

# Dividend All-Cap Value

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF JUNE 30, 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 (DAV) 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:

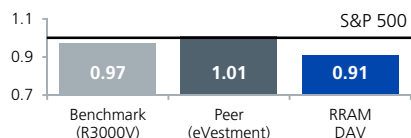
- Minimum market capitalization of \$300 MM at the time of initial purchase
- Indicated dividend yield of at least 2%

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 period<sup>2</sup>

Beta vs S&P 500 (Trailing 5 YR)<sup>2</sup>



## Portfolio Managers



**Henry W. Sanders III, CFA**  
30 years of experience;  
managed Portfolio since inception

Bellarmino University, BA  
Boston College, MBA



**Thomas S. Forsha, CFA**  
21 years of experience;  
managed Portfolio since 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

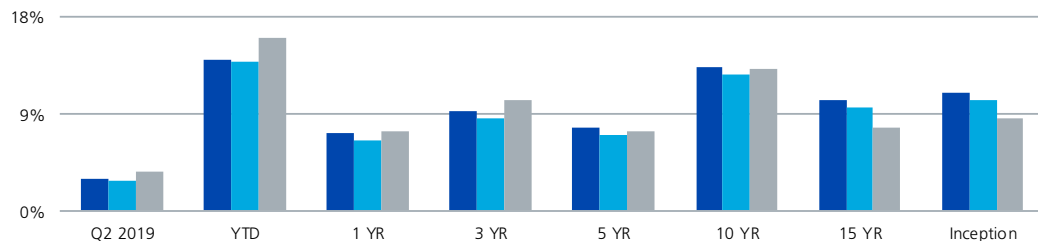


**Andrew R. McIntosh, CFA**  
15 years of experience;  
managed Portfolio since 2018

University of Iowa, BBA

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

## Performance Summary



|                        | Q2 2019 | YTD    | 1 YR   | 3 YR   | 5 YR   | 10 YR  | 15 YR  | Inception |
|------------------------|---------|--------|--------|--------|--------|--------|--------|-----------|
| Out / Underperformance | -0.76%  | -1.97% | -0.18% | -0.99% | +0.40% | +0.26% | +2.51% | +2.36%    |

Portfolio Yield: 3.85%<sup>1</sup>

Performance is shown gross and net of fees. Inception date: October 1, 2003. Out/underperformance compares Dividend All-Cap Value gross performance and Russell 3000 Value. <sup>1</sup>Gross of fees; indicated portfolio yield does not anticipate special dividends. Information based on a representative portfolio within the Strategy. <sup>2</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 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 were volatile in Q2, but ultimately delivered positive gains** as declining growth expectations and an abrupt breakdown in Chinese trade negotiations were offset by an increasingly dovish Federal Reserve. Consequently, U.S. financial markets delivered one of the strongest first half performances in decades, with all nine equity style boxes posting double-digit gains and all eight major asset classes returning at least **+6%**. **For the S&P 500, it was the best first half performance since 1997 (+18.54%) and included the best June (+7.05%) since 1955!**

With volatility rising and growth expectations declining, **small caps trailed large cap in Q2** with the Russell 2000 index returning **+2.10%** versus **+4.25%** for the Russell 1000. Additionally, **growth continued to outperform value across all market caps.**

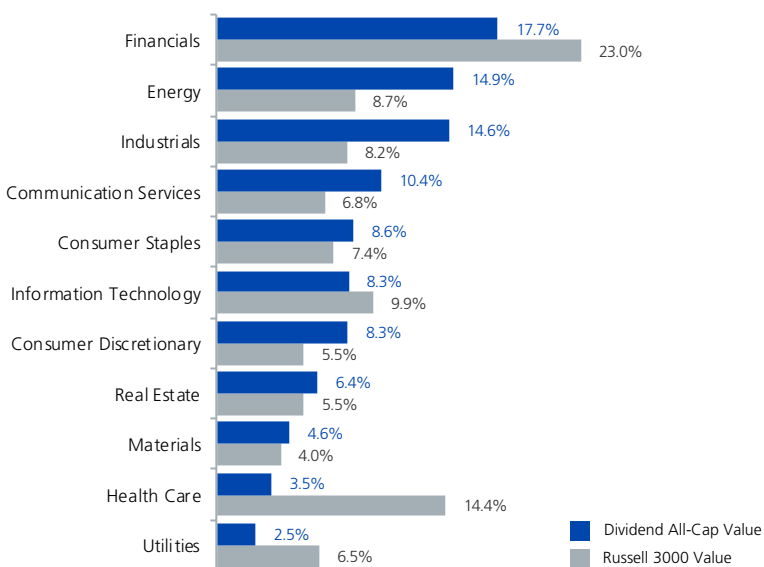
The Dividend All-Cap Value Composite trailed its benchmark for Q2 as high dividend payers (yield greater than > 4%) lagged during the period. An overweight allocation to **Energy** and stock selection within **Industrials** further weighed on results.

The sector with the highest contribution to relative return in the Portfolio for Q2 was **Consumer Staples**. The top contributing holding for the quarter was the combined position of **KAR Auction Services Inc.** and its spin-off, **IAA Inc. (KAR and IAA)**. KAR Auction Services Inc. will remain a provider of used-vehicle auction services, and IAA Inc. will focus on salvage vehicle auction services for the insurance industry. The spin of IAA helped highlight the value of this division, which benefits from strong secular growth driven by a rising percentage of automobile accidents resulting in a total loss due to greater technology content in automobiles and the aging automobile fleet. The salvage auction business is dominated by IAA and Copart (CPRT), each with 40% market share. **CPRT trades at a mid-to-high teens EV/EBITDA multiple compared to the low double-digit multiple for the pre-spin KAR.** As KAR cleared the necessary hurdles for the spin, the stock moved higher, and as expected, the IAA shares advanced as they moved to a premium multiple.

The sector with the lowest contribution to relative return in the Portfolio for Q2 was **Financials**. The largest negative contributor during the quarter was **Occidental Petroleum Corp. (OXY)**, an oil and gas production company owning premier reserves in the United States. We have owned OXY for many years given its **conservative balance sheet, consistent strategy for increasing incremental production, strong capital allocation track record, and longstanding history of growing the dividend.** Unfortunately, OXY's attractive investment attributes were abruptly thrown into doubt upon its transformative announcement that it planned to acquire Anadarko (APC) at a sharp premium to APC's unaffected stock price by increasing OXY's leverage. **The deal not only risks OXY's balance sheet strength and dividend but also amplifies operational complexity at steep costs for uncertain long term gains.** Given prior communication on strategy by OXY management, it is fair to say most – if not all – OXY investors did not purchase OXY to assume such deal risks. Further complicating the scenario, upon pushback from investors regarding merits of acquiring APC, management deviated from its original deal architecture by restructuring the bid with more expensive financing from Berkshire Hathaway to avoid a shareholder vote.

In our view, **U.S. equity markets are largely captive to trade and interest rate decisions for the remainder of 2019.**

Sector Weightings



Portfolio Contribution

| Top Contributors                             | Yield <sup>3</sup> | Average Weight | Contribution to Return |
|--|--------------------|----------------|------------------------|
| KAR/IAA KAR Auction Services Inc. / IAA Inc. | 5.60%              | 1.73%          | +0.40%                 |
| QCOM QUALCOMM Inc.                           | 3.26%              | 1.36%          | +0.35%                 |
| TGT Target Corp.                             | 3.05%              | 2.58%          | +0.25%                 |
| USB U.S. Bancorp                             | 2.82%              | 2.75%          | +0.24%                 |
| PNC PNC Financial Services Group Inc.        | 2.77%              | 1.93%          | +0.23%                 |

| Bottom Contributors                       | Yield <sup>3</sup> | Average Weight | Contribution to Return |
|---|--------------------|----------------|------------------------|
| OXY Occidental Petroleum Corp.            | 6.21%              | 0.77%          | -0.31%                 |
| IRM Iron Mountain Inc.                    | 7.81%              | 2.31%          | -0.24%                 |
| PETS PetMed Express Inc.                  | 6.89%              | 0.58%          | -0.20%                 |
| CNK Cinemark Holdings Inc.                | 3.77%              | 1.89%          | -0.18%                 |
| MSM MSC Industrial Direct Co. Inc. (CI A) | 3.39%              | 1.63%          | -0.17%                 |

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. <sup>1</sup>Risk characteristics based on trailing 60 month gross of fee composite performance. <sup>2</sup>Average annual turnover since inception (October 1, 2003). <sup>3</sup>Gross 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 Q2 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 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. For any periods prior to April 1, 2006, Dividend All-Cap Value Composite data was used and combined with the representative portfolio data because underlying transaction information for representative portfolios is not available in the necessary format prior to April 1, 2006. 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 Dividend All-Cap Value Composite contains fully discretionary equity income accounts that seek 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 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. For periods including non-fee paying accounts, net was calculated for those accounts by applying the highest fee schedule effective at that time.

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.

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    | R3000V |
|--|--------|--------|
| Number of Holdings                         | 61     | 2,069  |
| Dividend Yield <sup>3</sup>                | 3.85   | 2.56   |
| Price / Cash Flow                          | 11.9   | 12.9   |
| ROE (5 YR Avg)                             | 18.9   | 11.7   |
| EPS Growth (5 YR)                          | 6.7    | 4.4    |
| Div / Share Growth (TTM)                   | 10.5   | 10.6   |
| Cash                                       | 3.8%   |        |
| Annualized Standard Deviation <sup>1</sup> | 11.55  | 12.01  |
| Jensen Alpha <sup>1</sup>                  | 0.83   |        |
| Beta <sup>1</sup>                          | 0.93   |        |
| Turnover <sup>2</sup>                      | 33.97% |        |

Market Capitalization Breakdown

|                          | DAV       | R3000V     |
|--------------------------|-----------|------------|
| Wtd Median Market Cap    | \$37.03 B | \$56.91 B  |
| Wtd Avg Market Cap       | \$64.99 B | \$120.91 B |
| Large Cap > \$15.0 B     | 67.1%     | 77.4%      |
| Mid-Cap \$3.0 - \$15.0 B | 25.3%     | 17.2%      |
| Small Cap < \$3.0 B      | 7.6%      | 5.4%       |

Top 10 Portfolio Holdings

| Symbol | Company                   | % of Portfolio | Yield <sup>3</sup> |
|--------|---------------------------|----------------|--------------------|
| BBT    | BB&T Corp.                | 2.98%          | 3.30%              |
| USB    | U.S. Bancorp              | 2.75%          | 2.82%              |
| TGT    | Target Corp.              | 2.72%          | 3.05%              |
| GLW    | Corning Inc.              | 2.67%          | 2.41%              |
| KMI    | Kinder Morgan Inc. (CI P) | 2.61%          | 4.79%              |
| CMCSA  | Comcast Corp. (CI A)      | 2.38%          | 1.99%              |
| FAST   | Fastenal Co.              | 2.35%          | 2.64%              |
| CSCO   | Cisco Systems Inc.        | 2.32%          | 2.56%              |
| KMB    | Kimberly-Clark Corp.      | 2.31%          | 3.09%              |
| IRM    | Iron Mountain Inc.        | 2.17%          | 7.81%              |

