

Small-Mid Cap Value II

QUARTERLY UPDATE AS OF SEPTEMBER 30, 2019



Investment Objective

Long-term total return > Russell 2500 Value index plus 200 to 400 bps

Strategy Highlights

River Road's Small-Mid Cap Value II (SMID II) Strategy focuses on companies between \$500 MM and \$10 B in market capitalization. The SMID II Strategy employs the same bottom-up, fundamentally driven investment process as the firm's Small Cap Value and Small-Mid Cap Value Strategies.

- Bottom-up, fundamentally driven stock selection
- Balanced diversification
- Structured sell discipline

Low Volatility Returns

- Target volatility < Russell 2500 Value

Portfolio Managers



J. Justin Akin

16 years of experience;
managed Portfolio since inception

Centre College, BS



R. Andrew Beck

20 years of experience;
managed Portfolio since inception

University of Louisville, BS
Babson College, MBA

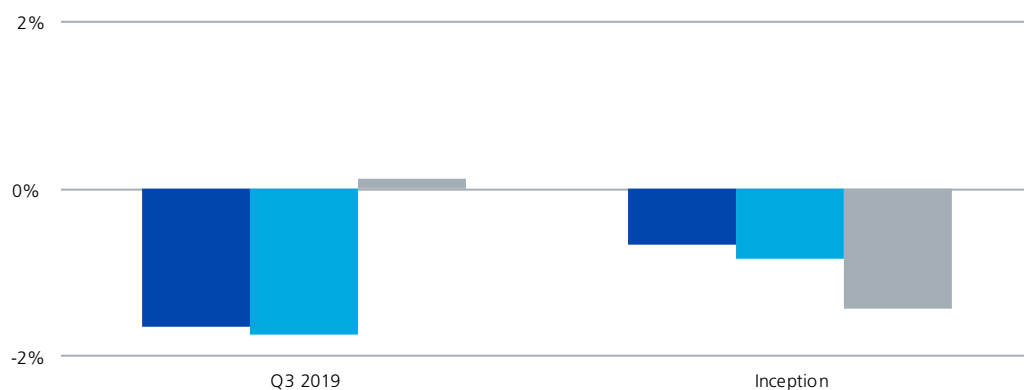


James C. Shircliff, CFA

46 years of experience;
managed Portfolio since inception

University of Louisville, BS

Performance Summary



	Q3 2019	Inception
SMID II Composite - Gross	-1.65%	-0.66%
SMID II Composite - Net	-1.74%	-0.82%
Russell 2500 Value	0.13%	-1.43%
Out / Underperformance	-1.78%	+0.77%

Performance is shown gross and net of fees. Inception date: May 1, 2019. Out/underperformance compares the gross Composite and index. Source: River Road Asset Management LLC, FactSet Research Systems Inc., and Russell Investment Group. 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**. Equity returns were mixed with the S&P 500 index returning a modest **+1.70%** versus **-2.40%** for the Russell 2000 index.

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.

The sectors with the highest contribution to relative return in the Portfolio during the quarter were **Energy** and **Consumer Discretionary**. Energy benefited from an underweight allocation and positive stock selection. Consumer Discretionary benefited from positive stock selection and an overweight allocation.

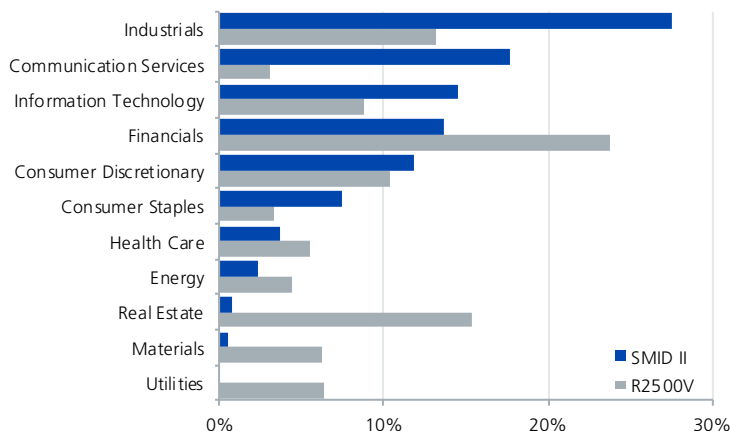
The top contributing holding in the Portfolio during Q3 was **LKQ Corp. (LKQ)**, a global distributor of aftermarket and recycled replacement parts for vehicle repair. The stock rallied following a European operations update call where management outlined a credible strategy to rationalize business and technology platforms across 21 European countries at a reasonable cost, while maintaining previous margin targets. A more significant boost arrived days later when activist ValueAct Capital disclosed a 5.2% stake in LKQ via a 13-D filing. In addition to its intention to discuss capital allocation and overall strategy with management, ValueAct will pursue a board seat.

The sectors with the lowest contribution to relative return in the Portfolio during the quarter were **Real Estate** and **Communication Services**. Real Estate suffered primarily from an underweight allocation. Communication Services suffered from an overweight allocation, partially offset by positive stock selection.

The largest negative contributor to performance in Q3 was **Premier Inc. (CI A) (PINC)**, a healthcare GPO and data analytics provider for hospitals. PINC reported fiscal fourth quarter EBITDA ahead of consensus and issued fiscal 2020 guidance in line with expectations. However, **the stock sold off sharply late in the quarter when a short seller published a negative report on PINC**. It argues the two largest members of the GPO (contracts expire on September 30, 2020) will demand a much higher share of gross administrative fees and other members will follow suit, although 87% of the GPO business is under contract until September 30, 2023. Our research suggests PINC should be able to maintain economics similar to the past due to high switching costs and the tremendous savings delivered to members.

Despite the macro crosscurrents, we believe **portfolio positioning remains a highly attractive balance of value and quality**. According to FactSet, the Portfolio's EV/EBITDA (valuation) is **9.5x versus 10.8x** for the benchmark and return on equity – five-year average (quality) is **11.2% versus 9.2%**. Relative long-term forecasted earnings growth has declined a bit (**+7.8% versus +8.2%**) but we believe this statistic will return to trend in the quarters ahead.

Sector Weightings



Characteristics

	SMID II	R2500V
Number of Holdings	59	1,804
Price / Earnings ¹	16.3	16.9
Price / Cash Flow	10.9	12.9
Price / Book	2.01	1.67
ROE (5 YR Avg)	11.2	9.2
EPS Growth (5 YR)	3.2	7.6
Cash Flow Growth (5 YR)	6.5	6.1
LT Growth Estimate	7.8	8.2
Wtd Avg Mkt Cap (B)	\$5.03	\$5.23
Wtd Med Mkt Cap (B)	\$3.44	\$4.67

Portfolio Contribution

Top Contributors		Avg Wgt	Contrib
LKQ	LKQ Corp.	3.05%	+0.53%
ARMK	Aramark	2.01%	+0.40%
IMKTA	Ingles Markets Inc. (CI A)	1.39%	+0.33%
ATKR	Atkore International Group Inc.	1.46%	+0.24%
AXS	Axis Capital Holdings Ltd.	2.04%	+0.21%

Bottom Contributors

PINC	Premier Inc. (CI A)	4.06%	-1.14%
REZI	Resideo Technologies Inc.	1.35%	-0.60%
HSC	Harsco Corp.	1.26%	-0.49%
CNDT	Conduent Inc.	1.08%	-0.48%
DISCK	Discovery Inc. (CI C)	2.76%	-0.39%

Top 10 Portfolio Holdings

Symbol	Company	% of Port
GLIBA	GCI Liberty Inc. (CI A)	4.62%
TWNB	Hostess Brands Inc. (CI A)	3.94%
CNNE	Cannae Holdings Inc.	3.93%
LKQ	LKQ Corp.	3.53%
LBRDK	Liberty Broadband Corp. (CI C)	3.52%
PINC	Premier Inc. (CI A)	3.16%
SABR	Sabre Corp.	3.08%
WTM	White Mountains Insurance Group Ltd.	3.03%
ATSG	Air Transport Services Group Inc.	2.61%
DISCK	Discovery Inc. (CI C)	2.51%

GICS sector breakdown reflects percent of equity; stocks without a reported sector are not presented. ¹Excludes negative earnings. Source: River Road Asset Management LLC, 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 Small-Mid Cap Value II 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 \$500 MM and \$10 B, employing a value driven, bottom-up fundamental approach. The official benchmark for the Composite is the Russell 2500 Value index. 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.

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.

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