

# Focused Absolute Value®

A HIGH CONVICTION STRATEGY | QUARTERLY UPDATE AS OF DECEMBER 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 U.S. equity 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



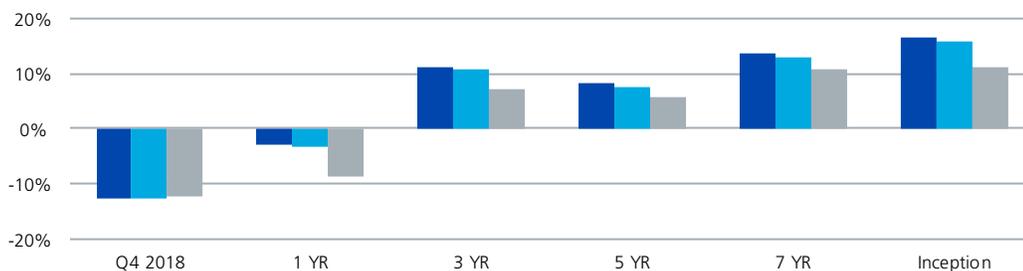
### Ashley L. Abney, CPA

Senior Equity Research Analyst

12 years of experience

Centre College, BS

## Performance Summary



	Q4 2018	1 YR	3 YR	5 YR	7 YR	Inception
Out / Underperformance	-0.30%	+5.54%	+4.21%	+2.28%	+2.73%	+5.49%

**FAV Composite Beta**

**0.90**

**FAV Composite Anlzd Std Dev**

**14.43**

**Russell 3000 Value Anlzd Std Dev**

**14.65**

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, FactSet Research Systems Inc., and Russell Investment Group. Past performance is no guarantee of future results. Please see reverse side for important disclosure information.

## Portfolio Review

**U.S. stocks plummeted in Q4** as lofty valuations, rising fed rates, and declining growth expectations intersected with a festering trade war and partial government shutdown. The toxic combination weighed heavily on investor sentiment with **the S&P 500 posting its second worst December on record (-9.03%) and biggest yearly drop (-4.38%) since 2008**. Although the index failed to technically reach bear market territory, on Christmas Eve it **closed within 64 bps of a -20% decline from its September 20 high-water mark**.

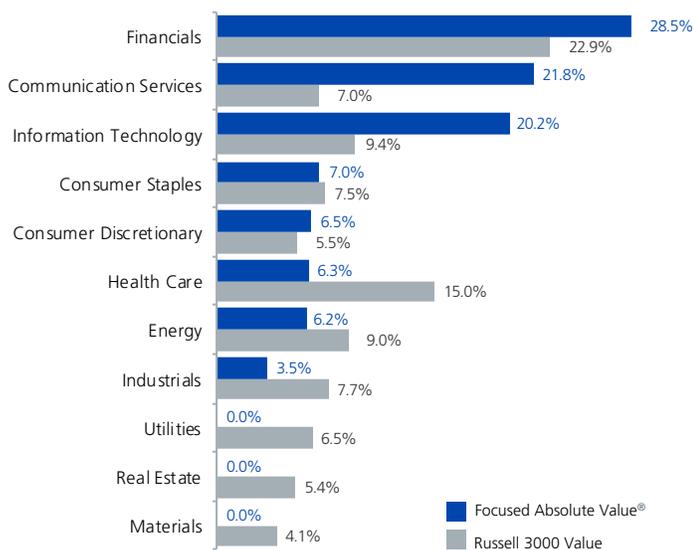
River Road's **Focused Absolute Value® (FAV) Composite** trailed the benchmark for Q4 as poor stock selection, particularly within the Communication Services and Health Care sectors, weighed negatively on results. However, this headwind did little to diminish significant outperformance for 2018, with the Strategy delivering **+554 bps (+518 bps net)** of outperformance.

The top contributing holding in the Portfolio during the quarter was **Air Transport Services Group Inc. (ATSG)**, the premier lessor of the midsize freighter Boeing 767. Late in the quarter, **Amazon (AMZN) expanded the scope and duration of its long-term aircraft leasing and services contracts with ATSG**. Amazon will also receive additional warrants at strike prices significantly higher than the warrants AMZN received in 2016 (\$21.53 versus \$9.73). This agreement not only extends ATSG's contracts with AMZN to 2028 or beyond but also enables AMZN to own up to **39.9%** of ATSG. This mutually beneficial partnership will improve ATSG's cash flow visibility while Amazon gains critical airlift capability necessary to execute its e-commerce strategy.

The bottom contributing holding in the Portfolio during Q4 was **Allergan PLC (AGN)**, a global specialty pharmaceutical company. Allergan is best known for Botox, a wonder toxin that removes wrinkles, treats migraines, and attracts a high percentage of cash-pay customers. **Allergan's Botox franchise has led the market for nearly 30 years – commanding ~70% market share** – and is part of AGN's larger aesthetics business, which we believe generates higher margins than the company average and accounts for a significant share of company profits. **Investors have grown frustrated with Allergan's strategic review progress**. The core business continues to generate attractive results with organic growth in the high-single digits, but there has been little portfolio activity regarding the firm's springtime 'sense of urgency' to create value for shareholders. In November, management noted bids for its Women's Health and Anti-Infectives segments were below expectations.

The number of high quality buyable ideas in our investment universe expanded during the recent market weakness. We believe **the FAV Strategy's opportunistic, benchmark-independent style is positioned to take advantage of even fleeting price dislocations created by rising volatility**, a likely factor in the year ahead. Fortunately, the Strategy has historically thrived in periods of elevated risk and volatility. Lastly, fundamentals remain very attractive versus the Russell 3000 Value benchmark. According to FactSet, the Portfolio's price to cash flow (**valuation**) is **8.9x** versus **12.3x** for the index and return on equity (**quality**) is **13.7%** versus **12.0%**.

### Sector Weightings



### Portfolio Contribution

Top Contributors		Average Weight	Contribution to Return
ATSG	Air Transport Services Group Inc.	0.43%	+0.75%
TECD	Tech Data Corp.	3.58%	+0.51%
SBUX	Starbucks Corp.	3.06%	+0.51%
GM	General Motors Co.	2.49%	+0.05%
IRM	Iron Mountain Inc.	1.45%	-0.04%

Bottom Contributors		Average Weight	Contribution to Return
AGN	Allergan PLC	3.20%	-1.07%
AVYA	Avaya Holdings Corp.	2.51%	-1.04%
LILAK	Liberty Latin America Ltd. (CI C)	3.03%	-0.99%
GLIBA	GCI Liberty Inc. (CI A)	4.57%	-0.93%
DISCK	Discovery Inc. (CI C)	4.09%	-0.87%

### Characteristics

	FAV	R3000V
Number of Holdings	28	2,112
Price / Earnings <sup>1</sup>	11.0	13.9
Price / Cash Flow	8.9	12.3
Price / Book	1.33	1.84
ROE (5 YR Avg)	13.7	12.0
EPS Growth (5 YR)	0.6	4.8
LT Growth Estimate	9.1	9.3
Annualized Standard Deviation <sup>2</sup>	12.47	10.92
Jensen Alpha <sup>2</sup>	2.06	
Beta <sup>2</sup>	1.04	
Turnover <sup>3</sup>	123.60%	

### Market Capitalization Breakdown

	FAV	R3000V
Wtd Median Market Cap	\$7.55 B	\$58.20 B
Wtd Avg Market Cap	\$67.95 B	\$110.31 B
Large Cap > \$15.0 B	39.4%	74.0%
Mid Cap \$3.0 - \$15.0 B	36.8%	19.3%
Small Cap < \$3.0 B	23.8%	6.7%

### Top 10 Portfolio Holdings

Symbol	Company	% of Portfolio
BRK.B	Berkshire Hathaway Inc. (CI B)	8.28%
CMCSA	Comcast Corp. (CI A)	4.97%
BAM	Brookfield Asset Management Inc. (CI A)	4.77%
SABR	Sabre Corp.	4.50%
GLIBA	GCI Liberty Inc. (CI A)	4.41%
TWNK	Hostess Brands Inc. (CI A)	4.26%
CDK	CDK Global Inc.	3.99%
LKQ	LKQ Corp.	3.86%
AXS	Axis Capital Holdings Ltd.	3.64%
TECD	Tech Data Corp.	3.59%

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 Q4 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. 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 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. 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. 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. For periods including non-fee paying accounts, net was calculated for those accounts by applying the highest fee schedule.

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.

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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.

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