

Dividend All-Cap Value II

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF SEPTEMBER 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 II (DAV II) 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:

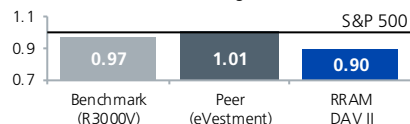
- Minimum market capitalization of \$1 B at the time of purchase
- Indicated dividend yield of at least 2%

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 19% of peers over the prior five-year period²

Beta vs S&P 500 (Trailing 5 YR)²



Portfolio Managers



Henry W. Sanders III, CFA
30 years of experience; managed Portfolio since inception
Bellarmine University, BA
Boston College, MBA



Thomas S. Forsha, CFA
21 years of experience; managed Portfolio since July 2007
The Ohio State University, BS
University of Chicago, MBA

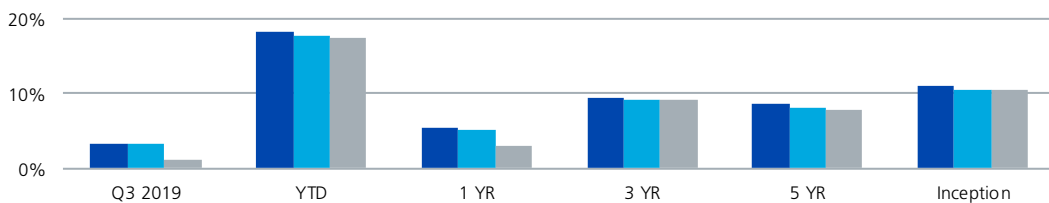


James C. Shircliff, CFA
46 years of experience; managed Portfolio since inception
University of Louisville, BS



Andrew R. McIntosh, CFA
15 years of experience; managed Portfolio since 2018
University of Iowa, BBA

Performance Summary



	Q3 2019	YTD	1 YR	3 YR	5 YR	Inception
DAV II Composite - Gross	3.30%	18.12%	5.55%	9.50%	8.60%	11.02%
DAV II Composite - Net	3.20%	17.80%	5.16%	9.10%	8.18%	10.48%
Russell 3000 Value	1.23%	17.47%	3.10%	9.24%	7.76%	10.65%
Out / Underperformance	+2.07%	+0.65%	+2.45%	+0.26%	+0.84%	+0.37%

Portfolio Dividend Yield: 3.83%¹

Performance is shown gross and net of fees. Inception date: January 1, 2011. Out/underperformance compares the gross Composite and index. ¹Gross of fees; indicated portfolio yield does not anticipate special dividends. Information based on a representative portfolio within the Strategy. ²Volatility, measured as beta and standard deviation, is based on trailing 60 month gross of fee composite performance. 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

The quarter was tumultuous for investors, who were bombarded with mixed signals regarding the economy, earnings, the U.S.-China trade dispute, interest rates, and the global political landscape. The result was a flight to safety that saw **30-year Treasury yields hit an all-time low** and **the most violent factor rotation among stocks since the financial crisis**.

Style trends were mixed across market caps, with **value slightly underperforming growth among large caps, but significantly outperforming among small caps**. Year to date, value continues to lag growth across all market caps.

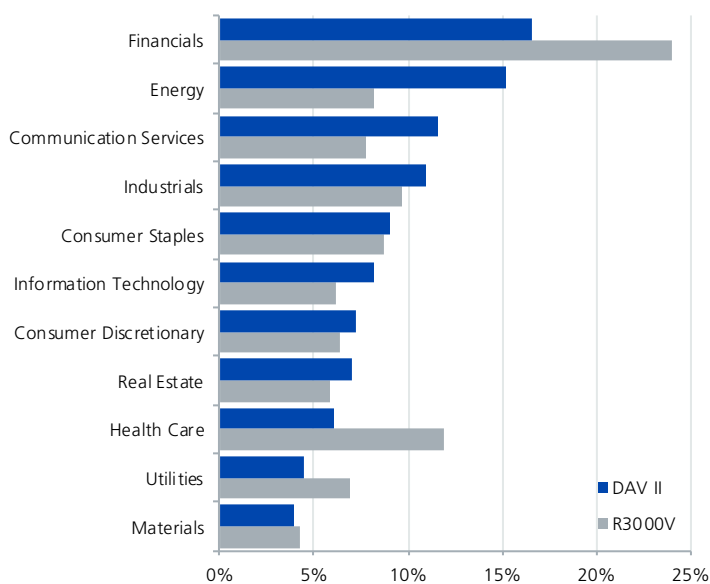
Given the risk-off environment and corresponding plunge in bond yields, **high-quality dividend-paying stocks were in vogue during Q3**.

The sector with the highest contribution to relative return in the Portfolio for Q3 was **Health Care**. The top contributing holding for the quarter was the broadline retailer **Target Corp. (TGT)**. The position was **among the top 10 holdings at the beginning of the year** and has now returned **+66%** year to date, making it **the top contributor for the year by a wide margin**. Target reported great results with comparable sales growth of +3.4% versus a very difficult comparison and strong margin expansion. **The quarter marked the ninth consecutive quarter of positive comparable sales** driven by +2.4% traffic growth, a +34% increase in digital sales and market share gains across core merchandising categories. **Same-day fulfillment services like in-store pickup, drive-up, and Shipt (Target's same-day delivery service) represented more than one-third of digital sales, up from 20% last year**, and are becoming the preferred fulfillment choice by customers as they offer speed, convenience, and reliability. This mix shift contributed to a +17% increase in operating profit as same-day fulfillment options leverage store infrastructure, technology, and labor costs. Additionally, return on invested capital improved +80 bps to 15% and the company reiterated its commitment to grow the dividend annually and return excess cash to shareholders through repurchases.

The sector with the lowest contribution to relative return in the Portfolio for Q3 was **Information Technology**. The largest negative contributor during the quarter was **Corning Inc. (GLW)**, a global leader in high-end glass materials. In September, Corning provided a Q3 update that included **lowered expectations for two business lines – Display Technologies and Optical Communications**. Within Display, Corning expects a near-term reduction in display glass volume, as **television manufacturers purchase fewer panels in response to macro uncertainty**, but expects a recovery in panel maker utilization in the first half of 2020. GLW lowered its sales outlook for the Optical segment to a decline of -3% to -5% compared to its prior expectation of a low- to mid-single-digit increase. The company noted **three major telecommunication carriers reduced their capex budgets** to focus on debt reduction rather than cable and fiber-to-the-home projects in the second half of the year. In response, GLW has taken action to align costs with its revised sales expectations, including capacity adjustments and lower operating costs. While the timing of a recovery in Optical is uncertain we believe the secular tailwinds from 5G will ultimately drive strong growth in the segment.

We believe **the inverted yield curve and slowing economic growth support a positive relative outlook for the DAV II Strategy**.

Sector Weightings



Portfolio Contribution

Top Contributors		Yield ³	Avg Wgt	Contrib
TGT	Target Corp.	2.47%	3.41%	+0.85%
UPS	United Parcel Service Inc. (CI B)	3.20%	2.24%	+0.35%
BBT	BB&T Corp.	3.37%	3.13%	+0.28%
FNF	Fidelity National Financial Inc. - FNF Group	2.79%	2.34%	+0.25%
BMJ	Bristol-Myers Squibb Co.	3.23%	1.63%	+0.21%

Bottom Contributors		Yield ³	Avg Wgt	Contrib
GLW	Corning Inc.	2.81%	2.73%	-0.44%
MDP	Meredith Corp.	6.27%	0.83%	-0.34%
WMB	Williams Companies Inc.	6.32%	1.99%	-0.32%
CSCO	Cisco Systems Inc.	2.83%	2.57%	-0.32%
STAY	Extended Stay America Inc.	6.28%	1.56%	-0.23%

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. ¹Risk characteristics based on trailing 60 month gross of fee composite performance. ²Average calendar year turnover since inception (January 1, 2011). ³Gross of fees; indicated yield does not anticipate special dividends. Source: River Road Asset Management LLC, eInvestment Alliance (eIA), FactSet Research Systems Inc., Russell Investment Group, and Standard and Poor's.

Portfolio contribution calculated for the Q3 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 a representative portfolio. If no single representative portfolio is available to represent the Strategy since inception, different representative portfolios and/or the composite are used for different periods to create a continuous representative portfolio. The representative portfolio is selected by the firm as a representative account that is deemed to best represent this management style using a pre-defined, objective set of criteria. All representative portfolio data is shown as supplemental information to the Composite presentation. Each client portfolio is individually managed and may vary from the information shown for the representative portfolio.

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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. 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, 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.

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. **eInvestment 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 II	R3000V
Number of Holdings	55	2,168
Dividend Yield ³	3.83	2.61
Price / Cash Flow	12.0	13.0
ROE (5 YR Avg)	19.3	12.5
EPS Growth (5 YR)	6.4	5.9
Div / Share Growth (TTM)	9.2	9.4
Cash	3.4%	
Annualized Standard Deviation ¹	11.33	11.98
Jensen Alpha ¹	1.41	
Beta ¹	0.92	
Turnover ²	26.48%	

Market Capitalization Breakdown

	DAV II	R3000V
Wtd Median Market Cap	\$46.66 B	\$49.95 B
Wtd Avg Market Cap	\$71.35 B	\$113.38 B
Large/Mega Cap > \$25.0 B	65.1%	66.8%
Mid Cap \$5.0 - \$25.0 B	22.0%	23.3%
Micro/Small Cap < \$5.0 B	12.9%	9.9%

Top 10 Portfolio Holdings

Symbol	Company	% of Port	Yield ³
TGT	Target Corp.	3.63%	2.47%
BBT	BB&T Corp.	3.29%	3.37%
USB	U.S. Bancorp	2.97%	3.04%
KMI	Kinder Morgan Inc. (CI P)	2.91%	4.85%
FAST	Fastenal Co.	2.74%	2.69%
VZ	Verizon Communications Inc.	2.68%	4.08%
KMB	Kimberly-Clark Corp.	2.59%	2.90%
GLW	Corning Inc.	2.59%	2.81%
CMCSA	Comcast Corp. (CI A)	2.59%	1.86%
D	Dominion Energy Inc.	2.53%	4.53%

