

Small-Mid Cap Value

QUARTERLY UPDATE AS OF DECEMBER 31, 2018



Investment Objective

Long-term total return > Russell 2500 Value index plus 200 to 400 bps

Strategy Highlights

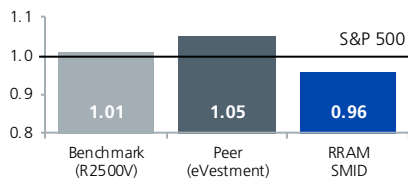
River Road's Small-Mid Cap Value (SMID) Strategy focuses on companies between \$250 MM and \$10 B in market capitalization. The SMID Strategy employs the same bottom-up, fundamentally driven investment process as the firm's Small Cap Value Strategy.

- Bottom-up, fundamentally driven stock selection
- Balanced diversification
- Structured sell discipline

Low Volatility Returns

- Target volatility < Russell 2500 Value
- Ranked among the top 17% of peers over the prior five-year period¹

Beta vs S&P 500 (Trailing 5 YR)¹



Portfolio Managers



J. Justin Akin
15 years of experience;
managed Portfolio since 2012
Centre College, BS

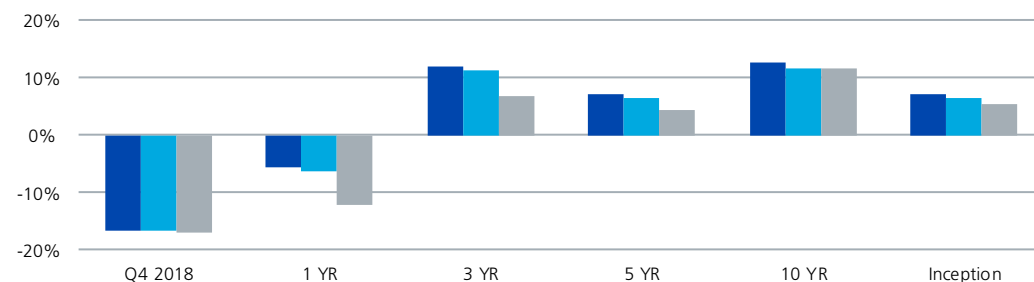


R. Andrew Beck
19 years of experience;
managed Portfolio since inception
University of Louisville, BS
Babson College, MBA



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

Performance Summary



	Q4 2018	1 YR	3 YR	5 YR	10 YR	Inception
Out / Underperformance	+0.49%	+6.75%	+5.25%	+2.77%	+0.82%	+1.77%

SMID Composite Beta

0.88 **0.79** **0.80**

SMID Composite Anlzd Std Dev

12.30 **14.07** **15.16**

Russell 2500 Value Anlzd Std Dev

12.96 **16.94** **18.07**

Performance is shown gross and net of fees. Inception date: March 1, 2007. Out/underperformance compares Small-Mid Cap Value gross performance and Russell 2500 Value. ¹Volatility, measured as beta and standard deviation, is based on trailing 60 month gross of fee composite performance. Average peer beta presented; peer information provided for the eVestment US Small-Mid 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 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**.

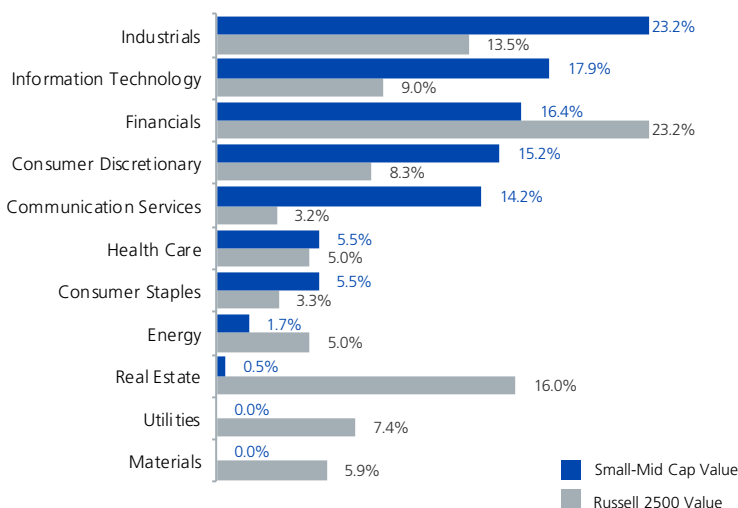
Unfortunately, small caps did plunge into bear market territory with the Russell 2000 index declining **-26.89%** from its August 31 peak, before modestly rebounding into year end. From a style perspective, across all market caps, **growth stocks lagged value for the quarter but remained well ahead for the year**. For the first time since 2008, all nine style boxes delivered negative returns for the year.

Outperformance in the Portfolio during Q4 was driven by positive sector allocation, primarily an underweight position in Energy and overweight allocation to Communication Services. 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 **Conduent Inc. (CNDT)**, a global business process outsourcer with expertise in transaction processing, customer care, HR services, analytics, and automation. **During the quarter, CNDT increased its litigation reserve with the state of Texas from \$38 MM to \$110 MM (\$0.52 per CNDT share) as a result of unsuccessful settlement discussions**. We were previously aware of this lawsuit and became comfortable with the risk after we read the report written by the Office of Inspector General for the U.S. Government's Department of Health and Human Services (HHS). The investigation concluded the state of Texas did not "properly review each prior-authorization request for medical necessity" and it is "ultimately responsible for contractor compliance." HHS later billed Texas for \$133 MM of unnecessary payments charged to Medicaid. The state of Texas is suing CNDT for \$2 B (\$9.50/share). The trial is set for May 2019. We believe a settlement is the most likely outcome.

We were able to identify numerous high quality investments during the recent market weakness and, despite strong relative performance in 2018, we believe the Portfolio is well positioned coming into 2019. According to FactSet, the Portfolio's price to cash flow (**valuation**) is **11.3x versus 11.5x** for the benchmark; return on equity (**quality**) is **12.8% versus 9.1%**; and the Portfolio's long-term earnings growth estimate (**growth**) is **+9.7% versus +9.4%**.

Sector Weightings



Portfolio Contribution

Top Contributors		Average Weight	Contribution to Return
ATSG	Air Transport Services Group Inc.	1.70%	+0.34%
TECD	Tech Data Corp.	1.68%	+0.19%
GNW	Genworth Financial Inc. (CI A)	1.03%	+0.12%
ATNI	ATN International Inc.	0.25%	+0.06%
VVI	Viad Corp.	1.01%	+0.04%

Bottom Contributors		Average Weight	Contribution to Return
CNDT	Conduent Inc.	1.84%	-1.24%
AVYA	Avaya Holdings Corp.	2.12%	-0.87%
GLIBA	GCI Liberty Inc. (CI A)	4.16%	-0.84%
DISCK	Discovery Inc. (CI C)	2.93%	-0.66%
LKQ	LKQ Corp.	2.63%	-0.66%

GICS sector breakdown reflects percent of equity; stocks without a reported sector are not presented. ¹Excludes negative earnings. 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 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 Small-Mid Cap 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 Small-Mid Cap 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 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 and \$10 B, employing 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.

The official benchmark of the Composite is the Russell 2500 Value. All other indices are shown as additional information only.

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. RRAM may 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.

eVestment US Small-Mid Cap Value Equity - US Equity products that invest primarily in small and mid 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 2500, or Russell 2500 Value. Managers in this category will typically indicate a "Primary Capitalization Emphasis" equal to Small-Mid Cap and a "Primary Style Emphasis" equal to Value.

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Characteristics

	RRAM SMID	Russell 2500 Value
Number of Holdings	62	1,748
Price / Earnings ¹	13.5	14.2
Price / Cash Flow	11.3	11.5
Price / Book	1.44	1.49
ROE (5 YR Avg)	12.8	9.1
EPS Growth (5 YR)	3.7	5.9
Cash Flow Growth (5 YR)	8.0	4.9
LT Growth Estimate	9.7	9.4
Wtd Avg Mkt Cap (B)	\$3.44	\$4.36
Wtd Med Mkt Cap (B)	\$2.33	\$3.86

Top 10 Portfolio Holdings

Symbol	Company	% of Portfolio
WTM	White Mountains Insurance Group Ltd.	4.51%
GLIBA	GCI Liberty Inc. (CI A)	4.04%
TWNC	Hostess Brands Inc. (CI A)	3.55%
CNNE	Cannae Holdings Inc.	3.35%
LEXEA	Liberty Expedia Holdings Inc. (CI A)	3.24%
SABR	Sabre Corp.	2.98%
LBRDK	Liberty Broadband Corp. (CI C)	2.91%
LKQ	LKQ Corp.	2.86%
PINC	Premier Inc. (CI A)	2.71%
ATSG	Air Transport Services Group Inc.	2.70%

