

# Dividend All-Cap Value ex-MLP

A TOTAL RETURN STRATEGY | QUARTERLY UPDATE AS OF JUNE 30, 2023



FOR PROFESSIONAL INVESTORS ONLY

## Investment Objectives

- Long-term total return > Russell 3000 Value index plus 200 to 400 bps
- Target yield  $\geq$  150% of the Russell 3000 Value
- Long-term volatility < Russell 3000 Value

## Strategy Summary

River Road's Dividend All-Cap Value ex-MLP (DAV ex-MLP) strategy utilizes a fundamentally driven research process to identify attractive purchase candidates from an all cap universe of equity securities with attractive dividend yields. 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 cap of \$700 MM at the time of initial purchase
- Indicated dividend yield > 0%; prefer > 2%

The stock selection process is complemented by a risk averse approach that employs balanced diversification and a structured sell discipline.

## Portfolio Managers



**Thomas S. Forsha, CFA**  
25 years of experience;  
managed portfolio since 2007

The Ohio State University, BS  
University of Chicago, MBA



**Henry W. Sanders III, CFA**  
34 years of experience;  
managed portfolio since inception

Bellarmine University, BA  
Boston College, MBA

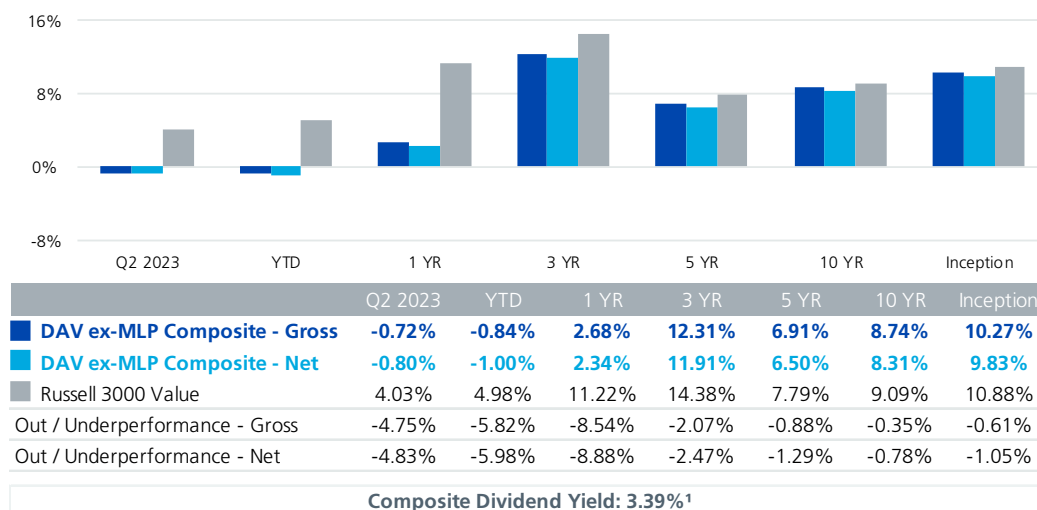


**Andrew R. McIntosh, CFA**  
19 years of experience;  
managed portfolio since 2018

University of Iowa, BBA

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## Trailing Returns



## Calendar Year Returns

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
DAV ex-MLP Composite - Gross	-4.10%	22.85%	1.07%	24.91%	-5.12%	10.96%	21.40%	-3.24%	11.40%	34.09%
DAV ex-MLP Composite - Net	-4.42%	22.39%	0.63%	24.41%	-5.53%	10.51%	20.91%	-3.66%	10.95%	33.57%
Russell 3000 Value	-7.98%	25.37%	2.87%	26.26%	-8.58%	13.19%	18.40%	-4.13%	12.70%	32.69%
Out / Underperformance - Gross	+3.88%	-2.52%	-1.80%	-1.35%	+3.46%	-2.23%	+3.00%	+0.89%	-1.30%	+1.40%
Out / Underperformance - Net	+3.56%	-2.98%	-2.24%	-1.85%	+3.05%	-2.68%	+2.51%	+0.47%	-1.75%	+0.88%

Past performance is no guarantee of future results. There is a risk that invested capital may be lost. Performance is shown gross and net of fees. Inception date: September 1, 2011. <sup>1</sup>Gross of fees; indicated portfolio yield does not anticipate special dividends. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group. Please see reverse side for important disclosure information.

## Market Highlights

- The Fed elected to temporarily halt further rate increases, igniting a 'risk on' rally that reversed much of the 2022 carnage.
- Dividend payers continued to lag in Q2 marking the worst first half performance since 2009.
- Dividend growth has slowed; higher interest rates and persistent operational issues led several firms to announce cuts.

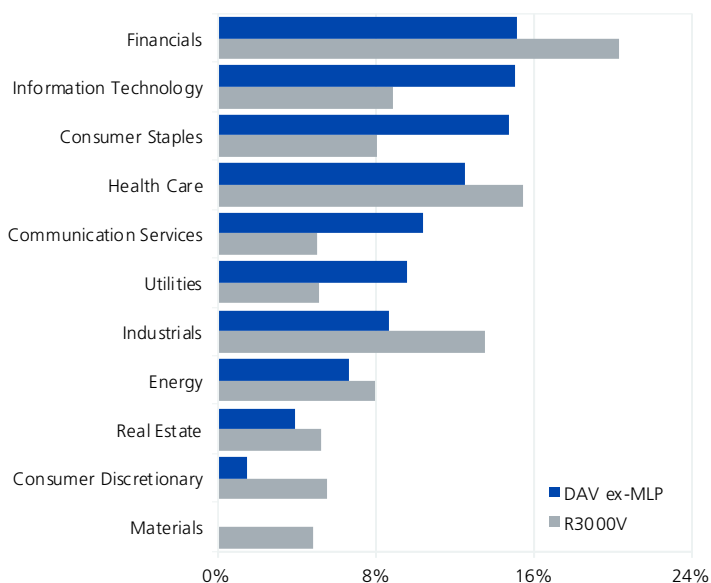
## Portfolio Highlights

- The Dividend All-Cap Value ex-MLP (DAV ex-MLP) composite underperformed in Q2, returning **-0.72%** (**-0.80%** net) versus **+4.03%** for the Russell 3000 Value benchmark. Year to date, the composite returned **-0.84%** (**-1.00%** net) versus **+4.98%** for the benchmark.
- At the end of Q2, the dividend yield of the portfolio was **3.39%**, which is **147% of the 2.31% yield of the Russell 3000 Value** and **more than double the 1.54% yield of the S&P 500**.
- The sectors with the highest contribution to relative return (total effect) in Q2 were **Information Technology (+51 bps)** and **Energy (+44 bps)**.
- The holdings with the highest contribution to active return were **Oracle Corp. (ORCL: +29%, +108 bps)** and **Watsco Inc. (WSO: +21%, +37 bps)**.
- The sectors with the lowest contribution to relative return (total) in Q2 were **Financials (-128 bps)** and **Health Care (-112 bps)**.
- The holdings with the lowest contribution to active return were **AES Corp. (AES: -13%, -71 bps)** and **Target Corp. (TGT: -20%, -63 bps)**.

## Outlook

- Recent results notwithstanding, we continue to believe the weight of the evidence points to further economic challenges in 2023.
- Our concerns about the economy provide an attractive relative environment for the portfolio**, especially so given the current discount to value and the increasingly stretched multiple for the broader market.
- We continue to believe that a longer-term value-oriented regime began in November/December 2021 and our steadfast commitment to fundamentals will ultimately yield favorable results.

Sector Weights



Portfolio Contribution

Top Contributors		Yield <sup>1</sup>	Avg Wgt	PCAR
ORCL	Oracle Corp.	1.34%	4.83%	+1.08%
WSO	Watsco Inc.	2.57%	2.36%	+0.37%
WMB	Williams Companies Inc.	5.49%	3.14%	+0.21%
CMCSA	Comcast Corp. (CI A)	2.79%	3.47%	+0.21%
VST	Vistra Corp.	3.11%	2.75%	+0.16%
Bottom Contributors		Yield <sup>1</sup>	Avg Wgt	PCAR
AES	AES Corp.	3.20%	3.89%	-0.71%
TGT	Target Corp.	3.34%	2.45%	-0.63%
AAP	Advance Auto Parts Inc.	1.42%	0.82%	-0.54%
UPS	United Parcel Service Inc. (CI B)	3.62%	3.66%	-0.42%
ABBV	AbbVie Inc.	4.39%	2.07%	-0.41%

Characteristics & Risk Statistics

	DAV ex-MLP	R3000V
Number of Holdings	51	2,302
Dividend Yield <sup>1</sup>	3.39	2.31
EV / EBITDA <sup>2</sup>	11.2	11.1
Price / Cash Flow	13.8	14.8
ROE (5 YR Avg)	21.4	14.7
EPS Growth (5 YR)	9.0	12.7
LT Growth Estimate <sup>3</sup>	7.6	7.1
Annualized Standard Deviation <sup>4</sup>	18.09	19.23
Jensen Alpha <sup>4</sup>	-0.40	
Beta <sup>4</sup>	0.92	
Cash	1.8%	
Dollar Turnover (3 YR Avg) <sup>5</sup>	24.7%	

Market Cap Breakdown

	DAV ex-MLP	R3000V
Wtd Median Market Cap	\$49.41 B	\$66.53 B
Wtd Avg Market Cap	\$87.88 B	\$130.07 B
Large/Mega Cap: > \$45 B	52.3%	57.6%
Mid Cap: \$10 B - \$45 B	29.1%	28.4%
Micro/Small Cap: < \$10 B	16.8%	13.9%

Top 10 Portfolio Holdings

Symbol	Company	% Port	Yield <sup>1</sup>
ORCL	Oracle Corp.	4.67%	1.34%
UPS	United Parcel Service Inc. (CI B)	3.68%	3.62%
AES	AES Corp.	3.66%	3.20%
CMCSA	Comcast Corp. (CI A)	3.64%	2.79%
WMB	Williams Companies Inc.	3.43%	5.49%
GLW	Corning Inc.	3.43%	3.20%
KMI	Kinder Morgan Inc. (CI P)	3.15%	6.56%
VST	Vistra Corp.	3.13%	3.11%
PGR	Progressive Corp.	2.90%	0.30%
UL	Unilever PLC Sponsored ADR	2.88%	3.51%

Past performance is no guarantee of future results. There is a risk that invested capital may be lost. GICS sector and market cap breakdowns reflect percent of total portfolio; stocks without a reported sector or market cap (e.g. corporate reorganizations, mergers, acquisitions, and dissolutions) are not presented. Market caps are live data points and subject to change. <sup>1</sup>Gross of fees; indicated yield does not anticipate special dividends. <sup>2</sup>EBITDA excludes banks, thrifts, and insurers. <sup>3</sup>Estimates based on ordinary shares for all ADR securities held. <sup>4</sup>Risk characteristics based on trailing 60-month gross of fee composite performance. <sup>5</sup>Average calendar year turnover. Dollar turnover, the lesser of purchases or sales as a percentage of the average market value, is presented as an average of all portfolios in the composite. If one portfolio is not in the composite for the entire period, turnover is the average annualized turnover of all portfolios in the composite at the end of the period. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group.

Top and bottom contributors are calculated gross of fees for the most recent quarter and based on portfolio contribution to active return, which is calculated as the portfolio-weighted return relative to the overall index. 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 performance numbers included in parentheses behind a stock's name refer to that stock's total gross return (dividends reinvested) and contribution to active return for the representative portfolio during the period. Unless otherwise noted, total effect is used to assess the contribution to relative return. 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.

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The Dividend All-Cap Value ex-MLP composite contains fully discretionary equity income accounts that seek long-term capital appreciation and high current income by investing primarily in a diversified, all-cap basket of income producing equity securities that 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, convertible preferred stocks, Real Estate Investment Trusts ("REITs"), investment companies, LLCs, and royalty income trusts. The composite excludes any accounts invested in the Dividend All Cap Value strategy that allows Master Limited Partnership (MLP) investments. Some accounts in the composite restrict all Publicly Traded Partnerships (i.e. both MLPs and LLCs), but the composite does include accounts that allow(ed) LLCs. 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. Composite performance may differ materially from the indices as the composite only invests in a subset of the securities contained in the indices and also invests in securities not contained in the indices. 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. Unless otherwise noted, performance provided for periods greater than one year is annualized.

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Unless otherwise noted, share-related characteristics are provided by FactSet. Portfolio and index characteristics 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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