



July 15, 2019

Dear Friends and Investors,

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 caps 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**. Outside the United States, international stocks lagged with the MSCI EAFE and Emerging Markets indices returning **+3.97%** and **+0.74%**, respectively.

Composite Performance Summary ¹																
	Small Cap Value		Small-Mid Cap Value		Dividend All-Cap Value		Dividend All-Cap Value II		Focused Absolute Value®		Focused Absolute Value® II		Long-Short Equity		International Equity ADR	
	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD	Q2	YTD
Gross	6.20%	22.45%	5.70%	22.88%	2.92%	14.08%	3.19%	14.35%	4.93%	21.30%	4.95%	20.54%	4.24%	13.90%	5.91%	18.81%
Net	5.97%	21.93%	5.53%	22.48%	2.77%	13.76%	3.09%	14.14%	4.82%	21.06%	4.76%	20.09%	4.02%	13.42%	5.77%	18.49%
Benchmark ²	1.38%	13.47%	1.89%	15.26%	3.68%	16.05%	3.68%	16.05%	3.68%	16.05%	3.68%	16.05%	2.39%	9.73%	3.83%	14.27%
+ / -	+4.82%	+8.98%	+3.81%	+7.62%	-0.76%	-1.97%	-0.49%	-1.70%	+1.25%	+5.25%	+1.27%	+4.49%	+1.85%	+4.17%	+2.08%	+4.54%

River Road's **Small Cap Value (SCV)** and **Small-Mid Cap Value (SMID)** Composites continued to deliver strong performance in Q2, beating their benchmarks by **+482 bps** (+459 bps net) and **+381 bps** (+364 bps net), respectively. **Both Strategies have performed especially well over the past year as small cap stocks have struggled to rebound from their bear market decline in 2018.** For the trailing one-year period, the SCV Composite returned **+10.50%** (+9.54%) versus **-6.24%** for the Russell 2000 Value index, and the SMID Composite returned **+11.02%** (+10.29% net) versus **-1.92%** for the Russell 2500 Value index. Strong stock selection across a breadth of sectors drove performance for both strategies.

River Road's **Focused Absolute Value® (FAV and FAV II)** Composites also outperformed in Q2, further expanding their year-to-date leads versus the benchmark. Strong stock selection within the Energy and Health Care sectors drove outperformance in Q2, partially offset by weak stock selection within Information Technology. With total assets in the FAV Strategy approaching \$1 B, **we are no longer accepting new separate account relationships for the FAV Strategy.**³ FAV II remains open.

Another strong performer in Q2 was River Road's **Long-Short Equity (LS)** Composite, which returned **+4.24%** (+4.02% net) versus **+2.39%** for its blended benchmark while averaging just **57%** net market exposure. The long portfolio performed in line with the Russell 3000 index, returning **+4.08%** versus **+4.10%**, while the short portfolio significantly outperformed, returning **-2.19%**.⁴ More notably, following strong performance during the volatile Q4 2018 period, year to date the LS Strategy has outperformed its blended benchmark by **+417 bps** (+369 bps net) with **average net market exposure of just 49%, highlighting the Strategy's potential to deliver attractive returns across changing market conditions while maintaining reduced net exposure.** For further thoughts, please see our piece "**We Believe NOW** is the Time for Long-Short Equity."

River Road's **Dividend All-Cap Value (DAV and DAV II)** Composites trailed their benchmark for Q2 as high dividend payers (yield >4%) lagged during the period. An overweight allocation to **Energy** and stock selection within **Industrials** further weighed on results. The DAV II Strategy modestly outperformed DAV, primarily due to the Strategy's lower exposure to small cap stocks.

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; FAV II - 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 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). As of June 30, 2019, \$221 MM was invested in FAV model portfolios. If a portion of model assets was not available as of the report date, previous month end values were used for that portion. Total assets provided as supplemental information and subject to change.
⁴ 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.



The **underperformance of high yielding stocks was unexpected given their tendency to respond positively to declining interest rates**. In fact, the Utilities and Real Estate sectors, both of which are typically dividend-focused and interest rate sensitive, were the worst performing in the Russell 3000 Value in June. In our view, this is symptomatic of the unusual timing of the expected interest rate cuts, given the economy is growing at a healthy pace and stocks are hitting new all-time highs.

Finally, River Road's **International Equity ADR (iADR)** Composite continues to deliver strong results, outperforming the iShares MSCI EAFE ETF by **+208 bps** (+194 bps net) in Q2 and **+454 bps** (+422 bps net) year to date. **Positive stock selection** spanning a majority of regions and sectors was the key driver of relative outperformance during Q2, with the **United Kingdom (+79 bps)** and **Industrials (+94 bps)** delivering the strongest results overall.⁵

Since its inception, iADR has outperformed the benchmark across all trailing time periods (one-, three-, and five-year) and demonstrated consistent risk-adjusted performance. We believe iADR offers a compelling solution for clients seeking non-U.S. equity exposure through a direct investment in U.S.-listed shares. The Strategy is available for separate and model accounts. **For more information on the iADR Strategy, please contact Benjamin T. Brady at 502.371.2281.**

With regard to firm news, in May, **River Road launched a Small-Mid Cap Value II (SMID II) Strategy**. SMID II leverages the SMID Strategy's investment team, successful portfolio design, and investment process, but employs a higher minimum market cap for its investment universe (\$500 MM versus \$250 MM). Additionally, SMID II targets 50 to 65 holdings, versus 60 to 70 for SMID. As of June 30, the SMID II Strategy had \$108 MM in assets with active capacity of just \$800 MM to \$1 B.

Lastly, **given the successful integration of Associate Portfolio Manager, Andrew R. McIntosh, CFA, on the DAV team over the past 18 months, we wish to announce that James C. Shircliff, CFA will be stepping down from his portfolio manager role on the DAV Strategies, effective December 31.** Jim has served as a tertiary portfolio manager to the DAV Strategies since inception in 2003, opportunistically contributing investment ideas. With the growth of the team, Jim has decided it is time to step aside and contribute in a less formal capacity. **Jim will continue to serve as the firm's Chief Investment Officer and as Senior Portfolio Manager for the firm's Small Cap Value, Small-Mid Cap Value, and Small-Mid Cap Value II Strategies.**

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
*Chief Investment Officer &
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Henry W. Sanders, III, CFA
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⁵ Region classifications determined by applying Bloomberg's country of risk methodology.



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 RRAMCompliance@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 (SCV) Composite Disclosures:

Inception date: January 1, 1998. The Small Cap Value Composite contains fully discretionary small cap value equity accounts that seek capital appreciation by investing primarily in small 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 cap company as one whose market capitalization is less than \$4 B. RRAM 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 Composite are the Russell 2000 Value and the Russell 2000 indices. Net of fee performance is calculated using actual management fees, which includes performance fees for some periods.

As of June 30, 2019, 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: 6.65%, 5.97%, 21.93%, 9.54%, 14.68%, 9.87%, 12.39%, and 10.65%. As of June 30, 2019, 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: 6.37%, 1.38%, 13.47%, -6.24%, 9.81%, 5.39%, 12.40%, and 7.94%.

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 (SMID) Composite Disclosures:

Inception Date: March 1, 2007. 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. Net of fee performance is calculated using actual management fees.

As of June 30, 2019, 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: 6.42%, 5.53%, 22.48%, 10.29%, 15.13%, 10.04%, 13.38%, and 7.82%. As of June 30, 2019, 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: 6.47%, 1.89%, 15.26%, -1.92%, 8.98%, 5.55%, 13.28%, and 6.36%.

Dividend All-Cap Value (DAV) Composite Disclosures:

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. 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.

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.

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

Inception Date: January 1, 2011. 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. 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.

As of June 30, 2019, 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: 6.55%, 3.09%, 14.14%, 7.58%, 9.14%, 7.59%, and 10.40%. 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, and Inception to Date periods: 7.12%, 3.68%, 16.05%, 7.34%, 10.19%, 7.31%, and 10.82%.

Focused Absolute Value® (FAV) 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. 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 Focused Absolute Value® Composite contains fully discretionary accounts that seek capital appreciation by investing primarily in equity securities that trade at a discount to our valuation as determined using RRAM’s proprietary Absolute Value® approach. 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. 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.



As of June 30, 2019, net of fees returns for the Focused Absolute Value® Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, 10 year, and Inception to Date periods: 7.15%, 4.82%, 21.06%, 12.44%, 15.45%, 10.43%, 16.40%, and 17.13%. 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 12.15%.

Focused Absolute Value® II (FAV II) Composite Disclosures:

Inception Date: January 1, 2017. The team of analysts involved with recommending investments for Focused Absolute Value® II has changed and may continue to change over time. Fully invested is as defined by RRAM and this standard may change over time.

The Focused Absolute Value® II Composite contains fully discretionary accounts that seek capital appreciation by investing primarily in equity securities that have a market capitalization of typically at least \$1 B at the time of initial purchase and that trade at a discount to our valuation as determined using RRAM's proprietary Absolute Value® approach. 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. Two clients for the accounts are current employees of RRAM. The official benchmark for the Composite is the Russell 3000 Value Index. The net of fee returns presented are not actual management fees, but are calculated by applying the highest fee schedule effective at that time.

As of June 30, 2019, net of fees returns for the Focused Absolute Value® II Composite are as follows for the month, QTD, YTD, 1 year, and Inception to Date periods: 7.21%, 4.76%, 20.09%, 9.00%, and 10.29%. As of June 30, 2019, returns for the Russell 3000 Value are as follows for the month, QTD, YTD, 1 year, and Inception to Date periods: 7.12%, 3.68%, 16.05%, 7.34%, and 7.61%.

Long-Short Equity (LS) Composite Disclosures:

Inception date: July 1, 2010. The Long-Short Equity Composite contains a fully discretionary account that seeks equity-like returns with reduced volatility and an emphasis on capital protection by investing primarily in long equity securities trading at a discount to our valuation and short equity securities trading at a premium to our 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 October 31, 2016. The Blended Index represents a 50% weighting of the Russell 3000 index and a 50% weighting of the ICE BofAML U.S. Treasury Bill (0-3 M) (Local Total Return); rebalanced daily. 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.

As of June 30, 2019, 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: 3.73%, 4.02%, 13.42%, 12.14%, 8.48%, 4.60%, and 7.73%. As of June 30, 2019, returns for the Russell 3000 are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 7.02%, 4.10%, 18.71%, 8.98%, 14.02%, 10.19%, and 14.55%. As of June 30, 2019, returns for the blended index are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 3.57%, 2.39%, 9.73%, 5.89%, 7.70%, 5.65%, and 7.59%.

International Equity ADR (iADR) Composite Disclosures:

Inception Date: January 1, 2014. The International Equity ADR 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 and other non-U.S. companies traded in the United States on an exchange, OTC, or pink sheets or otherwise. Two client accounts are for current employees of RRAM. The official benchmark for the Composite is the MSCI EAFE Gross index. 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.

As of June 30, 2019, net of fees returns for the International Equity ADR Composite are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 6.66%, 5.77%, 18.49%, 7.85%, 9.98%, 3.96%, and 3.98%. As of June 30, 2019, returns for the MSCI EAFE Gross are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 5.97%, 3.97%, 14.49%, 1.60%, 9.65%, 2.74%, and 3.43%. As of June 30, 2019, returns for the MSCI EAFE ETF are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 5.95%, 3.83%, 14.27%, 1.36%, 9.39%, 2.51%, and 3.18%.

The iShares MSCI EAFE ETF is shown as a benchmark proxy. This ETF is presented on a gross of management fee basis. FactSet Research Systems Inc. adds back in ETF expenses by applying the net expense ratios per annual reports (actual fees charged) in order to calculate the gross of fee number. 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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