

Select Value

A CONCENTRATED, HIGH CONVICTION STRATEGY | QUARTERLY UPDATE AS OF JUNE 30, 2020



Investment Objective

Long-term total return = Russell 1000 Value index plus 200 bps to 400 bps

Strategy Highlights

River Road's Select Value (SV) Strategy is a concentrated, high conviction value strategy comprised of companies that exhibit attractive business models, shareholder-oriented management, and financial strength.

The Strategy's investment universe formally consists of all North American listed equity securities with market capitalizations greater than \$2 B at the time of initial purchase.

Portfolio Managers



Daniel R. Johnson, CFA, CPA

14 years of experience;
managed Portfolio since inception

University of Kentucky, BS
University of Kentucky, Macc



Matt W. Moran, CFA

20 years of experience;
managed Portfolio since inception

Bradley University, BS
University of Chicago, MBA

Performance Summary



| | Q2 2020 | YTD | 1 YR | 3 YR | 5 YR | Inception |
|------------------------|---------|---------|--------|--------|--------|-----------|
| SV Composite - Gross | 14.68% | -15.98% | -5.93% | 2.92% | 6.47% | 6.55% |
| SV Composite - Net | 14.60% | -16.10% | -6.18% | 2.38% | 5.86% | 5.93% |
| Russell 1000 Value | 14.29% | -16.26% | -8.84% | 1.82% | 4.64% | 4.46% |
| Out / Underperformance | +0.39% | +0.28% | +2.91% | +1.10% | +1.83% | +2.09% |

Performance is shown gross and net of fees. Inception date: November 1, 2014. Out/underperformance compares gross performance and the index. Source: River Road Asset Management LLC and Russell Investment Group. Past performance is no guarantee of future results. Please see appendix for the disclosure presentation.

Portfolio Review

Stocks rebounded sharply in Q2 as investors shifted focus away from the devastation of COVID-19 to progress on reopening, developing therapeutics, the unprecedented level of monetary and fiscal stimulus, and an improving economic outlook. Although the rally hit a speedbump late in the quarter as reported COVID-19 cases began to increase, stocks still managed to deliver their best quarterly performance in decades. The S&P 500 index soared **+20.54%** in Q2, **its best quarter since Q4 1998**, while the Russell 2000 returned **+25.42%**, **its best quarter since Q1 1991 and second best on record (since index inception in 1984)! Value indices kept pace with growth early in the quarter but lagged badly during the market pullback**, resulting in significant underperformance for the quarter.

The Russell 1000 Growth outperformed the Russell 1000 Value by +1,355 bps in Q2, expanding the year-to-date performance lead to +2,607 bps. According to Ned Davis Research, the median growth stock now sells at **59.4x** earnings, versus **15.8x** for the median value stock, **another relative gap not seen since the internet bubble.** The narrow leadership was apparent as the equal weighted return of the 50 largest stocks in the S&P 500 (the 'Nifty 50') was -3.4% in the first half of the year, versus -13.8% for the other 450 constituents. Better yet, Ned Davis Research reported the FANG+ stocks, including Facebook, Amazon, Apple, Netflix, Microsoft, and Alphabet, were up +26% year to date, while the rest of the S&P 500 was down -10%. At quarter end, these six companies accounted for a staggering **36% of the Russell 3000 Growth.**

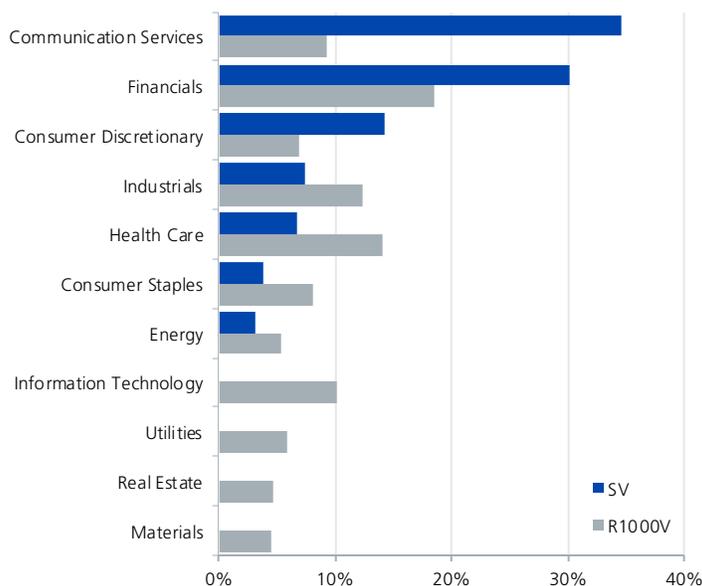
The top contributing holding in the Portfolio during Q2 was **Alphabet Inc. (CI C) (GOOG)**, which owns the largest search engine in the world. **Google.com dominates global search with ~90% market share.** Search should continue to grow as more individuals access the internet (roughly half the world has access to the internet), and digital advertising continues to steal market share from traditional advertising markets. The search business generates significant free cash flow, which is added to the firm's **Fort Knox-like balance sheet** (~11% of the market cap is in cash). **Management has proven to be excellent at capital allocation** with eye-popping returns in businesses such as Android, YouTube, and Waymo and the potential to increase shareholder returns through more significant buybacks. The firm's first quarter was well received as **advertising revenues appeared to bottom (-15%) in March and customers returned to more normal behavior in early April.** As usual, the businesses continue to grow rapidly with YouTube (+33% revenue) and Cloud (+52%) leading the way, but core search also posted a solid +8.6% during the bleakest period of the COVID-19 shutdowns. **There was a noticeable uptick in repurchases as GOOG bought back \$8.5 B in stock (up nearly 3x year over year).**

The largest negative contributing holding in Q2 was **Berkshire Hathaway Inc. (CI B) (BRK.B)**, a collection of diverse businesses with large interests in insurance, railroads, utilities, etc. BRK.B's well run and disciplined insurance operations have generated the float (cash) for Warren Buffett to deploy, **creating one of the world's greatest compounding machines** (+20.3% from 1965 to 2019 versus +10.0% for the S&P 500). BRK.B targets businesses with **sustainable competitive advantages, solid balance sheets** (\$137 billion in cash; 32% of market cap), and that are **run by proven owner/operators.** Both Buffett and Vice Chairman Charlie Munger have the vast majority of their net worth in BRK.B stock. **As the least Street-covered large cap stock in the S&P 500,** Buffett has attracted a lot of media attention from the public recently as BRK.B has underperformed the broader market. Perhaps a sign of the times, the influential day-trader Dave Portnoy remarked in early June, "What do you get if you listen to old man Buffett... 'get out of the airlines'... what an idiot." We think Portnoy has forgotten or, more likely, is not aware of Buffett's fantastic quote, **"The stock market is a device for transferring money from the impatient to the patient."** Although the market is in no mood for BRK.B's patience, we take comfort in the stock's **exceptional financial strength and value** (1.17x price/book value versus Buffett's former buyback metric of <1.2x price/book). **To add one more example of BRK.B's cheapness, consider that its stake in Apple represents 21% of BRK.B's market cap!**

We believe the portfolio positioning remains a highly attractive balance of value, quality, growth, and, increasingly, financial strength. According to FactSet, the Portfolio's valuation (as measured by EV/EBITDA) is **9.7x** versus **10.5x** for the Russell 1000 Value benchmark and **13.3x** for Russell 1000. Quality, as measured by five-year average return on equity, is **17.5%** versus **16.1%** for the benchmark. The Portfolio's expected long-term growth (as measured by published long-term estimates) is a healthy **9.8%** versus just **6.2%** for the benchmark. Finally, financial strength, as measured by the net leverage ratio, has improved from **3.1x** at year end to **1.3x** versus **2.5x** for the benchmark.

Discovering value,
off the beaten path®

Sector Weightings



Portfolio Contribution

| Top Contributors | | Avg Wgt | Contrib |
|---------------------|--|---------|---------|
| GOOG | Alphabet Inc. (CI C) | 6.52% | +1.49% |
| MPC | Marathon Petroleum Corp. | 2.67% | +1.24% |
| LKQ | LKQ Corp. | 4.23% | +1.24% |
| UNH | UnitedHealth Group Inc. | 6.67% | +1.18% |
| DLTR | Dollar Tree Inc. | 4.14% | +1.16% |
| Bottom Contributors | | | |
| BRK.B | Berkshire Hathaway Inc. (CI B) | 8.80% | -0.16% |
| GD | General Dynamics Corp. | 1.10% | -0.03% |
| FNF | Fidelity National Financial Inc. - FNF Group | 1.40% | +0.07% |
| LSXMK | Liberty Media Corp. Series C Liberty SiriusXM ⁴ | 3.64% | +0.10% |
| MSGS | Madison Square Garden Sports Corp. (CI A) ⁵ | 5.75% | +0.14% |

GICS sector and market cap breakdowns reflect percent of equity; stocks without a reported sector or market cap (e.g. corporate reorganizations, mergers, acquisitions, dissolutions) are not presented. ¹EBITDA exclude banks, thrifts, and insurers. ²Excludes negative earnings. ³Risk characteristics based on trailing 60 month gross of fee composite performance. ⁴Includes the impact of Liberty Media Corp. Rights 2020-02.06.20 For Shares Series C. ⁵Includes the impact of Madison Square Garden Entertainment Corp (CI A). Source: River Road Asset Management LLC, FactSet Research Systems Inc., and Russell Investment Group.

Portfolio contribution calculated for the Q2 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 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.

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 Select Value Composite contains fully discretionary accounts that seek long-term 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. The composite may also be invested in Real Estate Investment Trusts (REITs), publicly traded partnerships, investment companies, convertible securities, and foreign stocks. The official benchmark for the Composite is the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies that are considered more value oriented relative to the overall market as defined by Russell's leading style methodology. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. 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 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

| | SV | R1000V |
|--|-------|--------|
| Number of Holdings | 22 | 839 |
| EV / EBITDA ¹ | 9.7 | 10.5 |
| Price / Earnings ² | 18.7 | 17.7 |
| Price / Book | 1.98 | 2.05 |
| Price / Cash Flow | 12.5 | 13.4 |
| ROE (5 YR Avg) | 17.5 | 16.1 |
| EPS Growth (5 YR) | 15.8 | 7.8 |
| LT Growth Estimate | 9.8 | 6.2 |
| Annualized Standard Deviation ³ | 16.73 | 15.52 |
| Jensen Alpha ³ | 1.73 | |
| Beta ³ | 1.03 | |

Market Capitalization Breakdown

| | SV | R1000V |
|-----------------------|------------|------------|
| Wtd Median Market Cap | \$46.89 B | \$58.48 B |
| Wtd Avg Market Cap | \$159.17 B | \$114.11 B |
| Large/Mega: > \$25 B | 59.5% | 69.5% |
| Mid: \$5 B - \$25 B | 29.9% | 26.1% |
| Micro/Small: < \$5 B | 10.6% | 4.4% |

Top 10 Portfolio Holdings

| Symbol | Company | % of Port |
|--------|--|-----------|
| BRK.B | Berkshire Hathaway Inc. (CI B) | 8.72% |
| LBRDK | Liberty Broadband Corp. (CI C) | 7.35% |
| PGR | Progressive Corp. | 7.33% |
| UNH | UnitedHealth Group Inc. | 6.77% |
| CMCSA | Comcast Corp. (CI A) | 6.09% |
| GOOG | Alphabet Inc. (CI C) | 5.90% |
| MSGE | Madison Square Garden Entertainment Corp. (CI A) | 5.14% |
| NTDOY | Nintendo Co. Ltd. Un-sponsored ADR | 4.81% |
| DLTR | Dollar Tree Inc. | 4.33% |
| FNF | Fidelity National Financial Inc. - FNF Group | 4.21% |

