

River Road Asset Management, LLC

Investment Perspective

Why Dividend All-Cap Value NOW!

June 2019



RIVER ROAD
ASSET MANAGEMENT®

Summary

In this paper, we explore **the benefits of dividend investing**; why we believe River Road's all cap, Absolute Value® approach results in a diversified portfolio of high quality value stocks offering an attractive combination of **high dividend yield, price appreciation potential, and low relative volatility**; and why we believe **NOW!** is the ideal time to allocate away from passive and higher risk equity strategies.

Why Dividends?

Historically, dividend-paying stocks have **outperformed** non dividend-paying stocks with **lower risk**. Furthermore, we believe demographic trends and the likelihood of sustained low interest rates will extend the remarkable demand that has made dividend stocks so popular during the past decade.

Why All Cap?

Smaller cap dividend-paying stocks have historically offered **greater breadth, higher yields, and higher total return** compared to large cap. In our opinion, this creates a **competitive advantage** for experienced small cap dividend investors like River Road.

Why Absolute Value®?

Many dividend strategies focus solely on yield, ignoring the fundamental value and quality of the underlying investment. We believe this dramatically increases the risk of volatility, future dividend cuts, and permanent loss of investor capital. Historically, value stocks have **outperformed**, and provided greater **downside protection**. Additionally, we believe a high quality approach to value investing, such as River Road's proprietary Absolute Value® philosophy, will enhance these advantages and support consistent **dividend growth**.

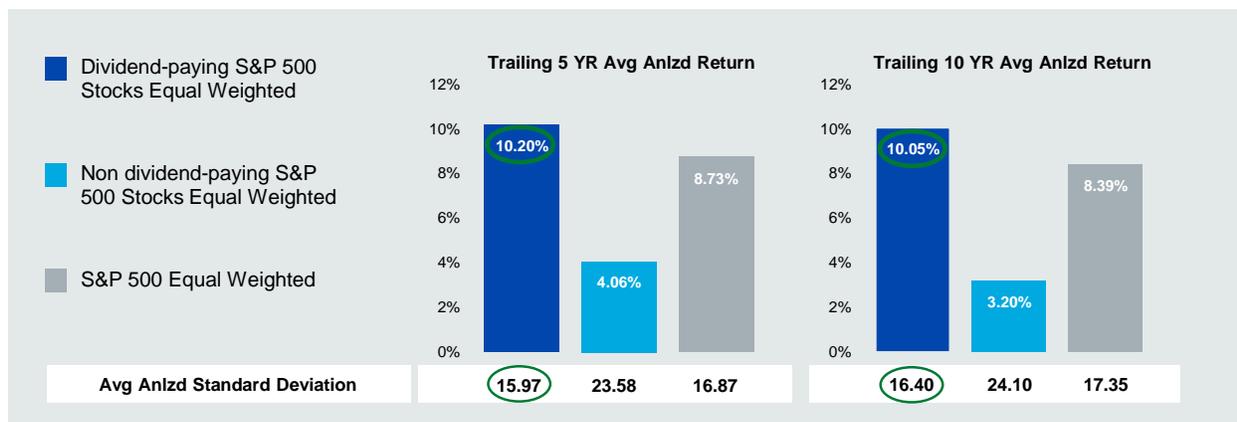
Why Dividend All-Cap Value NOW!

We expect **low economic growth, high equity valuations**, and contentious politics to sustain **higher market volatility** for years to come. Additionally, while interest rates will fluctuate, we believe they are likely to remain low well into the future. Finally, we think the economic and market cycles are mature, as is the growth versus value cycle. We believe these conditions favor a **move away from passive dividend and higher risk equity strategies** to an actively managed, high quality, value-oriented, all cap dividend portfolio, such as River Road's **Dividend All-Cap Value**.

Why Dividends?

Historically, dividend-paying stocks have outperformed!

Since 1972, **dividend stocks have significantly outperformed over rolling five- and 10-year periods**. Additionally, not only was the return higher, but the **risk was lower**, with the annualized standard deviation of monthly returns for dividend payers consistently lower than for non payers.



Data shown as of June 30, 2019. Source: River Road Asset Management LLC, FactSet Research Systems Inc., and Ned Davis Research Inc.

We believe demographics will sustain demand...

As the saying goes, “demographics is destiny,” and demographics are expected to remain favorable for dividend-focused strategies in the future, as average life expectancy continues to grow and Baby Boomers retire at an accelerated pace. Additionally, **with interest rates well below their historical average, we believe investors will require the income, capital gains, and inflation protection that dividend stocks provide.**

We believe an aging population and the likelihood of low interest rates will sustain the alpha generation that has made dividend-paying stocks so attractive over time.

...and interest rates will likely remain relatively low over this cycle

Gradual monetary tightening by the U.S. central bank stands in stark contrast to the central banks in Europe and Japan, which have maintained negative short-term rates and suppressed long-term rates. The spread between U.S. long-term rates and these other major economies encourages global asset allocators to invest in the United States, reducing upward pressure on long-term rates. Thus, absent an extended period of robust (greater than >3%) economic growth or a sharp upward revision in inflation expectations, both of which we think is unlikely, **we believe the 10-year U.S. Treasury will remain well below its long-term average rate of 5.9%, supporting demand for high-quality, dividend-paying stocks.**

Why All Cap?

Historically, an all cap approach to dividend investing boosts the size of the investable universe and the yield potential...

There is a common misconception that the dividend universe is dominated by large cap companies. In fact, the dividend universe (which we define as equities with a yield greater than 2%) contains three to four times as many small and mid cap stocks as large. Additionally, the **smaller cap segment of the dividend universe consistently offers a yield that is higher**

than the large cap segment. An all cap approach also provides more opportunities to invest in various **high-yielding equities, including Master Limited Partnerships and Real Estate Investment Trusts,** which we believe can play a significant role for investors with current income needs.

	# of Companies (> 2% Yield)	Wtd Avg Yield
Mkt Cap < \$3 B	509	5.99%
\$3 B < Mkt Cap < \$15 B	330	4.75%
Mkt Cap > \$15 B	260	3.94%

Data shown as of June 30, 2019. Universe: U.S. listed equity; TTM yield > 2%; mkt cap > \$300 MM. Source: River Road Asset Management LLC and FactSet Research Systems Inc.

...as well as the expected total return

In November 2016, Financial Analysts Journal published an article titled *"What Difference Do Dividends Make?"*. Given the extensive academic literature and market experience demonstrating the alpha potential of dividend stocks, it was not surprising that their conclusions were positive. However, the authors dug deeper than past analyses, showing that not only have dividend-paying companies offered high returns at lower risk, but also that **small cap and mid cap dividend payers offered higher risk-adjusted returns than their large cap peers.** This supports our belief that dividend managers gain a clear advantage by pursuing an all cap approach. However, we believe only a relatively small number of institutional dividend strategies have

demonstrated experience investing in small cap dividend stocks. The team at River Road has been actively focused on smaller cap stocks for more than two decades! Additionally, **the unique attractiveness of smaller cap dividend payers is why we launched River Road's Dividend All-Cap Value Strategy.**

River Road's all cap approach allows more flexibility for stock selection and the ability to tap into the higher yields and greater total returns historically available among mid and small cap dividend payers.

Why Absolute Value®?

We believe a fundamental, value-driven strategy is key to identifying opportunity...

Put simply, **value investing works**. Numerous academic studies, conducted over many decades, support the assertion that value is one of the few factors that drive outperformance over time. Not only does a fundamentally-driven value discipline make sense in broader application, but we believe it is especially vital in a dividend strategy.

The Dividend All-Cap Value Strategy is designed to balance yield and value in order to seek an attractive total return.

Why? A fundamental approach supports what we believe is dividend investors' most important objective – **identifying companies that can both sustain AND grow their dividend payments**. Sometimes a company has a high yield because the stock trades down as investors anticipate that the current dividend cannot be sustained. Further, in today's low rate environment, we believe investors are desperately searching for yield, and without value as a guide, they are all too prone to overpay. A value discipline not only seeks to provide a margin of safety, but also seeks to support the other, and perhaps more important, component of total return – capital gains. **Few stocks can provide an adequate total return through yield alone.**

...and signaling when to sell

A fundamentally-driven value strategy **also serves as an important signal of when to sell**. One of the unique issues faced by dividend investors is the risk that they will hold onto big winners (especially if the gains are long-term) as these stocks typically have an attractive 'yield on cost.' **While it can be great fun to look at the dividend payment received as a percentage of cost, we believe this sort of thinking can be a trap**. In our opinion, from a financial standpoint, the only numbers that matter are the current yield and the expected total return going forward. Holding onto an overvalued security not only introduces higher risk, but also makes it less likely that the expected capital gains will be sufficient to produce an attractive total return going forward.

Why Dividend All-Cap Value (DAV) NOW!

DAV has consistently outperformed in negative to moderately positive return environments

With **volatility rising**, and given the relative **maturity of the economic, market, and growth versus value cycles**, we believe **NOW! is an ideal time to invest** in River Road's Dividend All-Cap Value Strategy. As noted in the accompanying table, comparing DAV rolling five-year monthly results since inception to both the Russell 3000 Value and S&P 500 total return indices demonstrates the **DAV Strategy consistently outperformed when the index delivered negative to moderately positive ($\leq 10\%$) returns**. This is precisely the environment we envision in coming months and years.

Market	Down < 0%	Moderate 0 - 10%	Strong > 10%	All
DAV average return - Gross	3.84%	7.57%	14.21%	9.49%
DAV average return - Net	3.12%	6.85%	13.47%	8.76%
R3V average return	-1.65%	4.49%	14.35%	7.18%
Periods of DAV outperformance - Gross	33 of 33 100%	39 of 41 95%	21 of 56 38%	93 of 130 72%
Periods of DAV outperformance - Net	33 of 33 100%	32 of 41 78%	8 of 56 14%	73 of 130 56%

DAV average return - Gross	3.81%	5.74%	13.35%	9.49%
DAV average return - Net	3.11%	5.01%	12.62%	8.76%
S&P 500 average return	-1.91%	2.56%	14.57%	8.29%
Periods of DAV outperformance - Gross	16 of 16 100%	44 of 46 96%	15 of 68 22%	75 of 130 58%
Periods of DAV outperformance - Net	16 of 16 100%	44 of 46 96%	2 of 68 3%	62 of 130 48%

Data shown as of June 30, 2019. Inception date: October 1, 2003. Annualized rolling five-year performance data shown gross and net of fees for the DAV Composite. Source: River Road Asset Management LLC, FactSet Research Systems Inc., Russell Investment Group, and Standard & Poor's. Past performance is no guarantee of future results. Please see appendix for additional disclosures.

Passive dividend strategies failed investors in 2009...

Heavy exposure to Financials led many passive dividend strategies to significantly underperform at the peak of the financial crisis in Q1 2009. Amid massive losses and federal bailouts it was clear that dividend payments for many firms were going to be substantially cut or eliminated, yet **passive dividend strategies remained locked into these positions because the rules governing their construction were inflexible and backward-looking.**

Despite the relative long-term safety of dividend investing in general, **passive dividend strategies largely failed to deliver when protection from downside volatility was needed most!** Looking at the 11 U.S. dividend ETFs that existed at that time and have more than \$1 B in assets today, only one outperformed as the S&P 500 declined -24.63% from January 1, 2009 to the March 9, 2009 bottom. **In fact, six of these ETFs underperformed by more than -1,000 bps in this short period!**

U.S. Dividend-Focused ETF Performance			
		Performance 1/1/2009 to 3/9/2009	Relative Performance vs. S&P 500
	S&P 500	-24.63%	
VIG	Vanguard Dividend Appreciation ETF	-23.77%	+0.87%
FVD	First Trust Value Line® Dividend ETF	-28.31%	-3.68%
DLN	WisdomTree US LargeCap Dividend ETF	-29.44%	-4.80%
VYM	Vanguard High Dividend Yield ETF	-31.53%	-6.90%
SDY	SPDR® S&P Dividend ETF	-32.41%	-7.78%
DON	WisdomTree US MidCap Dividend ETF	-34.69%	-10.06%
DVY	iShares Select Dividend ETF	-36.36%	-11.72%
DHS	WisdomTree US High Dividend ETF	-38.76%	-14.12%
FDL	First Trust Morningstar Div Leaders ETF	-39.72%	-15.09%
DES	WisdomTree US SmallCap Dividend ETF	-42.79%	-18.15%
PEY	Invesco High Yield Eq Div Achiev™ ETF	-47.12%	-22.48%

Source: River Road Asset Management LLC, etfdb.com, FactSet Research Systems Inc., and Standard & Poor's.

...perhaps this is why their growth is lagging the broader equity market

According to Morningstar, it is estimated that by the end of 2017, passive equity strategies had reached approximately **45%** share of all equity assets in U.S. mutual funds and exchange-traded products. However, **passive dividend strategies** grew from 2% market share in 2007 to **only 18%** in 2016. Despite the tidal shift toward passive in the industry, we believe this demonstrates that **dividend investors continue to favor the more opportunistic and risk-managed benefits of an active approach.**

Conclusion

Built on River Road's proprietary Absolute Value® investment approach, we believe **the DAV Strategy presents an innovative, timely solution for investors seeking both capital appreciation and current income.** The name 'Dividend All-Cap Value' describes what we believe are three *powerful* sources of alpha generation.

Dividend stocks have historically, and consistently, outperformed the broader market and we believe **this advantage will continue to be supported by an *aging population* and the likelihood of *relatively low interest rates*.** Additionally, **the DAV Strategy's all cap design leverages River Road's core competency in small cap and otherwise undiscovered stocks, greatly expanding the investable universe and creating what we believe is a key competitive advantage.** Lastly, **value investing is a time-tested method** that has historically outperformed the broader market and we believe it provides the necessary discipline to help **avoid the valuation traps that are common when investors search for yield.**

In conclusion, **we believe that the combination of River Road's highly active Absolute Value® investment approach and the DAV Strategy's thoughtful portfolio design provides a unique competitive advantage and should sustain the historical success of the Strategy for years to come.**

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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. Inception Date: October 1, 2003. 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.

As of June 30, 2019, 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: 6.42%, 2.77%, 13.76%, 6.55%, 8.58%, 7.07%, 12.67%, and 10.27%. As of June 30, 2019, 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: 7.12%, 3.68%, 16.05%, 7.34%, 10.19%, 7.31%, 13.14%, and 8.62%.

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.

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