

Dividend All-Cap Value II

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF MARCH 31, 2019



Investment Objectives

- Long-term total return > Russell 3000 Value index plus 200 to 400 bps
- Target yield \geq 150% of the Russell 3000 Value index

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 seeks to invest 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:

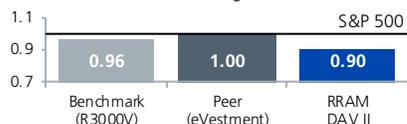
- Minimum market capitalization of \$1 B at the time of purchase
- Indicated dividend yield of at least 2%

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 17% of peers over the prior five-year period²

Beta vs S&P 500 (Trailing 5 YR)²



Portfolio Managers



Henry W. Sanders III, CFA
30 years of experience; managed Portfolio since inception
Bellarmine University, BA
Boston College, MBA



Thomas S. Forsha, CFA
21 years of experience; managed Portfolio since July 2007
The Ohio State University, BS
University of Chicago, MBA

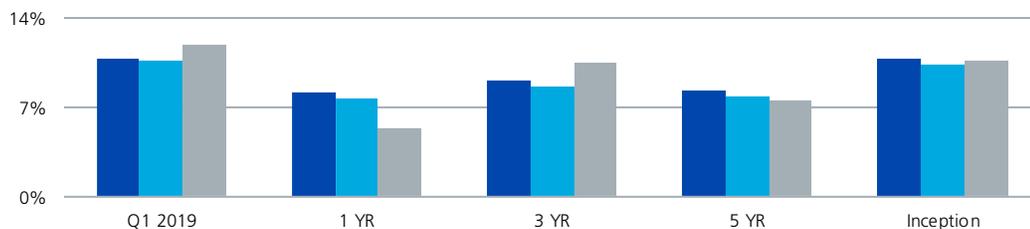


James C. Shircliff, CFA
46 years of experience; managed Portfolio since inception
University of Louisville, BS



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

Performance Summary



	Q1 2019	1 YR	3 YR	5 YR	Inception
Out / Underperformance	-1.12%	+2.81%	-1.42%	+0.75%	+0.19%

Portfolio Yield: 3.72%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

Stocks soared in Q1 following an abrupt pivot in Federal Reserve policy. Responding to slowing growth, Q4 market volatility, and tame inflation, Fed Chairman Jerome Powell communicated additional interest rate hikes are unlikely and the run-off of securities on the Fed's balance sheet is nearing an end.

Thus, despite an equally abrupt slowdown in expected earnings growth, the S&P 500 rallied +13.65% for the quarter, marking the strongest Q1 performance for the index since 1998. Small cap stocks slightly outperformed large cap with the Russell 2000 index returning +14.58% versus +14.00% for the Russell 1000. Given the macro environment, it is no surprise growth significantly outperformed value across all market caps. **Dividend yield was a positive performance factor in January, but results were mixed for the quarter.**

The Dividend All-Cap Value II Composite underperformed the benchmark for Q1. **Stock selection, particularly within the Consumer Staples and Information Technology sectors, weighed on results.** An underweight in Health Care, the worst performing sector in the benchmark during the period, helped partially offset underperformance.

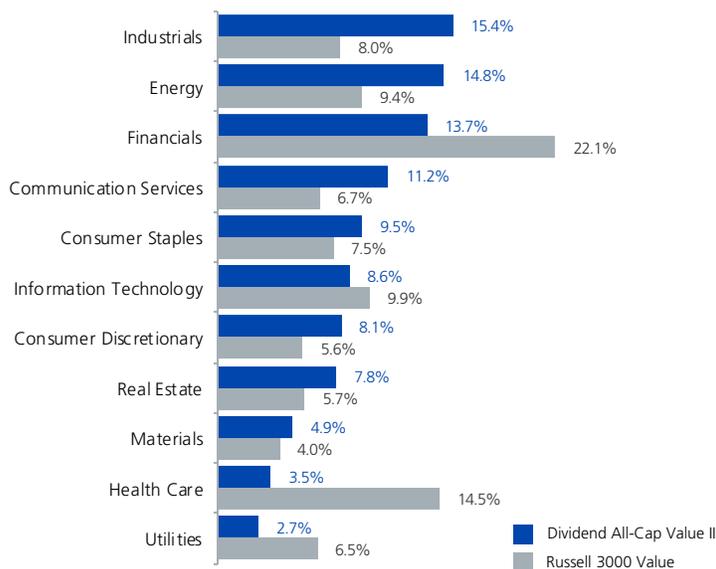
The sector with the highest contribution to relative return in the Portfolio for Q1 was **Consumer Discretionary**. The top contributing holding for the quarter was **Fastenal Co. (FAST)**, an industrial distributor. FAST reported **strong daily sales growth of +13.1% for the quarter marking seven consecutive quarters of double-digit growth**. This strong top-line growth drove strong operating leverage on SG&A costs, which offset significant gross margin compression caused by mix shift. The company continues to grow its lower margin non-fastener and national accounts businesses at much faster rates than the rest of the business driving gross margin compression. We continue to believe that FAST's strategy of moving closer to its clients with Onsite stores and vending machines makes it well positioned to continue taking market share.

The sector with the lowest contribution to relative return in the Portfolio for Q1 was **Consumer Staples**. The largest negative contributor during the quarter was **Bristol-Myers Squibb Co. (BMY)**, a global pharmaceutical firm with a growing focus on oncology. Early in the quarter BMY made a bid to acquire competitor Celgene (CELG), which would not only create a leadership position in oncology but also strategically enhance the pipeline for both firms. We examined the merits of BMY as a standalone or combined with CELG and concluded either outcome offers attractive risk-reward and, thus, established a position. However, **some activist investors campaigned to scuttle the deal arguing the payback is not attractive**. The debate between activists, sell-side analysts, and proxy advisor firms appears to have increased uncertainty for some investors regarding the best path for BMY. Late in the quarter, positive news regarding CELG's main drug Revlimid combined with proxy firms' support of the merger greatly increased the probability that the deal would be closed, pressuring the stock price. Our view through all the debate remains BMY is attractive in either scenario.

While the **likelihood of negative scenarios in fiscal and monetary policy has declined**, absent a surge in domestic economic and earnings growth in the coming months, U.S. equity markets will likely struggle to maintain positive momentum and could retrench.

Discovering value,
off the beaten path®

Sector Weightings



Portfolio Contribution

Top Contributors	Yield ³	Average Weight	Contribution to Return
FAST Fastenal Co.	2.67%	3.53%	+0.77%
KMI Kinder Morgan Inc. (CI P)	4.00%	2.10%	+0.57%
TGT Target Corp.	3.19%	2.57%	+0.54%
CSCO Cisco Systems Inc.	2.59%	2.29%	+0.53%
RHP Ryman Hospitality Properties Inc.	4.38%	1.73%	+0.42%

Bottom Contributors	Yield ³	Average Weight	Contribution to Return
BMJ Bristol-Myers Squibb Co.	3.44%	0.87%	-0.08%
WBA Walgreens Boots Alliance Inc.	2.78%	1.38%	-0.08%
QCOM QUALCOMM Inc.	4.35%	1.31%	-0.08%
RPM RPM International Inc.	2.41%	1.48%	-0.03%
AMGN Amgen Inc.	3.05%	1.90%	-0.03%

GICS sector and market cap breakdowns reflect percent of equity; stocks without a reported sector or market cap (e.g. corporate reorganizations, mergers, acquisitions, and 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 Q1 2019 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 Composite and/or representative portfolio performance contact RRAMCompliance@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. All representative portfolio data is shown as supplemental information to the Composite presentation.

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The Dividend All-Cap Value II Composite contains fully discretionary equity income accounts that seek long-term capital appreciation and high current income by investing primarily in a diversified, multi-cap basket of equity income securities which have a market capitalization of typically at least \$1 B at the time of initial purchase and trade at a discount to our 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 official benchmark for the Composite is the Russell 3000 Value. All other indices are shown for additional information only. 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 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 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 of our portfolio are shown and 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 determined at the beginning of each quarter according to 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 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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Characteristics

	DAV II	R3000V
Number of Holdings	58	2,088
Dividend Yield ³	3.72	2.60
Price / Cash Flow	11.7	12.9
ROE (5 YR Avg)	18.9	11.8
EPS Growth (5 YR)	6.0	4.0
Div / Share Growth (TTM)	11.5	10.6
Cash	4.5%	
Annualized Standard Deviation ¹	10.69	11.17
Jensen Alpha ¹	1.26	
Beta ¹	0.92	
Turnover ²	26.48%	

Market Capitalization Breakdown

	DAV II	R3000V
Wtd Median Market Cap	\$41.44 B	\$58.89 B
Wtd Avg Market Cap	\$69.76 B	\$117.26 B
Large Cap > \$15.0 B	71.5%	75.6%
Mid-Cap \$3.0 - \$15.0 B	24.8%	18.4%
Small Cap < \$3.0 B	3.6%	6.0%

Top 10 Portfolio Holdings

Symbol	Company	% of Portfolio	Yield ³
FAST	Fastenal Co.	3.69%	2.67%
BBT	BB&T Corp.	3.04%	3.48%
GLW	Corning Inc.	2.81%	2.42%
TGT	Target Corp.	2.76%	3.19%
USB	U.S. Bancorp	2.74%	3.07%
IRM	Iron Mountain Inc.	2.68%	6.89%
MPC	Marathon Petroleum Corp.	2.50%	3.54%
CSCO	Cisco Systems Inc.	2.49%	2.59%
CMCSA	Comcast Corp. (CI A)	2.43%	2.10%
KMB	Kimberly-Clark Corp.	2.40%	3.33%

