

Small Cap Value

QUARTERLY UPDATE AS OF JUNE 30, 2020



Investment Objective(s)

- Long-term total return > Russell 2000 Value index plus 200 to 400 bps
- Target volatility < Russell 2000 Value

Strategy Highlights

River Road's Small Cap Value (SCV) Strategy utilizes a fundamentally driven research process to identify attractive purchase candidates from a universe of smaller 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

Portfolio Managers



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



R. Andrew Beck
21 years of experience;
managed Portfolio since 2000
University of Louisville, BS
Babson College, MBA



James C. Shircliff, CFA
47 years of experience;
managed Portfolio since inception
University of Louisville, BS

Performance Summary



	Q2 2020	YTD	1 YR	3 YR	5 YR	10 YR	15 YR	20 YR	Inception
SCV Composite - Gross	20.13%	-18.88%	-12.73%	1.99%	6.73%	10.47%	8.14%	11.21%	10.27%
SCV Composite - Net	19.88%	-19.23%	-13.46%	1.13%	5.84%	9.58%	7.30%	10.36%	9.44%
Russell 2000 Value	18.91%	-23.50%	-17.48%	-4.35%	1.26%	7.82%	4.97%	7.65%	6.65%
Out / Underperformance	+1.22%	+4.62%	+4.75%	+6.34%	+5.47%	+2.65%	+3.17%	+3.56%	+3.62%
SCV Composite Beta					0.81	0.80	0.76	0.73	0.72
SCV Composite Anlzd Std Dev					17.37	15.46	16.03	15.21	14.90
Russell 2000 Value Anlzd Std Dev					20.57	18.54	19.90	19.21	18.95

Performance is shown gross and net of fees. Inception date: January 1, 1998. Out/underperformance compares the gross Composite and index. 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

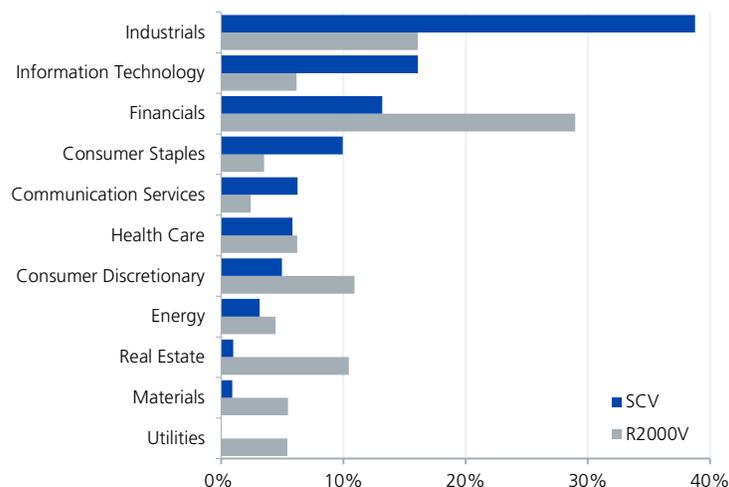
Stocks rebounded sharply in Q2 as investors shifted focus away from the devastation of COVID-19 to progress on reopening, developing therapeutics, the unprecedented level of monetary and fiscal stimulus, and an improving economic outlook. Although the rally hit a speedbump late in the quarter as reported 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 top contributing holding in the Portfolio during Q2 was **BJ's Wholesale Club Holdings Inc. (BJ)**, a warehouse club retailer with more than 200 stores primarily located in the eastern United States. Stay-at-home orders related to the COVID-19 pandemic have caused surging demand for grocery and certain consumer products. **BJ reported very strong Q1 results** (ended May 2, 2020) **despite high expectations. Same-store sales increased +27%** excluding fuel prices while cash from membership fee income increased +16%. Gross margin expanded as higher fuel margin more than offset lower merchandise margin, apparel markdowns, and increased distribution costs. Despite higher COVID-19-related expenses, SG&A leverage improved by +50 bps. As a result, **EBITDA grew +56% year over year. Free cash flow was a massive \$435 MM versus just \$8 MM in the prior year quarter.** For context, free cash flow for the full fiscal years 2019 and 2018 combined was \$439 MM. However, changes in working capital should reverse some of the Q1 2020 free cash flow gains in the following quarters. BJ is also playing offense by adding new vendor relationships and pursuing attractive real estate opportunities during this period of economic stress.

The largest negative contributing holding in the Portfolio during Q2 was **Liberty Latin America Ltd. (CI C) (LILAK)**, a provider of broadband, TV, fixed voice, and mobile services in Chile, Puerto Rico, Costa Rica, and the Caribbean. The company continued to grow broadband, video, and mobile subscribers organically which drove constant currency EBITDA improvement of +4% year over year. However, **Chilean peso depreciation relative to the U.S. dollar caused reported EBITDA to decline -1% year over year. Fears related to the company's leverage level (3.8x at quarter end) and exposure to markets reliant on tourism likely weighed on the stock as well.** However, the company still expects to generate positive free cash flow in 2020. The CEO bought \$100,000 of LILAK at the end of March and another \$100,000 in mid-May. Additionally, the company repurchased a modest amount of stock in March and into Q2 (despite elevated leverage) which suggests management views the share price as highly attractive.

In the Portfolio, **we are still seeking to maintain a balance between more defensive, stable companies and those with greater risk, but more upside potential as the economy fully recovers.** Despite recent gains, we believe the outcome remains a **remarkably attractive balance of quality, growth, AND value in the Portfolio.** According to FactSet, the Portfolio's quality, as measured by five-year average return on equity (ROE), is **10.4% versus 6.5%** for the benchmark. The Portfolio's expected long-term growth (as measured by published long-term estimates) is a healthy **+9.2% versus +7.1%**. Finally, the Portfolio's valuation (as measured by our primary metric, EV/EBITDA) is less than the benchmark, at **7.7x versus 8.0x.**

Sector Weightings



Portfolio Contribution

Top Contributors		
	Avg Wgt	Contrib
BJ	BJ's Wholesale Club Holdings Inc.	3.63% +1.61%
CNNE	Cannae Holdings Inc.	5.97% +1.11%
NSP	Insperty Inc.	1.87% +1.10%
STAY	Extended Stay America Inc.	2.26% +1.08%
ATSG	Air Transport Services Group Inc.	4.50% +0.99%
Bottom Contributors		
	Avg Wgt	Contrib
LILAK	Liberty Latin America Ltd. (CI C)	2.20% -0.22%
EAF	GrafTech International Ltd.	2.13% -0.15%
VVI	Viad Corp.	0.95% -0.14%
ATI	Allegheny Technologies Inc.	0.39% -0.14%
PKE	Park Aerospace Corp.	1.03% -0.12%

GICS sector breakdown reflects percent of equity; stocks without a reported sector are not presented. ¹EBITDA exclude banks, thrifts, and insurers. ²Excludes negative earnings. ³Risk characteristics based on trailing 60 month gross of fee composite performance. ⁴Average calendar year turnover since inception (January 1, 1998). 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 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 Small Cap Value Composite contains fully discretionary small cap value equity accounts that seek capital appreciation by investing primarily in small 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 cap company as one whose market capitalization is less than \$4 B. RRAM selects securities from a universe of companies with a market capitalization at the time of initial purchase typically between \$50 MM and \$4 B, employing a value-driven, bottom-up fundamental approach. The official benchmarks for the Composite are the Russell 2000 Value and the Russell 2000 indices. 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.

Performance presented prior to April 1, 2005 occurred while the original members of the portfolio management team were affiliated with a prior firm and those portfolio management team members were the only individuals primarily responsible for selecting the securities to buy and sell. A review of this track record for compliance with portability requirements of the GIPS® standards was conducted by Ashland Partners & Company.

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

	SCV	R2000V
Number of Holdings	63	1,439
EV / EBITDA ¹	7.7	8.0
Price / Earnings ²	14.4	13.0
Price / Book	1.92	1.13
Price / Cash Flow	11.5	10.8
ROE (5 YR Avg)	10.4	6.5
EPS Growth (5 YR)	8.8	6.8
Cash Flow Growth (5 YR)	6.4	5.4
LT Growth Estimate	9.2	7.1
Annualized Standard Deviation ³	17.37	20.57
Jensen Alpha ³	5.49	
Beta ³	0.81	
Dollar Turnover ⁴	46.98%	

Top 10 Portfolio Holdings

Symbol	Company	% of Port
CNNE	Cannae Holdings Inc.	4.92%
ATSG	Air Transport Services Group Inc.	4.48%
PINC	Premier Inc. (CI A)	4.01%
BJ	BJ's Wholesale Club Holdings Inc.	3.86%
TWNK	Hostess Brands Inc. (CI A)	3.52%
UNF	UniFirst Corp.	3.16%
AGX	Argan Inc.	2.70%
CSVI	Computer Services Inc.	2.50%
WTM	White Mountains Insurance Group Ltd.	2.45%
CUB	Cubic Corp.	2.44%

