



October 5, 2018

Dear Friends and Investors,

U.S. stocks delivered outstanding returns in Q3, bucking historical seasonal and election cycle trends. The S&P 500 surged **+7.71%**, its best performance since Q4 2013, as both broader earnings and economic trends remain robust. From a style and size perspective, **growth outperformed value across all market caps** and **large caps outperformed small caps**, with the Russell 1000 index returning **+7.42%** versus **+3.58%** for the Russell 2000. Large caps were the only size segment with positive returns in September (historically the weakest month of the year) as **softer earnings growth expectations and a decrease in trade-related concerns contributed to a rotation from small cap to large cap leadership.**

Outside of the United States, trade fears, slowing growth, and a strong U.S. dollar continued to weigh on equity performance, particularly within emerging markets. The MSCI EAFE index returned **+1.42%** for Q3 (U.S. dollars) while the MSCI Emerging Markets index returned **-0.95%**. Year to date, the MSCI EAFE and Emerging Markets indices have returned **-0.98%** and **-7.39%**, respectively, versus **+10.56%** for the S&P 500.

Composite Performance Summary ¹														
	Small Cap Value		Small-Mid Cap Value		Dividend All-Cap Value		Dividend All-Cap Value II		Focused Absolute Value®		Long-Short Equity		International Equity ADR	
	Q3	YTD	Q3	YTD	Q3	YTD	Q3	YTD	Q3	YTD	Q3	YTD	Q3	YTD
Gross	6.59%	11.41%	8.36%	13.21%	5.26%	5.05%	5.67%	5.32%	6.41%	10.87%	3.29%	0.59%	2.52%	-1.66%
Net	6.36%	10.71%	8.19%	12.67%	5.11%	4.60%	5.58%	5.03%	6.30%	10.55%	3.07%	-0.05%	2.38%	-2.06%
Benchmark ²	1.60%	7.14%	2.67%	5.75%	5.39%	4.17%	5.39%	4.17%	5.39%	4.17%	3.77%	6.01%	1.40%	-1.19%
+ / -	+4.99%	+4.27%	+5.69%	+7.46%	-0.13%	+0.88%	+0.28%	+1.15%	+1.02%	+6.70%	-0.48%	-5.42%	+1.12%	-0.47%

Although active value managers generally struggled in Q3, strong performance among high quality factors (ROE, ROA, ROIC, etc.) benefited RRAM strategies. **River Road's Small Cap Value (SCV) and Small-Mid Cap Value (SMID) Composites delivered stellar returns in Q3, with both significantly outperforming their respective benchmarks.** We speculated last quarter that weak relative performance in Q2 was a temporary stylistic headwind triggered by huge index inflows, similar to Q4 2016. This proved to be the case with, similar to Q1 2017, performance sharply rebounding as inflows declined. It is worth noting **flows into River Road's SMID Strategy have remained strong over the past 12 months and, if current trends persist, the Strategy could close to new relationships within the next 12 months.**

River Road's **Focused Absolute Value® (FAV) Composite also outperformed in Q3, increasing its year-to-date lead to +670 bps** (+638 bps net). Strong stock selection among mid cap holdings (\$3 B - \$15 B) drove the majority of outperformance during the quarter. From a sector perspective, strong stock selection within Consumer Discretionary and Energy offset relatively weak stock selection within Consumer Staples. **Total FAV assets now exceed \$600 MM and are rapidly approaching the target 'active capacity' range of \$750 MM to \$1 B.**³

River Road's Dividend All-Cap Value (DAV and DAV II) Composites performed in line with the index for Q3, with DAV slightly underperforming and DAV II modestly outperforming. The modest difference in performance was largely due to DAV II's lower small cap exposure. Despite attractive performance from quality-related factors, dividend-related factors were weak in Q3, contributing to a negative allocation effect in eight of 11 sectors. Fortunately, stock selection was positive, driven mostly by outperformance in the Information Technology sector. For the year-to-date period, both DAV and DAV II continue to lead their benchmark.

Diminishing investor appetite for risk outside the U.S. benefited RRAM's quality-focused International Equity ADR (iADR) Composite, which returned +2.52% (+2.38% net) for Q3 versus **+1.40%** for the iShares MSCI EAFE ETF. The top contributing sectors within iADR were Industrials (+104 bps) and Information Technology (+55 bps), while the bottom

¹ Please see the attached disclosures. Past performance is no guarantee of future results.

² Benchmarks: SCV - Russell 2000 Value; SMID - Russell 2500 Value; DAV - Russell 3000 Value; DAV II - Russell 3000 Value; FAV - Russell 3000 Value; Long-Short Equity - 50% Russell 3000 index/50% ICE BofAML US Treasury Bill (0-3 M) (Local Total Return); rebalanced daily; iADR - iShares MSCI EAFE ETF.

³ As of September 30, 2018. Total assets combine River Road's (1) firm assets under management (as defined by GIPS®) and (2) model portfolio assets (no control over implementation of investment decisions and no trading authority). If a portion of model assets was not available as of the report date, previous month end data was used for that portion. Total assets provided as supplemental information and subject to change.



contributing sectors were Consumer Discretionary (-112 bps) and Health Care (-39 bps).⁴ From a regional perspective, overweight allocations to and positive stock selection in North America and the Middle East benefited relative performance while negative stock selection in Asia-Pacific and Japan detracted.⁵

The Long-Short Equity (LS) Composite lagged its blended benchmark in Q3 as the short portfolio's outperformance versus the Russell 3000 (+106 bps) was not enough to offset the long portfolio's underperformance (-129 bps).⁶ The long portfolio lagged the Russell 3000 largely due to its value and small cap positioning. Conversely, the short portfolio actually benefited from its smaller cap orientation, as well as the focus on lower quality stocks.

With regard to firm news, **work continues around updating the firm's proprietary conviction rating system and sizing models**, with the objective of establishing more granular assessments and incorporating more disciplined, situation-specific weightings. Led by our *Director of Research*, J. Alex Brown, and *Portfolio Manager* Daniel R. Johnson, CFA, CPA, we anticipate completing this important initiative by year end.

We also concluded a comprehensive strategic review of our DAV Strategies, which is an exercise we periodically undertake with each of our established portfolios. Led by River Road's Solutions Research Group (SRG), and conducted in conjunction with the DAV portfolio management team, the objective of a River Road strategy review is to ensure continuous improvement across all stages of portfolio management as the team, markets, and targeted equity niches evolve over time. Timing for the DAV review coincided with the recent appointment of Andrew R. McIntosh, CFA as *Associate Portfolio Manager* for the DAV Strategies.

The DAV review resulted in valuable insights and numerous meaningful actions, including **a revision to the Strategies' target yield (150% of index versus index +150 bps) and a reduction to the target number of portfolio holdings (DAV: 50 - 70 holdings versus 60 - 80; DAV II: 45 - 70 holdings versus 50 - 75)**. While none of the action items will result in a material near-term change to portfolio positioning, we do believe these portfolio and process refinements will have a positive impact on the DAV Strategies' performance over time. These modifications will be formally implemented on January 1, 2019.

Finally, in the coming weeks **we will be conducting our first formal 'client survey.'** Given our desire to be a best-in-class boutique equity manager, and the many changes occurring in the industry, our objective with the survey is to assess how we can improve our service and communication to you, our clients. **We will be working with Focus Consulting Group** to conduct the survey, which will consist of an anonymous online component and, for some, a telephone interview. We sincerely appreciate your participation as we strive to improve our client experience.

We hope you enjoy reading River Road's portfolio commentary and outlook and welcome your questions and feedback.

R. Andrew Beck
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Senior Portfolio Manager*

James C. Shircliff, CFA
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⁴ Based on a representative portfolio within the Strategy.

⁵ Classifications determined by applying MSCI's global investable market indices (GIMI) methodology.

⁶ Relative long and short portfolio performance is gross of fees. Gross of fees performance does not reflect the effect of management fees (performance would have been lower). Please refer to the net of fees performance provided when considering this Strategy. The long portfolio and short portfolio information is based on a representative portfolio within the Strategy and excludes the impact of cash. Short portfolio performance excludes the impact of the cost to borrow and index hedges applied during the drawdown plan.



Disclosures:

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, CPA, CFA at (502) 371-4100 or thomas.mueller@riverroadam.com. For all composites, 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.

Small Cap Value Composite Disclosures:

Inception date: January 1, 1998. The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in small 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 cap company as one whose market capitalization is less than \$4 B. The Manager selects securities from a universe of companies with a market capitalization at the time of initial purchase typically between \$50 MM and \$4 B, employing a value-driven, bottom-up fundamental approach. The official benchmarks for the Small Cap Value Equity Composite are the Russell 2000 Value and Russell 2000. Net of fee composite performance is calculated using actual management fees, which includes performance fees for some periods.

As of September 30, 2018, net of fees returns for the Small Cap Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: 0.37%, 6.36%, 10.71%, 14.28%, 17.66%, 10.78%, 9.98%, and 10.89%. As of September 30, 2018, returns for the Russell 2000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: -2.48%, 1.60%, 7.14%, 9.33%, 16.12%, 9.91%, 9.52%, and 8.65%.

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.

Small-Mid Cap Value Composite Disclosures:

Inception Date: March 1, 2007. 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 to \$10 B, employing a value driven, bottom-up fundamental approach. The official benchmark of the Small-Mid Cap Value Composite Portfolio is the Russell 2500 Value. Net of fee composite performance is calculated using actual management fees.

As of September 30, 2018, net of fees returns for the Small-Mid Cap Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: 1.26%, 8.19%, 12.67%, 14.87%, 19.23%, 11.21%, 10.76%, and 8.17%. As of September 30, 2018, returns for the Russell 2500 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: -1.56%, 2.67%, 5.75%, 10.24%, 14.51%, 9.99%, 10.53%, and 7.20%.

Dividend All-Cap Value Composite (DAV) and Dividend All-Cap Value II Composite (DAV II) Disclosures:

Inception Date DAV: October 1, 2003. Inception Date DAV II: January 1, 2011. The composites contain fully discretionary accounts that seek to provide 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 assessed valuation as determined using RRAM's proprietary Absolute Value® approach. The composites are primarily invested in dividend-paying common stocks. The composites 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. For the DAV II Composite only, the securities must have a market capitalization of typically at least \$1 B at the time of initial purchase. RRAM employs a value-driven, bottom-up approach. The official benchmark for the composites is the Russell 3000 Value. Net of fee DAV 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 effective at that time. Net of fee DAV II composite 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.

As of September 30, 2018, net of fees returns for the Dividend All-Cap Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: -0.74%, 5.11%, 4.60%, 8.88%, 13.05%, 9.59%, 10.04%, and 10.71%. As of September 30, 2018, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: 0.00%, 5.39%, 4.17%, 9.46%, 13.75%, 10.65%, 9.76%, and 8.93%.

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.

As of September 30, 2018, net of fees returns for the Dividend All-Cap Value II Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -0.63%, 5.58%, 5.03%, 9.59%, 13.53%, 10.10%, and 11.19%. As of September 30, 2018, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 0.00%, 5.39%, 4.17%, 9.46%, 13.75%, 10.65%, and 11.66%.

Focused Absolute Value® Composite Disclosures:

Inception Date: January 1, 2009. **The team of analysts involved with recommending investments for Focused Absolute Value® has changed and may continue to change over time.** The portfolio managers may not have historically approved all trades prior to execution. Fully invested is as defined by RRAM and this standard may change over time. Prior to September 30, 2014, the composite was known as the Research Fund Composite.

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. For this composite, 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. One client account is a current employee of RRAM. The official benchmark for the composite is the Russell 3000 Value. Fully invested is as defined by RRAM. 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.

As of September 30, 2018, net of fees returns for the Focused Absolute Value Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 0.35%, 6.30%, 10.55%, 11.38%, 16.64%, 12.76%, and 17.87%. As of September 30, 2018, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 0.00%, 5.39%, 4.17%, 9.46%, 13.75%, 10.65%, and 12.93%.

Long-Short Equity Composite Disclosures:

Inception date: July 1, 2010. The composite contains a fully discretionary account that seeks equity-like returns with reduced volatility over a full market cycle by investing primarily in long equity securities that trade at a discount to our assessed valuation and selling short equity securities that trade a premium to our assessed valuation as determined using RRAM's proprietary Absolute Value® approach. The composite will invest in short securities. The long and short portfolios will typically represent 50-100% and 10-90% of the total composite, respectively. Additionally, the composite may use options, futures, and other derivatives but these will not represent a significant portion of the composite. The official benchmarks for the composite are the Blended Index and the Russell 3000. The Blended Index was added as a benchmark effective 10/31/2016. The Blended Index represents a 50% weighting of the Russell 3000 Index and a 50% weighting of the ICE BofAML US Treasury Bill (0-3 M) (Local Total Return); rebalanced daily. 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 effective at that time.

As of September 30, 2018, net of fees returns for the Long-Short Equity Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: -0.09%, 3.07%, -0.05%, 1.14%, 5.35%, 3.63%, and 7.36%. As of September 30, 2018, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 0.17%, 7.12%, 10.57%, 17.58%, 17.07%, 13.46%, and 15.73%.

International Equity ADR Composite Disclosures:

Inception Date: January 1, 2014. The composite contains fully discretionary accounts that seek capital appreciation by investing primarily in non-U.S. companies that trade at a discount to valuation. For this composite, RRAM defines non-U.S. companies as ADRs or other non-U.S. companies traded in the United States on an exchange, OTC, or pink sheets or otherwise. Three client accounts are for current employees of RRAM. For comparison purposes, the composite is measured against the MSCI EAFE Gross Index (ETF performance temporarily used as a proxy for the benchmark). 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.

As of September 30, 2018, net of fees returns for the International Equity ADR Composite are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 1.19%, 2.38%, -2.06%, 2.80%, 8.64%, and 3.48%. As of September 30, 2018, returns for the MSCI EAFE Gross are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 0.91%, 1.42%, -0.98%, 3.25%, 9.77%, and 3.94%. As of September 30, 2018, returns for the iShares MSCI EAFE ETF are as follows for the month, QTD, YTD, 1 year, 3 year, and Inception to Date periods: 0.90%, 1.40%, -1.19%, 3.01%, 9.52%, and 3.70%.

Performance for the ETF is presented on a gross of management fee basis as calculated by FactSet Research Systems by applying net expense ratios per annual reports (actual fees charged). Current expense ratios are used in the absence of historical. This ETF is also presented net of foreign withholding taxes on dividends, interest income, and capital gains. The IADR Composite performance is gross of foreign withholding taxes, which makes performance higher than if it were net of foreign withholding taxes.

Performance presented prior to October 1, 2016 occurred while the Portfolio Manager was affiliated with prior firms and the Portfolio Manager was the only individual 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 ACA Performance Services, LLC.

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