

# Dividend All-Cap Value II

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF MARCH 31, 2020



## 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
- Target volatility < Russell 3000 Value

## 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.

## Portfolio Managers



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

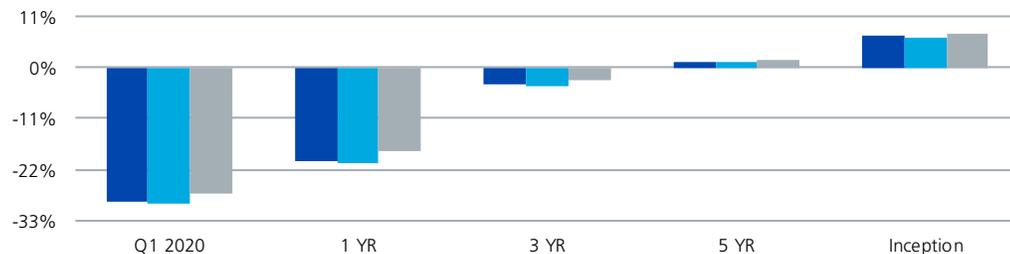


**Thomas S. Forsha, CFA**  
22 years of experience;  
managed Portfolio since inception  
  
The Ohio State University, BS University  
of Chicago, MBA



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

## Performance Summary



	Q1 2020	1 YR	3 YR	5 YR	Inception
DAV II Composite - Gross	-29.10%	-20.38%	-3.63%	1.36%	6.97%
DAV II Composite - Net	-29.18%	-20.69%	-3.99%	0.97%	6.45%
Russell 3000 Value	-27.32%	-18.02%	-2.67%	1.62%	7.14%
Out / Underperformance	-1.78%	-2.36%	-0.96%	-0.26%	-0.17%

Portfolio Yield: 5.23%<sup>1</sup>

Performance is shown gross and net of fees. Inception date: January 1, 2011. Out/underperformance compares the gross Composite and index. <sup>1</sup>Gross of fees; indicated portfolio yield does not anticipate special dividends. Yield based on a representative portfolio within the Strategy. 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

**It was a quarter for the record books, but not the type of records investors like to see broken.** The path of COVID-19 began on December 31 with a small cluster of acute respiratory illness cases in Wuhan, China. By mid-March, **the fast-spreading pandemic shut-in at least 20% of humanity, freezing large parts of the global economy.** Additionally, amidst the developing economic crisis, a production dispute between OPEC and Russia resulted in **the price of oil (WTI) tumbling to \$20/bbl – a -68% drop from its year-to-date high.** Consequently, **the S&P 500 plunged into its steepest bear market correction on record**, the 10-year Treasury yield dropped to its lowest level in history, and the VIX soared to an all-time high. **The Federal Reserve and Congress responded with an unprecedented \$6 - \$7 T in stimulus**, sparking a sharp rally into quarter end and the first half of April.

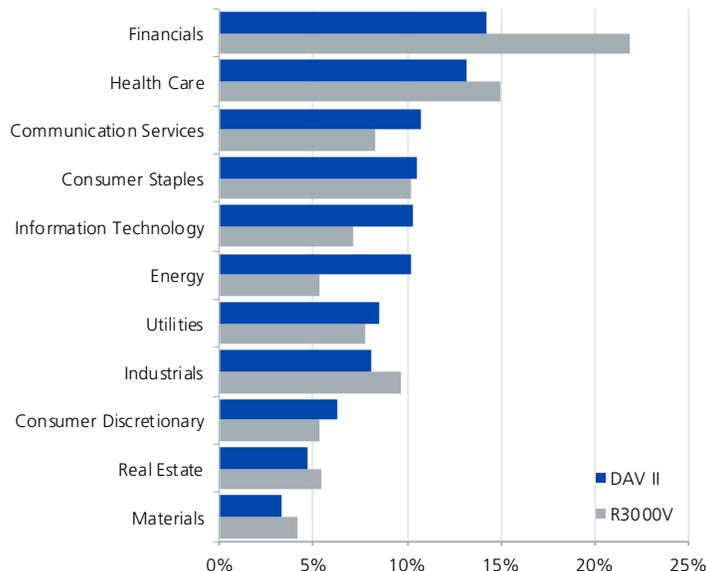
Markets dropped sharply, but **confidence in growth stocks did not waiver; value and small cap stocks had a terrible quarter. Large cap stocks sharply outperformed among dividend payers, and the highest yielding stocks were crushed.**

The sector with the highest contribution to relative return in the Portfolio for Q1 was **Information Technology**. The top contributing holding for the quarter was medical device manufacturer **Medtronic PLC (MDT)**. **MDT is the leader in cardiovascular devices, which account for 38% of profits.** In the near term, we believe demand for MDT's products will be negatively impacted by the pandemic as patients defer any procedures that can be delayed while the healthcare system is focused on treating COVID-19 patients. However, MDT's devices are often used to treat life threatening or very painful ailments. Therefore, **we believe the rebound in demand will be swift.** Long term, we believe MDT's product pipeline is very strong with transformative product launches across multiple business lines, which should fuel above-market growth for several years.

The sector with the lowest contribution to relative return in the Portfolio for Q1 was **Real Estate**. The largest negative contributor during the quarter was **Truist Financial Corp. (TFC)**, the regional bank formed by the Q4 2019 merger of BB&T and SunTrust. During the quarter, the company reported strong quarterly results, but its outlook for 2020 was mixed as some merger synergies were delayed. **However, it was actions by the Fed and fears about a global recession that were the primary drivers of TFC's poor stock performance.** As the impact of the pandemic became clear in March, the Fed acted swiftly in taking short-term interest rates down to 0%, and across the curve, interest rates fell. This will likely lead to lower net interest income for banks, including TFC, in 2020. Investors also fear a wave of defaults as large portions of the economy were effectively turned off, causing the ranks of the unemployed to surge at the end of March. It is not all bad news – a steeper yield curve should partially offset the impact of lower rates and loan growth will likely surge as many companies draw down credit lines and/or seek new loans in order to alleviate liquidity issues. TFC, along with most other banks, is in a much stronger capital position today than prior to the global financial crisis, and the company should benefit from merger synergies supporting earnings. We **reduced our estimates and valuation multiple.**

We believe current events will prove to be a **powerful stress test** and investors will ultimately focus on companies that proved to be resilient – those that managed to grow their top line and/or were able to **sustain and grow their dividend despite the turmoil.** We believe **we can provide this in the Dividend All-Cap Value II Strategy**, which is why we are so **excited for the months to come.**

Sector Weightings



Portfolio Contribution

Top Contributors				
		Yield <sup>1</sup>	Avg Wgt	Contrib
MDT	Medtronic PLC	2.40%	0.14%	+0.12%
HD	Home Depot Inc.	3.21%	0.08%	+0.10%
ORCL	Oracle Corp.	1.99%	0.40%	+0.08%
TJX	TJX Companies Inc.	1.92%	0.09%	+0.08%
TRI	Thomson Reuters Corp.	2.24%	0.25%	+0.07%

Bottom Contributors				
		Yield <sup>1</sup>	Avg Wgt	Contrib
TFC	Truist Financial Corp.	5.84%	3.08%	-1.40%
EPD	Enterprise Products Partners LP	12.39%	2.51%	-1.32%
VTR	Ventas Inc.	11.83%	2.18%	-1.29%
FNF	Fidelity National Financial Inc. - FNF Group	5.31%	2.27%	-1.21%
USB	U.S. Bancorp	4.88%	2.75%	-1.14%

Characteristics

	DAV II	R3000V
Number of Holdings	53	2,156
Dividend Yield <sup>1</sup>	5.23	3.37
Price / Cash Flow	9.8	10.7
ROE (5 YR Avg)	20.0	13.1
EPS Growth (5 YR)	6.6	7.1
Div / Share Growth (TTM)	8.0	7.9
Cash	3.7%	
Annualized Standard Deviation <sup>2</sup>	14.62	14.96
Jensen Alpha <sup>2</sup>	-0.24	
Beta <sup>2</sup>	0.96	
Turnover <sup>3</sup>	28.73%	

Market Capitalization Breakdown

	DAV II	R3000V
Wtd Median Market Cap	\$45.13 B	\$52.10 B
Wtd Avg Market Cap	\$67.52 B	\$99.34 B
Large/Mega Cap > \$25.0 B	65.7%	64.0%
Mid Cap \$5.0 - \$25.0 B	26.6%	24.3%
Micro/Small Cap < \$5.0 B	7.6%	11.7%

Top 10 Portfolio Holdings

Symbol	Company	% of Port	Yield <sup>1</sup>
VZ	Verizon Communications Inc.	3.92%	4.58%
BMJ	Bristol-Myers Squibb Co.	3.81%	3.23%
KMB	Kimberly-Clark Corp.	3.75%	3.35%
D	Dominion Energy Inc.	3.53%	5.21%
CMCSA	Comcast Corp. (CI A)	3.33%	2.68%
TGT	Target Corp.	3.15%	2.84%
KMI	Kinder Morgan Inc. (CI P)	3.08%	7.18%
AES	AES Corp.	3.06%	4.21%
GLW	Corning Inc.	3.00%	4.28%
UL	Unilever PLC Sponsored ADR	2.99%	3.57%

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. <sup>1</sup>Gross of fees; indicated yield does not anticipate special dividends. <sup>2</sup>Risk characteristics based on trailing 60 month gross of fee composite performance. <sup>3</sup>Average calendar year turnover since inception (January 1, 2011). Dollar turnover, the lesser of purchases or sales as a percentage of the average market value, is presented as an average of portfolios in the Composite. Source: River Road Asset Management LLC, FactSet Research Systems Inc., and Russell Investment Group.

Portfolio contribution calculated for the Q1 2020 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, information 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.

Portfolio and index characteristics such as EV/EBITDA are based on companies' most recent filings as of this report date (values for many companies may be as of the prior period). 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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