

Dividend All-Cap Value II

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF DECEMBER 31, 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:

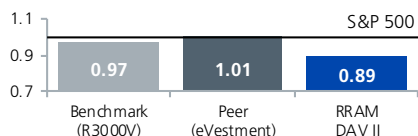
- Minimum market capitalization of \$1 B at the time of purchase
- Indicated dividend yield of at least 2%

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 17% 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

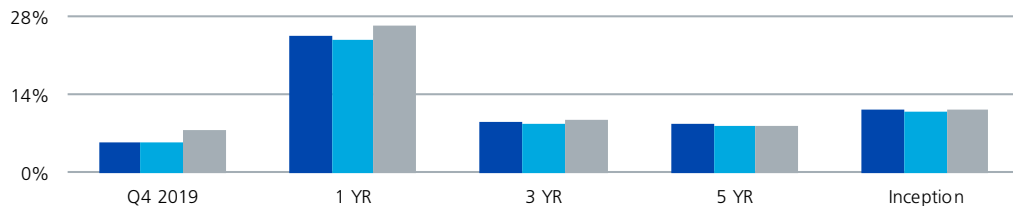


Andrew R. McIntosh, CFA

15 years of experience; managed Portfolio since 2018

University of Iowa, BBA

Performance Summary



	Q4 2019	1 YR	3 YR	5 YR	Inception
DAV II Composite - Gross	5.35%	24.45%	9.11%	8.63%	11.34%
DAV II Composite - Net	5.26%	23.99%	8.72%	8.22%	10.80%
Russell 3000 Value	7.48%	26.26%	9.32%	8.20%	11.22%
Out / Underperformance	-2.13%	-1.81%	-0.21%	+0.43%	+0.12%

Portfolio Yield: 3.86%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 heightened volatility that characterized Q3 seemed to evaporate, and the **Q4 melt up capped a strong year and decade. Yield-oriented investors faced sharp headwinds in the Q4 'risk on' environment** – high beta stocks surged. From a style perspective, **growth stocks capped off a decade of dominance with yet another strong quarter and a great year.** From a market cap perspective, small caps lagged large caps for the third consecutive year.

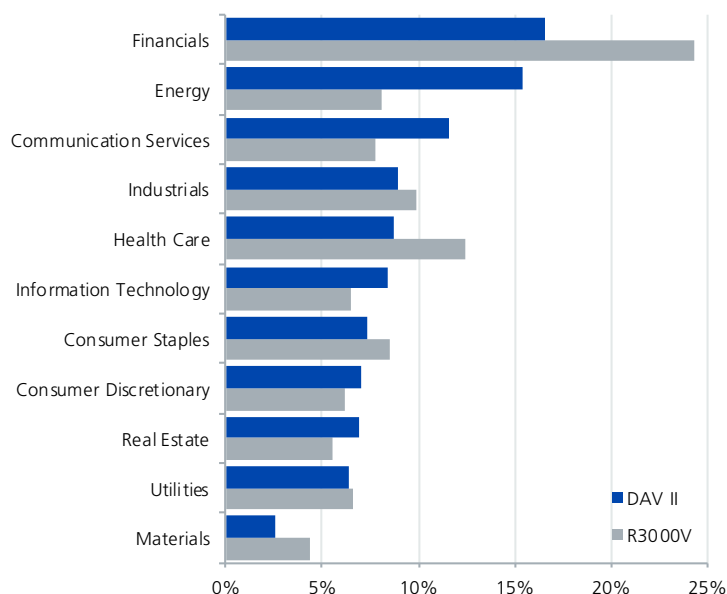
As stocks surged in Q4 and high-quality dividend-paying stocks struggled to keep up with the index, the River Road **Dividend All-Cap Value II (DAV II) Composite lagged the benchmark, consequently underperforming for the year.**

The sector with the highest contribution to relative return in the Portfolio for Q4 was **Utilities**. The top contributing holding in Q4 was broadline retailer **Target Corp. (TGT)**. Target reported its **10th consecutive quarter of positive comparable sales**, which grew +4.5% driven by both the stores and digital channels. Digital sales rose +31% and now account for 7.5% of total revenue. Management noted share gains across multiple categories, including food & beverages, essentials & beauty, and apparel, which experienced the strongest gains. Target's same-day delivery services (in-store pickup, drive-up, and Shipt delivery) continued to resonate with customers as 80% of digital sales growth was fulfilled through these services. Not only do the same-day services provide improved speed, convenience, and reliability for customers, but they also significantly reduce Target's digital fulfillment costs. **Both favorable category mix and digital fulfillment mix contributed to a +22% surge in EBIT and a +120 bps improvement in ROIC.** Following quarter end, Target reported disappointing comparable sales for the holiday period of +1.4%, substantially below the Q4 guidance of +3% to +4%. However, Q4 earnings guidance was maintained as the company continued to gain share in key higher margin categories and leverage its store base for digital fulfillment.

The sector with the lowest contribution to relative return in the Portfolio for Q4 was **Financials**. The largest negative contributor during the quarter was **Ventas Inc. (VTR)**, a healthcare-focused REIT. During the quarter, VTR reported disappointing results in its Senior Housing segment as occupancy and pricing power missed expectations. Compounding the issue was that management no longer expects the Senior Housing business to rebound in 2020. For some time, investors have been concerned about an industry-wide oversupply of senior housing, but VTR results were worse than competitors, which we found surprising given management's strong long-term track record around capital allocation, execution, and transparent communication of expectations with shareholders. **We have been tracking this risk with Ventas over the years.** We continue to believe the oversupply in senior housing is transitory as increasing demand from the aging U.S. population combined with VTR's well positioned properties and strong management team should create value with growing cash flow and an attractive dividend in the long run. Additionally, despite the disappointing Senior Housing outlook, the company's other segments, which account for more than two-thirds of profits, performed at or above our expectations, helping keep much of our 2020 outlook intact.

While we have a cautiously positive outlook for 2020, **valuations are stretched, leaving little room for adverse surprises.** We are increasingly constructive in our relative outlook for dividend stocks in general, and the DAV II Strategy in particular, due to our expectation that interest rates will remain low and volatility will increase.

Sector Weightings



Portfolio Contribution

Top Contributors				
Symbol	Company	Yield ³	Avg Wgt	Contrib
TGT	Target Corp.	2.06%	3.64%	+0.76%
BMJ	Bristol-Myers Squibb Co.	2.80%	2.69%	+0.67%
AMGN	Amgen Inc.	2.65%	2.41%	+0.57%
AES	AES Corp.	2.88%	2.10%	+0.44%
FAST	FasTenal Co.	2.38%	2.57%	+0.39%

Bottom Contributors				
Symbol	Company	Yield ³	Avg Wgt	Contrib
VTR	Ventas Inc.	5.49%	1.93%	-0.40%
CNK	Cinemark Holdings Inc.	4.02%	1.62%	-0.22%
AXS	Axis Capital Holdings Ltd.	2.76%	1.67%	-0.20%
SIX	Six Flags Entertainment Corp.	7.36%	1.13%	-0.13%
CNA	CNA Financial Corp.	3.12%	0.95%	-0.09%

Characteristics

	DAV II	R3000V
Number of Holdings	53	2,166
Dividend Yield ³	3.86	2.46
Price / Cash Flow	12.6	13.7
ROE (5 YR Avg)	19.0	12.4
EPS Growth (5 YR)	6.7	6.3
Div / Share Growth (TTM)	8.3	8.9
Cash	2.8%	
Annualized Standard Deviation ¹	11.31	12.03
Jensen Alpha ¹	1.07	
Beta ¹	0.91	
Turnover ²	26.57%	

Market Capitalization Breakdown

	DAV II	R3000V
Wtd Median Market Cap	\$52.36 B	\$54.28 B
Wtd Avg Market Cap	\$77.65 B	\$122.38 B
Large/Mega Cap > \$25.0 B	63.8%	68.2%
Md Cap \$5.0 - \$25.0 B	22.1%	22.4%
Micro/Small Cap < \$5.0 B	14.1%	9.3%

Top 10 Portfolio Holdings

Symbol	Company	% of Port	Yield ³
KMI	Kinder Morgan Inc. (CLP)	3.31%	4.72%
TFC	Truist Financial Corp.	3.30%	3.20%
BMJ	Bristol-Myers Squibb Co.	3.10%	2.80%
TGT	Target Corp.	3.07%	2.06%
USB	U.S. Bancorp	3.03%	2.83%
GLW	Corning Inc.	3.00%	2.75%
CMCSA	Comcast Corp. (CL A)	2.88%	1.87%
VZ	Verizon Communications Inc.	2.85%	4.01%
EPD	Enterprise Products Partners LP	2.74%	6.23%
CSCO	Cisco Systems Inc.	2.56%	2.92%

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, eVestment Alliance (eA), FactSet Research Systems Inc., Russell Investment Group, and Standard and Poor's.

Portfolio contribution calculated for the Q4 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.

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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. **eVestment 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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