

Dividend All-Cap Value II

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF JUNE 30, 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:

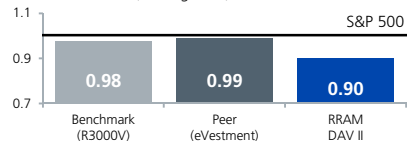
- Minimum market capitalization of \$1 B at the time of purchase
- Indicated dividend yield of at least 2%

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 18% of peers over the prior five-year period²

Beta vs S&P 500 (Trailing 5 YR)²



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

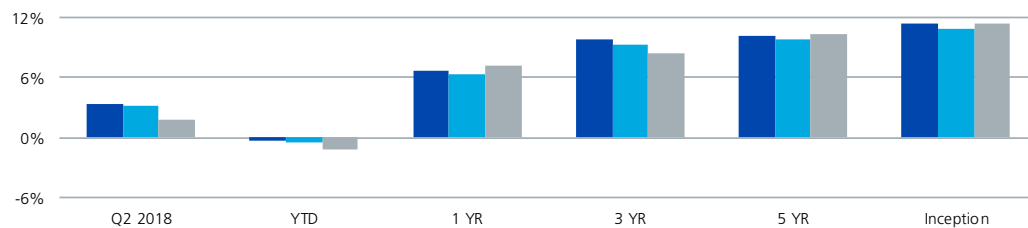


James C. Shircliff, CFA
45 years of experience; managed Portfolio since inception
University of Louisville, BS



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

Performance Summary



	Q2 2018	YTD	1 YR	3 YR	5 YR	Inception
Out / Underperformance	+1.61%	+0.83%	-0.56%	+1.26%	-0.17%	+0.06%
Portfolio Yield: 3.63%¹						

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. ¹Gross of fees; indicated portfolio yield does not anticipate special dividends. Information based on a representative portfolio within the Strategy. ²Volatility, 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

U.S. stocks delivered attractive returns in Q2 as investors discounted escalating trade tensions in favor of strong earnings growth, improving U.S. economic growth, and the continued availability of cheap capital across the credit spectrum.

The DAV II Composite outperformed in the second quarter, as higher-yielding stocks led the broader market for the first time in five quarters.

The sector with the highest contribution to relative return in the Portfolio for Q2 was **Real Estate**. The top contributing holding for the quarter was corrections REIT **GEO Group Inc.** Apart from an in-line earnings report in late April, there was little firm-specific news in the period. The stock was clearly a **beneficiary of the outperformance of the Real Estate sector as well as expectations that occupancy trends will likely remain positive in Q3**. We continue to believe that GEO should win its fair share of currently active government procurements, potentially allowing it to put its roughly 7,000 idle beds to use, and thus driving a substantial boost to cash flow.

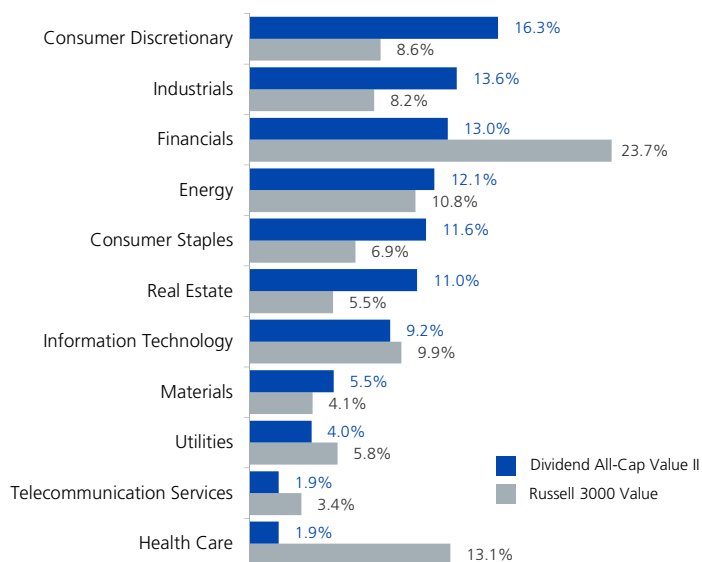
The sector with the lowest contribution to relative return in the Portfolio was **Energy**. The largest negative contributor during the quarter was industrial distributor **Fastenal Co. (FAST)**. Sentiment around FAST shifted during the quarter due to **slowing, but still attractive, double-digit daily sales growth and larger-than-expected margin compression**. The decline in margins is the result of mix shift as much of this faster growth is driven by the lower margin non-fastener and national accounts businesses. Management noted that the adverse impact of this shift was compounded by a lack of pricing discipline in fasteners. We expect the firm to be able to address pricing in the fastener business and should ultimately **leverage SG&A costs and drive EBIT margin expansion in future quarters**. Additionally, mounting **trade tensions** clearly weighed on the stock as any disruption in the U.S. industrial base will ripple through the supply chain, including Fastenal. Shortly after quarter end, FAST reported strong Q2 results with a reacceleration of daily sales growth and EBIT margin expansion and the stock surged.

We continue to believe the U.S. has **reached the final stage of the market cycle** and **volatility will likely remain elevated through year end**. While it is impossible to measure precisely the extent of headwinds from increased trade tensions, we expect they will temper the pace of earnings growth in the coming quarters.

Additionally, we believe the Fed will continue its **careful cadence of increases**, having already demonstrated its willingness during this tightening cycle to slow the pace of interest rate hikes as conditions require. This should in turn **reduce upward pressure on long-term interest rates**, likely benefiting the higher-yielding stocks in our universe.

In the end, while we still expect the market will advance over the balance of the year, in our view, the risk to that projection is steadily increasing. As such, we believe this will create a more supportive backdrop for dividend stocks in general, and the Dividend All-Cap Value II Strategy in particular.

Sector Weightings



Portfolio Contribution

Top Contributors		Yield ³	Average Weight	Contribution to Return
GEO	GEO Group Inc.	6.83%	1.39%	+0.45%
OXY	Occidental Petroleum Corp.	3.68%	1.59%	+0.41%
MMP	Magellan Midstream Partners LP	5.43%	1.66%	+0.28%
PX	Praxair Inc.	2.09%	2.75%	+0.27%
SBRA	Sabra Health Care REIT Inc.	8.28%	1.16%	+0.26%
Bottom Contributors		Yield ³	Average Weight	Contribution to Return
FAST	Fastenal Co.	3.08%	3.13%	-0.37%
COTY	Coty Inc. (CI A)	3.55%	1.01%	-0.32%
SBUX	Starbucks Corp.	2.95%	1.47%	-0.22%
PNC	PNC Financial Services Group Inc.	2.22%	1.30%	-0.14%
CNK	Cinemark Holdings Inc.	3.65%	1.91%	-0.12%

Characteristics

	DAV II	R3000V
Number of Holdings	60	2,093
Dividend Yield ³	3.63	2.47
Price / Cash Flow	12.4	14.0
ROE (5 YR Avg)	17.3	11.4
EPS Growth (5 YR)	8.7	5.3
Div / Share Growth (TTM)	8.3	7.5
Cash	2.7%	
Annualized Standard Deviation ¹	9.58	10.02
Annualized Alpha ¹	0.74	
Beta ¹	0.91	
Turnover ²	26.57%	

Market Capitalization Breakdown

	DAV II	R3000V
Wtd Median Market Cap	\$36.80 B	\$55.37 B
Wtd Avg Market Cap	\$69.94 B	\$107.34 B
Large Cap > \$15.0 B	68.6%	75.2%
Mid-Cap \$3.0 - \$15.0 B	29.6%	18.6%
Small Cap < \$3.0 B	1.8%	6.2%

Top 10 Portfolio Holdings

Symbol	Company	% of Portfolio	Yield ³
MPC	Marathon Petroleum Corp.	3.05%	2.62%
BBT	BB&T Corp.	3.01%	2.97%
USB	U.S. Bancorp	2.96%	2.40%
FAST	Fastenal Co.	2.87%	3.08%
PX	Praxair Inc.	2.79%	2.09%
IRM	Iron Mountain Inc.	2.75%	6.71%
TGT	Target Corp.	2.73%	3.36%
GLW	Corning Inc.	2.43%	2.62%
STAY	Extended Stay America Inc.	2.38%	4.07%
WMT	Walmart Inc.	2.17%	2.43%

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. ¹Risk characteristics based on trailing 60 month gross of fee composite performance. ²Average annual turnover since inception (January 1, 2011). ³Gross 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 Q2 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.

River Road Asset Management, LLC ("RRAM") is a registered investment adviser formed in April 2005 and is majority owned by Affiliated Managers Group Inc. Registration of an investment adviser does not imply a certain level of skill or training. 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 to provide long-term capital appreciation and high current income by investing primarily in a diversified, multi-cap basket of income producing equity securities which have a market capitalization of typically at least \$1 B at the time of initial purchase and that trade at a discount to our assessed valuation as determined using RRAM's proprietary Absolute Value® approach. The Composite is primarily invested in dividend paying common stocks. The Composite 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. RRAM employs a value-driven, bottom-up approach. The U.S. dollar is the currency used to express performance and includes the reinvestment of income. Composite performance is presented gross of foreign withholding taxes on dividends, interest income, and capital gains. All composite performance is after the deduction of trading costs. Net of fee composite performance is calculated using actual management fees, which includes performance fees for some periods. For periods including non-fee paying accounts, net was calculated for those accounts by applying the highest fee schedule effective at that time.

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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