



July 16, 2018

Dear Friends and Investors,

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. **Small cap stocks did particularly well**, as investors poured into small cap ETFs at a level not experienced since the post-election period. For Q2, the S&P 500 and Russell 1000 indexes returned **+3.43%** and **+3.57%**, respectively, versus **+7.75%** for the Russell 2000. From a style perspective, performance was mixed with **value outperforming among small caps, but growth leading among mid and large caps**. Outside the United States, trade fears and a strong U.S. dollar weighed on both developed and emerging market results, with the MSCI EAFE index returning **-0.97%** and the MSCI Emerging Markets index returning **-7.86%**.

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	
	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD
Gross	4.37%	4.52%	3.19%	4.48%	3.53%	-0.20%	3.32%	-0.33%	4.15%	4.20%	-1.34%	-2.62%
Net	4.17%	4.09%	3.02%	4.14%	3.38%	-0.48%	3.22%	-0.52%	4.05%	4.00%	-1.55%	-3.03%
Benchmark ²	8.30%	5.44%	5.80%	3.00%	1.71%	-1.16%	1.71%	-1.16%	1.71%	-1.16%	2.20%	2.16%
+ / -	-3.93%	-0.92%	-2.61%	+1.48%	+1.82%	+0.96%	+1.61%	+0.83%	+2.44%	+5.36%	-3.54%	-4.78%

Performance for Q2 was mixed across River Road strategies. Following strong Q1 results, River Road's **Focused Absolute Value® (FAV) Composite outperformed again in Q2**, returning **+4.15%** (+4.05% net) compared to **+1.71%** for the benchmark. Year to date, the concentrated, all cap FAV Strategy has returned **+4.20%** (+4.00% net) versus **-1.16%** for the benchmark. Strong stock selection within the Financials and Information Technology sectors drove outperformance in Q2, partially offset by an underweight position within the top-performing Energy sector. From a market cap perspective, large cap holdings primarily drove Q2 results, while small and mid cap holdings have provided the greatest relative contribution year to date. **Demand for FAV continues to rise sharply, with total assets currently exceeding \$500 MM.**³

River Road's Dividend All-Cap Value (DAV and DAV II) Composites also outperformed in Q2, as higher-yielding stocks led the broader market for the first time in five quarters. Both positive stock selection and sector allocation drove positive performance. The largest positive contributions to relative performance were from an underweight position in **Financials** and positive stock selection in **Real Estate**. These were partially offset by weak stock selection in the **Energy** and **Consumer Discretionary** sectors. The DAV Strategy slightly outperformed DAV II, primarily due to DAV's greater exposure to small caps.

Conversely, River Road's **Small Cap Value (SCV) and Small-Mid Cap Value (SMID) Strategies** lagged their respective benchmarks for Q2. **The macro environment significantly impacted relative performance** with both Strategies underperforming during the April-May rally in small caps, and then outperforming in late June as risk appetite moderated. Performance during the period was reminiscent of Q4 2016 when, as previously discussed, small cap ETF inflows were also exceptionally high.

The **Long-Short Equity (LS) Composite** also lagged its benchmark in Q2, with both the long (**-101 bps**) and the short (**-688 bps**) portfolios contributing to the underperformance. Weak performance by the Portfolio's cable investments primarily drove the long portfolio's results, while several short positions (an auto manufacturer, a cable provider, and a retailer) weighed on the short portfolio's performance. The Strategy's long portfolio also continues to face a benchmark-related headwind, as growth factors continue to dominate value within the Russell 3000 index.⁴

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 As of June 30, 2018. Total assets combine River Road's (1) firm assets under management (as defined by GIPS®) and (2) model portfolio assets (no control over implementation of investment decisions and no trading authority). If a portion of model assets was not available as of the report date, previous month end data was used for that portion. Total assets provided as supplemental information and subject to change.

⁴ 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.



Finally, **we are pleased to formally introduce River Road's newest strategy, International Equity ADR (iADR).** In October 2016, we hired William Yang, CFA, a talented portfolio manager with 16 years of international investment experience. With the support of his previous employer, a well-regarded Boston-based investment advisor, William brought his high quality international equity strategy to RRAM. Over the past two years, we have worked thoughtfully with William to integrate his investment processes and strategy into River Road, providing him with additional resources and sharing best practices. **Beginning in Q3, we will officially open RRAM's iADR Strategy to external clients.** For more information about iADR, please contact Rob Wainwright or Michele Robbins at [502.371.4100](tel:502.371.4100).

With regard to firm news, it was a busy quarter as most of our investment team engaged in a review of the firm's proprietary conviction rating system. Criteria-specific teams were established to assess existing definitions, weightings, and processes, with the objective of establishing more granular assessments and incorporating more disciplined, situation-specific weightings. Led by our Director of Research, J. Alex Brown, we expect to complete this initiative by year end.

We are also in the final stages of completing a comprehensive review of our DAV Strategies, which is an exercise we periodically undertake with all of our established portfolios at River Road. The objective of a Strategy Review, which is facilitated by RRAM's Solutions Research Group (SRG), is to ensure continuous improvement across all stages of portfolio management over time, from philosophy and portfolio design to investment processes and communications. We will be sharing results of this initiative with DAV clients in the months ahead.

Finally, a reminder we are now distributing 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 client requests, we have decided to make the recommendations more broadly available. The list includes articles that have been circulated among our team or books recommended by team members. 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
*President & CEO,
Senior Portfolio Manager*

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

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



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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 \$4 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 \$4 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. Net of fee composite performance is calculated using actual management fees, which includes performance fees for some periods.

As of June 30, 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: 1.16%, 4.17%, 4.09%, 9.10%, 11.90%, 10.77%, 8.86%, and 10.70%. As of June 30, 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: 0.61%, 8.30%, 5.44%, 13.10%, 11.22%, 11.18%, 9.88%, and 8.68%.

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. Net of fee composite performance is calculated using actual management fees.

As of June 30, 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: 2.04%, 3.02%, 4.14%, 8.91%, 12.45%, 10.77%, 9.39%, and 7.61%. As of June 30, 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: 0.53%, 5.80%, 3.00%, 11.49%, 9.76%, 10.78%, 10.10%, and 7.12%.

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. Net of fee DAV composite performance is calculated using actual management fees. For periods including non-fee paying accounts, net was calculated for those accounts by applying the highest fee schedule effective at that time. Net of fee DAV II 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.

As of June 30, 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: 0.70%, 3.38%, -0.48%, 5.92%, 8.85%, 9.42%, 9.06%, and 10.52%. As of June 30, 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: 0.28%, 1.71%, -1.16%, 7.25%, 8.48%, 10.40%, 8.60%, and 8.70%.

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 June 30, 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: 0.85%, 3.22%, -0.52%, 6.30%, 9.32%, 9.79%, and 10.78%. As of June 30, 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: 0.28%, 1.71%, -1.16%, 7.25%, 8.48%, 10.40%, and 11.29%.

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. Net of fee composite performance is calculated using actual management fees. For periods including non-fee paying accounts, net was calculated for those accounts by applying the highest fee schedule.

As of June 30, 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: 2.96%, 4.05%, 4.00%, 8.50%, 11.53%, 12.62%, and 17.63%. As of June 30, 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: 0.28%, 1.71%, -1.16%, 7.25%, 8.48%, 10.40%, and 12.67%.

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. Net of fee composite performance is calculated using actual management fees. For periods including non-fee paying accounts, net was calculated for those accounts by applying the highest fee schedule effective at that time.

As of June 30, 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: -0.51%, -1.55%, -3.03%, 0.57%, 3.82%, 3.96%, and 7.19%. As of June 30, 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: 0.65%, 3.89%, 3.22%, 14.78%, 11.58%, 13.29%, and 15.27%.

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. Three 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). Net of fee composite performance is calculated using actual management fees. For periods including non-fee paying accounts, net was calculated for those accounts by applying the highest fee schedule.

As of June 30, 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: -1.84%, -2.28%, -4.33%, 6.20%, 3.84%, and 3.14%. As of June 30, 2018, returns for the MSCI EAFE Gross are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: -1.19%, -0.97%, -2.37%, 7.37%, 5.41%, and 3.84%. As of June 30, 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: -1.25%, -1.01%, -2.71%, 6.77%, 4.85%, and 3.25%.

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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