

# Focused Absolute Value®

A HIGH CONVICTION STRATEGY | QUARTERLY UPDATE AS OF MARCH 31, 2020



## Investment Objective

Long-term total return = Russell 3000 Value index plus a minimum of +200 bps

## Strategy Highlights

**Focused Absolute Value® (FAV) is a concentrated, all cap value strategy comprised of what the analyst team believes are the 'best and most timely ideas' selected from the stocks held across all River Road U.S. equity strategies.<sup>1</sup>**

The Strategy combines the firm's proven investment processes with the stock picking skills of River Road portfolio managers and collective insights and opinions of the firm's analyst team.

The Strategy seeks to remain fully invested at all times, is index independent, and is highly opportunistic. The minimum market cap for investment is \$250 MM (at the time of initial purchase).

## Portfolio Managers



**R. Andrew Beck**  
Chief Executive Officer,  
Senior Portfolio Manager

21 years of experience;  
managed Portfolio since inception

University of Louisville, BS  
Babson College, MBA



**Thomas S. Forsha, CFA**  
Co-Chief Investment Officer & Portfolio  
Manager

22 years of experience;  
managed Portfolio since inception

The Ohio State University, BS  
University of Chicago, MBA

## Analyst Liaison

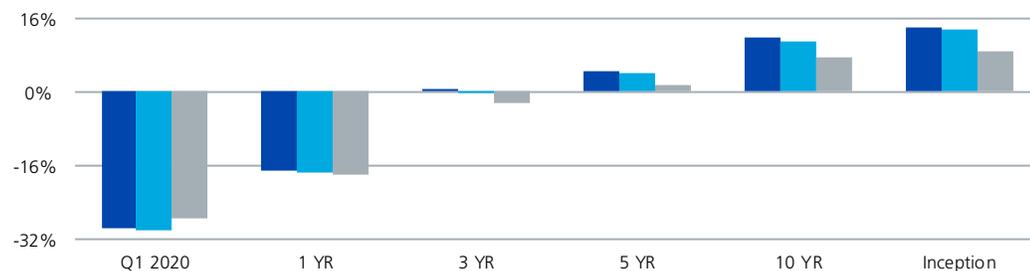


**Ashley L. Abney, CPA**  
Senior Equity Research Analyst

14 years of experience

Centre College, BS

## Performance Summary



	Q1 2020	1 YR	3 YR	5 YR	10 YR	Inception
Out / Underperformance	-2.54%	+0.68%	+2.85%	+2.88%	+4.20%	+5.18%

FAV Composite Beta

0.95

FAV Composite Anlzd Std Dev

16.03

Russell 3000 Value Anlzd Std Dev

15.77

Performance is shown gross and net of fees. Inception date: January 1, 2009. Out/underperformance compares the gross Composite and index. <sup>1</sup>If a holding is liquidated from all RRAM portfolios, the stock must be sold from the Focused Absolute Value® Portfolio within a reasonable period of time (typically less than 30 days). 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, it had **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 **oil prices (WTI) tumbling to \$20/bbl – a -68% drop from their 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.

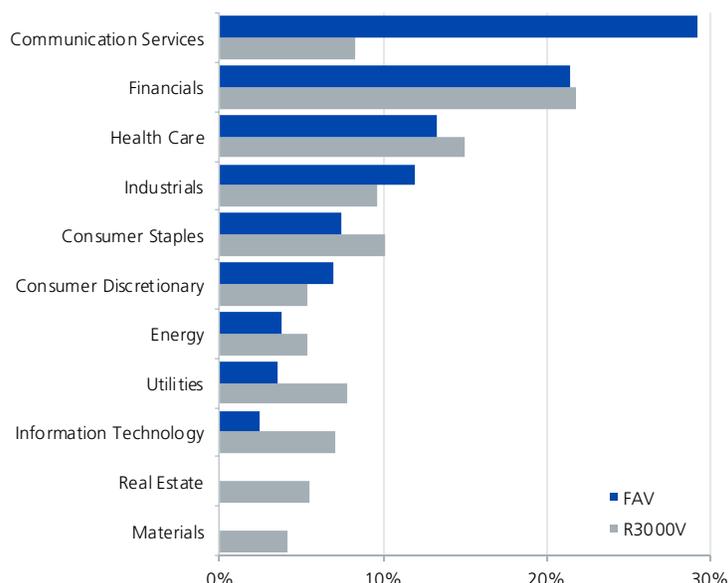
For the quarter, **the S&P 500 returned -19.60%, its worst Q1 on record. The Russell 2000 returned -30.61%, its worst quarter on record (since 1979) and the fourth worst for small caps (since 1926) – only the Great Depression saw worse returns.** Unfortunately, **cheaper was not better in Q1** with growth significantly outperforming value across all market caps. In Q1, the Russell 3000 Growth declined **-14.85%**, a staggering **+1,247 bps** ahead of the Russell 3000 Value.

The top contributing holding in the Portfolio during Q1 was **Cannae Holdings Inc. (CNNE)**, which owns a 14% 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 25% stake in life, health, and retirement solutions marketer AmeriLife; and a majority stake in restaurant brands *O'Charley's* and *99*. Although it is clear some of the company's holdings will be impacted by COVID-19, we believe **Dun & Bradstreet (the largest portion of our assessed valuation for CNNE) will experience little impact to its business, perhaps even seeing greater demand for its risk management services**, which includes understanding the credit quality of supply chain partners, for example.

The largest negative contributing holding was **Expedia Group Inc. (EXPE)**, an online travel agency (OTA). Expedia traded down in late February as the potential impact of the COVID-19 virus rapidly expanded globally. The selloff accelerated throughout March as airlines reduced capacity and hotels reported occupancy rates significantly below the prior year providing tangible data points to the direct impact COVID-19 was having on EXPE's business and the broader travel industry. Subsequently, **management withdrew FY 2020 guidance citing uncertainty around the impact of COVID-19 and raised \$1.9 B from its revolver to bolster liquidity, further supporting a grim near-term outlook.**

We believe our recent actions are reflected in the **attractive balance of value, quality, AND growth in the Portfolio.** According to FactSet, the Portfolio's valuation (as measured by EV/EBITDA) is **10.7x versus 12.2x** for the benchmark. Quality, as measured by five-year average return on equity, is **11.7% versus 13.1%** for the benchmark. Finally, the Portfolio's expected long-term growth (as measured by published long-term estimates) is a healthy **+8.7% versus just +7.1% for the benchmark.**

## Sector Weightings



## Portfolio Contribution

Top Contributors		Avg Wgt	Contrib
CNNE	Cannae Holdings Inc.	0.31%	+0.43%
UNF	UniFirst Corp.	0.60%	+0.10%
NTDOY	Nintendo Co. Ltd. Un-sponsored ADR	0.06%	+0.06%
CB	Chubb Ltd.	0.10%	+0.06%
PGR	Progressive Corp.	4.60%	+0.01%

Bottom Contributors		Avg Wgt	Contrib
EXPE	Expedia Group Inc.	3.32%	-2.42%
MPC	Marathon Petroleum Corp.	2.64%	-2.09%
DISCK	Discovery Inc. (CI C)	4.36%	-2.05%
BRK.B	Berkshire Hathaway Inc. (CI B)	7.90%	-1.59%
KMI	Kinder Morgan Inc. (CI P)	4.00%	-1.36%

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>EBITDA exclude banks, thrifts, and insurers. <sup>2</sup>Excludes negative earnings. <sup>3</sup>Risk characteristics based on trailing 60 month gross of fee composite performance. <sup>4</sup>Average calendar year turnover since inception (January 1, 2009). 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.

River Road Asset Management, LLC ("RRAM") is a registered investment adviser formed in April 2005 and is majority owned by Affiliated Managers Group, Inc. Registration of an investment adviser does not imply a certain level of skill or training. This presentation may be presented by an employee of Affiliated Managers Group, Inc., AMG Funds, or another AMG entity, which are affiliates of RRAM. RRAM claims compliance with the Global Investment Performance Standards (GIPS®). The firm maintains a complete list and description of Composites and a presentation that complies with the requirements of the GIPS® standards, which is available upon request by contacting RRAMCompliance@riverroadam.com.

The Focused Absolute Value® Composite contains fully discretionary accounts that seek capital appreciation by investing primarily in equity securities that trade at a discount to our valuation as determined using RRAM's proprietary Absolute Value® approach. RRAM selects securities from a universe of companies that are held by other RRAM strategies, which typically includes all market capitalizations. RRAM employs a value-driven, bottom-up fundamental 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. For periods including non-fee paying accounts, net was calculated for those accounts by applying the highest fee schedule effective at that time.

**The team of analysts involved with recommending investments for Focused Absolute Value® has changed and may continue to change over 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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## Characteristics

	FAV	R3000V
Number of Holdings	28	2,156
EV / EBITDA <sup>1</sup>	10.7	12.2
Price / Earnings <sup>2</sup>	10.0	12.6
Price / Book	1.67	1.52
Price / Cash Flow	7.4	10.7
ROE (5 YR Avg)	11.6	13.1
EPS Growth (5 YR)	10.3	7.1
LT Growth Estimate	8.7	7.1
Annualized Standard Deviation <sup>3</sup>	16.78	14.96
Jensen Alpha <sup>3</sup>	2.85	
Beta <sup>3</sup>	1.07	
Turnover <sup>4</sup>	118.01%	

## Market Capitalization Breakdown

	FAV	R3000V
Wtd Median Market Cap	\$20.04 B	\$52.10 B
Wtd Avg Market Cap	\$100.59 B	\$99.34 B
Large/Mega: > \$25 B	45.6%	64.0%
Mid: \$5 B - \$25 B	28.1%	24.3%
Micro/Small: < \$5 B	26.2%	11.7%

## Top 10 Portfolio Holdings

Symbol	Company	% of Port
BRK.B	Berkshire Hathaway Inc. (CI B)	8.36%
CMCSA	Comcast Corp. (CI A)	5.50%
GLIBA	GCI Liberty Inc. (CI A)	5.44%
PINC	Premier Inc. (CI A)	4.79%
PGR	Progressive Corp.	4.76%
TWNK	Hostess Brands Inc. (CI A)	4.62%
UNH	UnitedHealth Group Inc.	4.62%
UNF	UniFirst Corp.	4.30%
MCK	McKesson Corp.	3.84%
DISCK	Discovery Inc. (CI C)	3.78%

