcast's outlook as favorable with or without Sky.**

We believe **the FAV Strategy's opportunistic, benchmark-independent style is positioned well to take advantage of price dislocations created by rising volatility,** a trend we further believe will continue throughout 2018. Additionally, we believe the Portfolio's fundamentals remain very attractive relative to our benchmark. From a valuation standpoint, the price/cash flow for the Portfolio stands at **12.3x** compared to **14.5x** for the Russell 3000 Value (according to FactSet). From a quality perspective, the Portfolio's return on equity (five-year average) is **13.8%** versus **11.2%** for the index and the Portfolio is expected to grow long-term earnings at a higher rate than the index (**+10.8%** versus **+9.2%**).

Discovering value,  
off the beaten path®

<sup>1</sup> 21st Century Fox owns 39% of Sky plc and its December 2016 offer to acquire the remainder is still pending UK regulatory approval. Additionally, Disney's offer to acquire part of Fox, including the stake in Sky, is pending approval by U.S. regulators.

### Sector Weightings



### Portfolio Contribution

Top Contributors	Average Weight	Contribution to Return
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AAP	Advance Auto Parts Inc.	3.73%	+0.63%
CNK	Cinemark Holdings Inc.	2.14%	+0.61%
AXS	Axis Capital Holdings Ltd.	3.72%	+0.58%
HAWK	Blackhawk Network Holdings Inc.	0.42%	+0.47%
TWNK	Hostess Brands Inc. (CI A)	3.67%	+0.46%

### Bottom Contributors

CMCSA	Comcast Corp. (CI A)	4.24%	-0.60%
WFC	Wells Fargo & Co.	3.32%	-0.45%
CVS	CVS Health Corp.	3.11%	-0.42%
GE	General Electric Co.	2.05%	-0.42%
BAM	Brookfield Asset Management Inc. (CI A)	3.59%	-0.38%

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>Excludes negative earnings. <sup>2</sup>Risk characteristics based on trailing 60 month gross of fee composite performance. <sup>3</sup>Average annual turnover since inception (January 1, 2009). Source: River Road Asset Management LLC, FactSet Research Systems Inc., and Russell Investment Group.

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 Focused Absolute Value® 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 Focused Absolute Value® 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. All representative portfolio information is supplemental to the Composite presentation.

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, CFA, CPA. 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. selects securities from a universe of companies that are held by other RRAM strategies, which typically includes all market capitalizations. employs a value-driven, bottom-up fundamental approach. The U.S. dollar is the currency used to express performance. Performance includes the reinvestment of income.

The official benchmark for the Composite is the Russell 3000 Value. All other indexes are shown as additional information only.

**The team of analysts involved with recommending investments for Focused Absolute Value® has changed and may continue to change over time.**

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in our portfolio at the time you receive this report or that securities sold have not been repurchased. Characteristics and sector weightings may not be indicative of this strategy's current or future investments. It should not be assumed that any of the holdings discussed herein were or will be profitable or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. This information is shown as supplemental information only and complements the full disclosure presentation.

Sector, Industry Group, Industry, or Sub-industry group levels are provided from the Global Industry Classification Standard ("GICS"), developed and exclusively owned by MSCI, Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P"), unless otherwise stated that they have been reclassified or classified by RRAM. Reclassifications/classifications by RRAM are not supported by S&P or MSCI. All GICS data is provided "As Is" with no warranties. does classify securities that are not automatically classified by MSCI and S&P.

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.

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### Characteristics

	FAV	R3000V
Number of Holdings	28	2,109
Price / Earnings <sup>1</sup>	13.6	17.8
Price / Cash Flow	12.3	14.5
Price / Book	2.04	1.99
ROE (5 YR Avg)	13.8	11.2
EPS Growth (5 YR)	5.6	4.8
LT Growth Forecast	10.8	9.2
Annualized Standard Deviation <sup>2</sup>	11.71	10.07
Annualized Alpha <sup>2</sup>	2.30	
Beta <sup>2</sup>	1.04	
Turnover <sup>3</sup>	127.96%	

### Market Capitalization Breakdown

	FAV	R3000V
Wtd Median Market Cap	\$8.77 B	\$55.25 B
Wtd Avg Market Cap	\$63.79 B	\$111.87 B
Large Cap > \$15.0 B	33.2%	75.3%
Mid Cap \$3.0 - \$15.0 B	48.9%	18.2%
Small Cap < \$3.0 B	17.9%	6.5%

### Top 10 Portfolio Holdings

Symbol	Company	% of Portfolio
BRK.B	Berkshire Hathaway Inc. (CI B)	7.33%
TWNK	Hostess Brands Inc. (CI A)	5.56%
GLIBA	GCI Liberty Inc. (CI A)	5.48%
PINC	Premier Inc. (CI A)	4.89%
EXPE	Expedia Group Inc.	4.85%
WTM	White Mountains Insurance Group Ltd.	4.47%
AXS	Axis Capital Holdings Ltd.	4.41%
CMCSA	Comcast Corp. (CI A)	4.31%
MITL	Mitel Networks Corp.	4.21%
AAP	Advance Auto Parts Inc.	3.98%

