Small-Mid Cap Value

QUARTERLY UPDATE AS OF DECEMBER 31, 2019

RIVER ROAD
ASSET MANAGEMENT®

Investment Objective

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

Strategy Highlights

River Road's Small-Mid Cap Value (SMID) Strategy utilizes a fundamentally driven research process to identify attractive purchase candidates from a universe of small to mid capitalization stocks. The Strategy seeks to invest in well-managed, financially strong companies that are trading at meaningful discounts to our assessed valuations. We further target companies with predictable and sustainable business models that are undiscovered or underfollowed by traditional Wall Street research firms. Our stock selection process is complemented by a risk averse approach that employs both balanced diversification and a structured sell discipline.

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

Low Volatility Returns

- Target volatility < Russell 2500 Value
- Ranked among the top 17% of peers over the prior five-year period[1]

Beta vs S&P 500 (Trailing 5 YR)[1]

	Benchmark (R2500V)	Peer (eVestment)	RRAM SMID
Beta	1.03	1.08	1.00

S&P 500
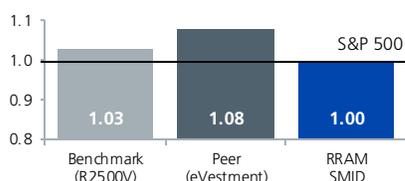
Portfolio Managers

J. Justin Akin
16 years of experience; managed Portfolio since 2012
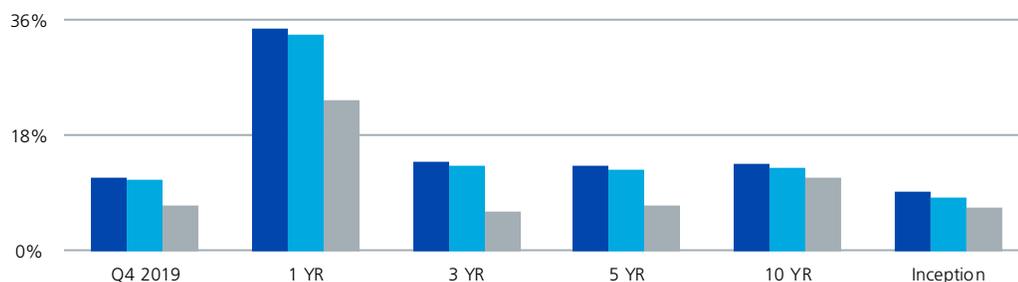
Centre College, BS

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

Discovering value,
off the beaten path®

Performance Summary

	Q4 2019	1 YR	3 YR	5 YR	10 YR	Inception
SMID Composite - Gross	11.24%	34.68%	13.95%	13.24%	13.59%	9.05%
SMID Composite - Net	11.05%	33.80%	13.22%	12.51%	12.79%	8.25%
Russell 2500 Value	7.07%	23.56%	6.12%	7.18%	11.25%	6.68%
Out / Underperformance	+4.17%	+11.12%	+7.83%	+6.06%	+2.34%	+2.37%
SMID Composite Beta				0.88	0.84	0.81
SMID Composite Anlzd Std Dev				13.22	13.43	15.22
Russell 2500 Value Anlzd Std Dev				14.00	15.12	17.98

Performance is shown gross and net of fees. Inception date: March 1, 2007. Out/underperformance compares the gross Composite and index. [1]Volatility, measured as beta and standard deviation, is based on trailing 60 month gross of fee composite performance. Average peer beta presented; peer information provided for the eVestment US Small-Mid 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

Stocks were as hot as Christmas in Kentucky during Q4, as record high temperatures in our Bluegrass State capped a sizzling quarter, year, *and* decade for investors. During the quarter, investors were encouraged by improving economic data, trade progress, and a widespread belief earnings growth will rebound in 2020 as interest rates and inflation remain low. **Small caps outperformed large caps** with the Russell 2000 returning <u>+9.94%</u> versus <u>+9.07%</u> for the S&P 500.
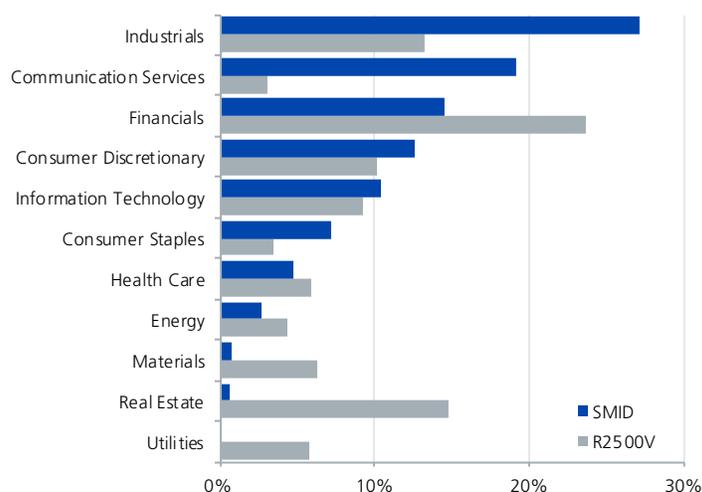
For the quarter, key drivers of performance in the Portfolio included <u>**positive stock selection (+229 bps)**</u>, particularly within **Financials (+81 bps)** and **Health Care (+58 bps)**, as well as a relative underweight allocation to **Real Estate (+63 bps)** and lack of exposure to Utilities **(+58 bps)**.

The top contributing holding in the Portfolio during Q4 was **Cannae Holdings Inc. (CNNE)**, which owns a 17% stake in publicly traded HR software and services firm Ceridian (CDAY), a 24% stake in privately held commercial data and analytics provider Dun & Bradstreet, a healthcare IT company (T-System), and restaurant brands (O'Charley's, 99). The stock surged following management's Q3 earnings call, which revealed annualized **cost savings for Dun & Bradstreet continue to run ahead of expectations, effectively pulling forward the timeframe for a potential monetization event**. CNNE's Q4 stock performance was **also aided by CDAY's +37% rise (+97% rise in 2019)**. A host of other Q4 management actions occurred, including contributing T-System to a promising new healthcare joint venture with the Carlyle Group, the sale of additional CDAY shares, a secondary offering of CNNE shares to raise funds to acquire 60% of Fiserv's investment services business, and the naming of new CEO Rick Massey, a highly experienced dealmaker and longtime Bill Foley associate.

The largest negative contributing holding in Q4 was **Expedia Group Inc. (EXPE)**, an online travel agency (OTA). In November, EXPE reported Q3 results significantly below Wall Street and our internal expectations. **Search engine optimization (SEO) traffic decreased as Google emphasized its own travel search products and paid ads**, pushing free SEO links further down the search results page. This drove a shift to higher cost marketing channels, which resulted in EBITDA being flat year over year (versus expectations of double-digit growth) and full-year EBITDA guidance being reduced. In late November, Chairman Barry Diller fired the CEO and CFO after a disagreement over company strategy and promised better execution moving forward. After performing a firm-wide conviction review, we concluded **Google is not interested in becoming an OTA**. However, we believe EXPE must drive more direct traffic to its app and website to circumvent Google.

While it has been difficult to keep the Portfolio fully invested, we are still finding new opportunities, especially on market pullbacks. Additionally, despite exceptional performance in 2019, we believe **portfolio positioning remains a highly attractive balance of value, quality, AND growth**. According to FactSet, the Portfolio's valuation (as measured by EV/EBITDA) is <u>**9.8x**</u> versus <u>**10.7x**</u> for the benchmark. Quality, as measured by five-year average return on equity, is <u>**11.0%**</u> versus <u>**8.8%**</u> for the benchmark. Finally, the Portfolio's expected long-term growth (as measured by published long-term estimates) is a healthy <u>**+9.1%**</u> versus <u>**+8.1%**</u> for the benchmark.

Sector Weightings

Characteristics

	SMID	R2500V
Number of Holdings	69	1,804
Price / Earnings[1]	20.1	18.3
Price / Cash Flow	11.2	13.6
Price / Book	2.27	1.77
ROE (5 YR Avg)	11.0	8.8
EPS Growth (5 YR)	7.6	8.5
Cash Flow Growth (5 YR)	8.8	6.4
LT Growth Estimate	9.1	8.1
Annualized Standard Deviation[2]	13.22	14.00
Jensen Alpha[2]	6.80	
Beta[2]	0.88	
Turnover[3]	54.77%	

Portfolio Contribution

Top Contributors		Avg Wgt	Contrib
CNNE	Cannae Holdings Inc.	4.57%	+1.42%
PINC	Premier Inc. (Cl A)	3.36%	+0.94%
TECD	Tech Data Corp.	2.01%	+0.82%
MUSA	Murphy USA Inc.	1.62%	+0.67%
LBRDK	Liberty Broadband Corp. (Cl C)	3.31%	+0.67%

Bottom Contributors			
EXPE	Expedia Group Inc.	2.05%	-0.46%
VG	Vonage Holdings Corp.	0.60%	-0.24%
REZI	Resideo Technologies Inc.	0.76%	-0.24%
BJ	BJ's Wholesale Club Holdings Inc.	1.94%	-0.21%
AXS	Axis Capital Holdings Ltd.	1.62%	-0.20%

Top 10 Portfolio Holdings

Symbol	Company	% of Port
CNNE	Cannae Holdings Inc.	4.95%
GLIBA	GCI Liberty Inc. (Cl A)	3.95%
PINC	Premier Inc. (Cl A)	3.66%
TWNK	Hostess Brands Inc. (Cl A)	3.59%
LBRDK	Liberty Broadband Corp. (Cl C)	3.31%
DISCK	Discovery Inc. (Cl C)	3.08%
LKQ	LKQ Corp.	3.01%
ATSG	Air Transport Services Group Inc.	2.84%
WTM	White Mountains Insurance Group Ltd.	2.79%
SABR	Sabre Corp.	2.63%

GICS sector breakdown reflects percent of equity; stocks without a reported sector are not presented. [1]Excludes negative earnings. [2]Risk characteristics based on trailing 60 month gross of fee composite performance. [3]Average calendar year turnover since inception (March 1, 2007). 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 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. 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.

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.

eVestment US Small-Mid Cap Value Equity: US Equity products that invest primarily in small and mid 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 2500, or Russell 2500 Value. Managers in this category will typically indicate a "Primary Capitalization Emphasis" equal to Small-Mid Cap and a "Primary Style Emphasis" equal to Value.

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