

# Small-Mid Cap Value

QUARTERLY UPDATE AS OF MARCH 31, 2019



## Investment Objective

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

## Strategy Highlights

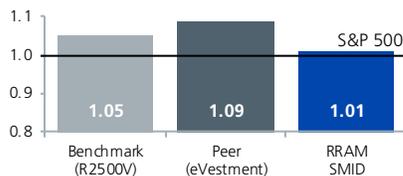
River Road's Small-Mid Cap Value (SMID) Strategy focuses on companies between \$250 MM and \$10 B in market capitalization. The SMID Strategy employs the same bottom-up, fundamentally driven investment process as the firm's Small Cap Value Strategy.

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

## Low Volatility Returns

- Target volatility < Russell 2500 Value
- Ranked among the top 18% of peers over the prior five-year period<sup>1</sup>

### Beta vs S&P 500 (Trailing 5 YR)<sup>1</sup>



## Portfolio Managers



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

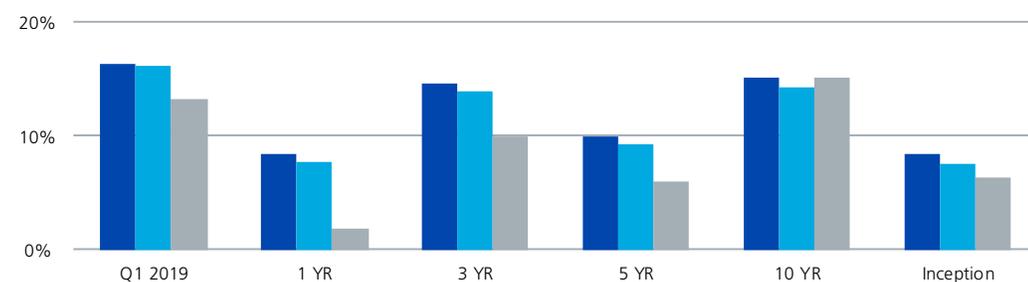


**R. Andrew Beck**  
20 years of experience;  
managed Portfolio since inception  
University of Louisville, BS  
Babson College, MBA



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

## Performance Summary



	Q1 2019	1 YR	3 YR	5 YR	10 YR	Inception
Out / Underperformance	+3.14%	+6.54%	+4.78%	+3.89%	-0.03%	+1.99%
<b>SMID Composite Beta</b>	<b>0.89</b>	<b>0.79</b>	<b>0.81</b>			
<b>SMID Composite Anlzd Std Dev</b>	<b>13.06</b>	<b>13.50</b>	<b>15.34</b>			
<b>Russell 2500 Value Anlzd Std Dev</b>	<b>13.67</b>	<b>16.00</b>	<b>18.16</b>			

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. <sup>1</sup>Volatility, 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

**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 unexpectedly 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.

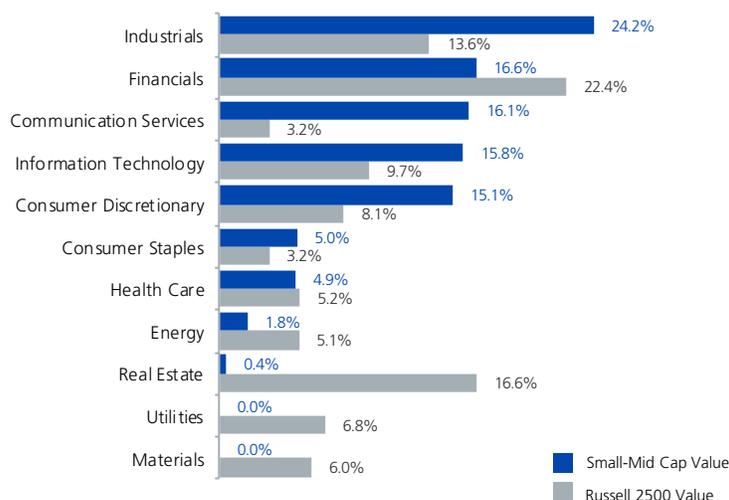
The sectors with the highest contribution to relative return in the Portfolio during Q1 were **Communication Services** and **Financials**. Communication Services benefited from strong stock selection, while Financials benefited from strong stock selection and an underweight allocation. The top contributing holding in the Portfolio was **GCI Liberty Inc. (CI A) (GLIBA)**, which owns 7% of Charter Communications (CHTR) and 100% of the largest cable provider in Alaska. In January, **Charter reported strong results in support of our investment thesis with accelerating internet subscriber growth and improved video subscriber trends.** Of the 50 million homes passed by Charter's network, 49.9% subscribed to Charter's internet services up from 42.0% in 2015, showing Charter's superior broadband network is driving market share gains. The number of lost video subscribers from cord-cutting was only -36,000 in the quarter compared to +289,000 internet subscriber adds. Additionally, internet subscribers carry much higher margins than video, driving adjusted EBITDA growth of +7.6% in the quarter. Both Charter and GLIBA were also actively repurchasing shares in the quarter at attractive prices.

The sectors with the lowest contribution to relative return in the Portfolio during Q1 were **Health Care** and **Real Estate**. Health Care suffered from poor stock selection, while Real Estate suffered primarily from an underweight allocation. The largest negative contributor to performance during the quarter was **Premier Inc. (CI A) (PINC)**, a healthcare GPO and data analytics provider. While PINC reiterated full-year 2019 guidance, during the Q2 2019 conference call the CFO suggested **full-year EBITDA may fall below the midpoint due to lower reimbursement rates in the integrated pharmacy business as well as higher costs associated with direct product sourcing.**

Despite strong performance in recent quarters, we believe portfolio positioning remains an attractive balance of value, quality, and growth. According to FactSet, the Portfolio's price to cash flow (**valuation**) is **11.1x versus 12.6x** for the benchmark; return on equity (**quality**) is **11.8% versus 8.9%**; and the Portfolio's long-term earnings growth estimate (**growth**) is **+10.5% versus +8.6%**.

Discovering value,  
off the beaten path<sup>®</sup>

## Sector Weightings



## Portfolio Contribution

Top Contributors		Average Weight	Contribution to Return
GLIBA	GCI Liberty Inc. (CI A)	4.42%	+1.38%
CNNE	Cannae Holdings Inc.	3.66%	+1.31%
LBRDK	Liberty Broadband Corp. (CI C)	3.06%	+0.78%
AWI	Armstrong World Industries Inc.	2.24%	+0.74%
CSGS	CSG Systems International Inc.	2.11%	+0.63%
Bottom Contributors		Average Weight	Contribution to Return
PINC	Premier Inc. (CI A)	2.66%	-0.19%
MSGN	MSG Networks Inc. (CI A)	0.75%	-0.12%
GNW	Genworth Financial Inc. (CI A)	0.48%	-0.05%
HIHQ	Health Insurance Innovations Inc. (CI A)	0.04%	-0.05%
ARMK	Aramark	0.33%	-0.03%

GICS sector breakdown reflects percent of equity; stocks without a reported sector are not presented. <sup>1</sup>Excludes 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 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 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 data is shown as supplemental information 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 RRAMCompliance@riverroadam.com.

The Small-Mid Cap Value Composite contains fully discretionary small-mid cap value equity accounts that seek capital appreciation by investing primarily in small-mid cap value domestic equity securities that trade at a discount to our 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 official benchmark for the Composite is the Russell 2500 Value index. 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.

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 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

	SMID	R2500V
Number of Holdings	61	1,723
Price / Earnings <sup>1</sup>	20.1	17.2
Price / Cash Flow	11.1	12.6
Price / Book	1.74	1.67
ROE (5 YR Avg)	11.8	8.9
EPS Growth (5 YR)	2.7	6.1
Cash Flow Growth (5 YR)	4.1	4.9
LT Growth Estimate	10.5	8.6
Wtd Avg Mkt Cap (B)	\$4.13	\$5.02
Wtd Med Mkt Cap (B)	\$2.93	\$4.46

## Top 10 Portfolio Holdings

Symbol	Company	% of Portfolio
GLIBA	GCI Liberty Inc. (CI A)	4.73%
WTM	White Mountains Insurance Group Ltd.	4.21%
CNNE	Cannae Holdings Inc.	4.11%
TWNK	Hostess Brands Inc. (CI A)	3.51%
LBRDK	Liberty Broadband Corp. (CI C)	3.21%
LEXEA	Liberty Expedia Holdings Inc. (CI A)	3.07%
LKQ	LKQ Corp.	2.96%
PINC	Premier Inc. (CI A)	2.86%
UNF	UniFirst Corp.	2.67%
STAY	Extended Stay America Inc.	2.58%

