

# Small-Mid Cap Value II

QUARTERLY UPDATE AS OF JUNE 30, 2023



FOR PROFESSIONAL INVESTORS ONLY

## Investment Objective(s)

- Long-term total return > Russell 2500 Value index plus 200 to 400 bps
- Target volatility < Russell 2500 Value
- Achieve objectives in a manner that is consistent with established style and risk expectations

## Strategy Summary

River Road's Small-Mid Cap Value II (SMID II) strategy focuses on companies between \$500 MM and \$10 B in market cap. The SMID II strategy employs the same bottom-up, fundamentally driven investment process as the firm's Small Cap Value and Small-Mid Cap Value strategies.

- Bottom-up, fundamentally driven stock selection
- Balanced diversification
- Structured sell discipline

## Portfolio Managers



**J. Justin Akin**  
20 years of experience;  
managed portfolio since inception  
Centre College, BS



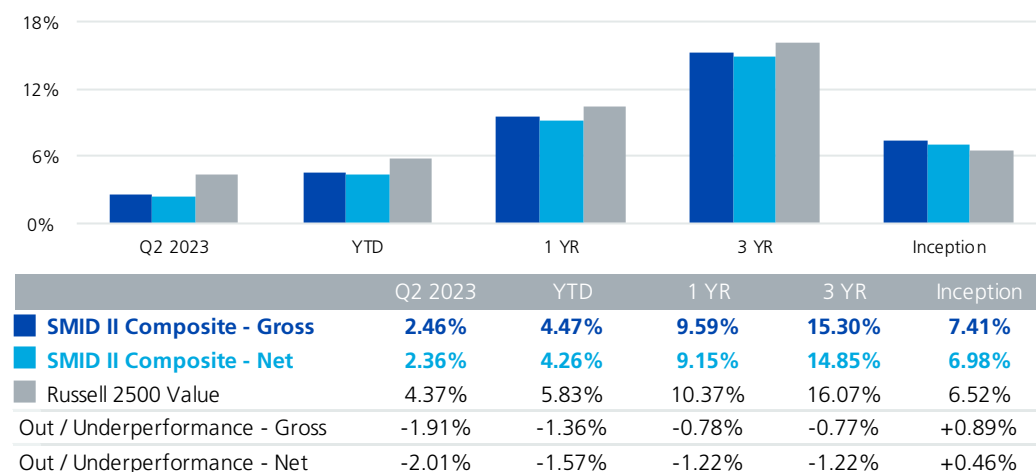
**R. Andrew Beck**  
24 years of experience;  
managed portfolio since inception  
University of Louisville, BS  
Babson College, MBA



**Todd D. Mayberry, CFA**  
12 years of experience;  
managed portfolio since 2021  
University of Cincinnati, BBA

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## Trailing Returns



## Calendar Year Returns

	2022	2021	2020	2019 <sup>1</sup>
<b>SMID II Composite - Gross</b>	-7.90%	24.99%	1.18%	10.67%
<b>SMID II Composite - Net</b>	-8.27%	24.52%	0.77%	10.40%
Russell 2500 Value	-13.08%	27.78%	4.88%	5.54%
Out / Underperformance - Gross	+5.18%	-2.79%	-3.70%	+5.13%
Out / Underperformance - Net	+4.81%	-3.26%	-4.11%	+4.86%

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: May 1, 2019. <sup>1</sup>May 1, 2019 through December 31, 2019. 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

- Stocks continued to advance amidst a sharply bifurcated market.
- Large cap and growth outperformed small cap and value, but at a slower pace than Q1.
- Within the Russell 2500 Value, **Industrials (+12.15%)** and **Energy (+5.22%)** posted the highest total returns, while **Utilities (-3.73%)** and **Materials (-1.20%)** posted the lowest.
- It was another strong quarter for active small cap value managers with 65% beating the benchmark, although small-mid cap value managers fared less well with just 40% outperforming.

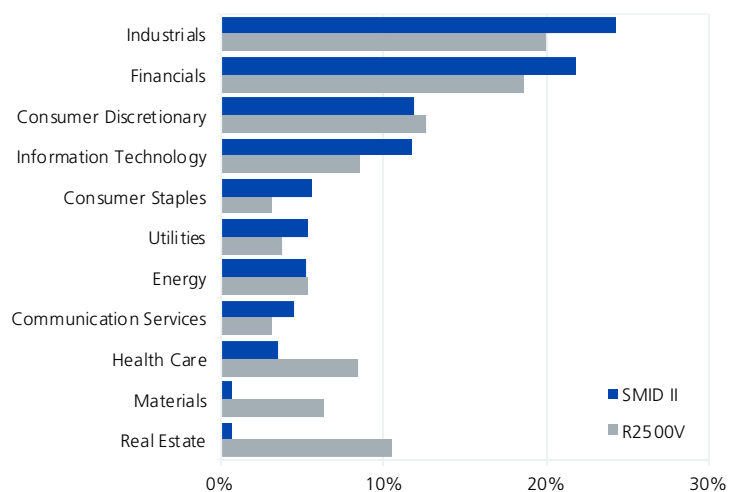
## Portfolio Highlights

- For Q2, the River Road Small-Mid Cap Value II (SMID II) composite returned **+2.46%** (**+2.36%** net) versus **+4.37%** for the Russell 2500 Value benchmark. Year to date, the composite returned **+4.47%** (**+4.26%** net) versus **+5.83%** for the benchmark.
- The sectors with the highest contribution to relative return (total effect) in Q2 were **Financials (+83 bps)** and **Materials (+49 bps)**.
- The holdings with the highest contribution to active return were **American Equity Investment Life Holding Co. (AEL: +43%, +51 bps)** and **Lithia Motors Inc. (LAD: +33%, +48 bps)**.
- The sectors with the lowest contribution to relative return (total effect) in Q2 were **Industrials (-215 bps)** and **Consumer Discretionary (-43 bps)**.
- The holdings with the lowest contribution to active return were **Advance Auto Parts Inc. (AAP: -46%, -96 bps)** and **BJ's Wholesale Club Holdings Inc. (BJ: -17%, -67 bps)**.

## Outlook

- Sentiment has improved and, by one definition, the S&P 500 has entered a new bull market. However, **small caps have lagged the rally (a major warning sign)** and **the most predictive indicators still point to a recession in 2H 2023 or early 2024.**

## Sector Weights



## Portfolio Contribution

Top Contributors	Avg Wgt	PCAR
AEL American Equity Investment Life Holding Co.	1.44%	+0.51%
LAD Lithia Motors Inc.	1.76%	+0.48%
TAP Molson Coors Beverage Co. (CI B)	1.54%	+0.40%
MUSA Murphy USA Inc.	2.31%	+0.34%
VNT Vontier Corp.	2.15%	+0.27%

## Bottom Contributors

AAP Advance Auto Parts Inc.	1.84%	-0.96%
BJ BJ's Wholesale Club Holdings Inc.	2.84%	-0.67%
UNF UniFirst Corp.	2.93%	-0.51%
ATSG Air Transport Services Group Inc.	3.14%	-0.48%
PINC Premier Inc. (CI A)	1.72%	-0.46%

**Past performance is no guarantee of future results. There is a risk that invested capital may be lost.** GICS sector breakdown reflects percent of total portfolio; stocks without a reported sector are not presented. <sup>1</sup>EBITDA excludes banks, thrifts, and insurers. <sup>2</sup>Price/earnings excludes negative earnings. <sup>3</sup>Estimates based on ordinary shares for all ADR securities held. <sup>4</sup>Risk characteristics based on trailing 36-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.

**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.

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.

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The Small-Mid Cap Value II composite contains fully discretionary small-mid cap value equity accounts that seek capital appreciation by investing primarily in small-mid 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 to mid cap company as one whose market capitalization is less than \$10 B. RRAM selects securities from a universe of companies with a market capitalization at the time of initial purchase typically between \$500 MM and \$10 B, employing a value driven, bottom-up fundamental approach. The official benchmark for the composite is the Russell 2500 Value index. 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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Sector, Industry Group, Industry, or Sub-industry group levels are determined at the beginning of each month 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.

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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## Characteristics &amp; Risk Statistics

	SMID II	R2500V
Number of Holdings	65	1,895
EV / EBITDA <sup>1</sup>	7.9	9.8
Price / Earnings <sup>2</sup>	12.5	12.8
Price / Book	1.61	1.73
Price / Cash Flow	10.3	12.0
ROE (5 YR Avg)	16.0	9.7
EPS Growth (5 YR)	16.7	11.7
Cash Flow Growth (5 YR)	3.1	1.5
LT Growth Estimate <sup>3</sup>	8.3	8.7
Annualized Standard Deviation <sup>4</sup>	19.30	21.15
Jensen Alpha <sup>4</sup>	0.89	
Beta <sup>4</sup>	0.89	
Cash	5.0%	
Dollar Turnover (3 YR Avg) <sup>5</sup>	36.8%	

## Top 10 Portfolio Holdings

Symbol	Company	% Port
LKQ	LKQ Corp.	4.11%
WTM	White Mountains Insurance Group Ltd.	3.84%
ATKR	Atkore Inc.	3.67%
BJ	BJ's Wholesale Club Holdings Inc.	3.35%
ATSG	Air Transport Services Group Inc.	3.07%
WEX	WEX Inc.	3.05%
SNX	TD SYNEX Corp.	2.86%
UNF	UniFirst Corp.	2.71%
CNNE	Cannae Holdings Inc.	2.51%
MUSA	Murphy USA Inc.	2.49%