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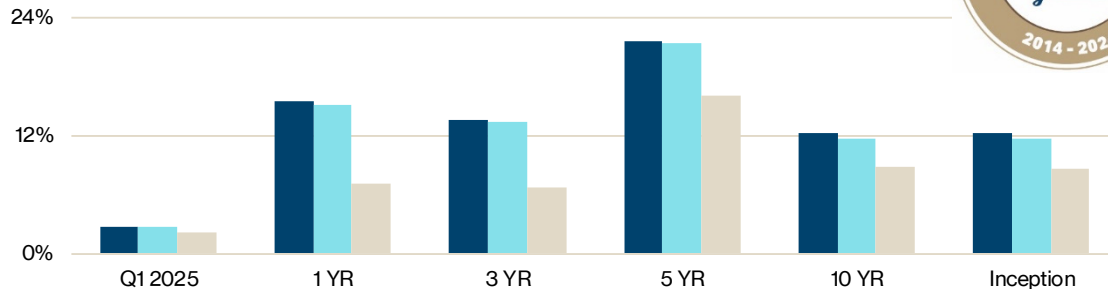
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Market & Portfolio Commentary

Large Cap Value Select

Q1 2025



	Q1 2025	1 YR	3 YR	5 YR	10 YR	Inception
LCVS Composite - Gross	2.70%	15.43%	13.56%	21.59%	12.18%	12.21%
LCVS Composite - Net	2.66%	15.16%	13.34%	21.33%	11.73%	11.75%
Russell 1000 Value	2.14%	7.18%	6.64%	16.15%	8.79%	8.63%
Out / Underperformance - Gross	+0.56%	+8.25%	+6.92%	+5.44%	+3.39%	+3.58%
Out / Underperformance - Net	+0.52%	+7.98%	+6.70%	+5.18%	+2.94%	+3.12%

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 as of March 31, 2025. Inception date: November 1, 2014. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group. Please see appendix for additional performance, representative portfolio, and holdings disclosures.

MARKET HIGHLIGHTS

- Stocks fell in Q1 as declining growth expectations and uncertainty around trade policy eroded the post-election surge in sentiment – the remainder of which was obliterated following 'Liberation Day.'
- Value outperformed growth by the widest quarterly margin since 2001; large cap stocks led the market.
- Within the Russell 1000 Value index, **Energy (+9.46%)** and **Communication Services (+6.96%)** posted the highest total returns, while **Information Technology (-5.70%)** and **Consumer Discretionary (-4.49%)** posted the lowest.

PORTFOLIO HIGHLIGHTS

- For Q1, the Large Cap Value Select (LCVS) composite returned **+2.70% (+2.66% net)** versus **+2.14%** for the Russell 1000 Value benchmark.
- The sectors with the highest contribution to relative return (total effect) in Q1 were **Consumer Staples (+234 bps)** and **Information Technology (+73 bps)**.
- The holdings with the highest contribution to active return were **BJ's Wholesale Club Holdings Inc. (BJ)** and **Elevance Health Inc. (ELV)**.
- The sectors with the lowest contribution to relative return (total effect) in Q1 were **Financials (-77 bps)** and **Consumer Discretionary (-53 bps)**.
- The holdings with the lowest contribution to active return were **KKR & Co. Inc. (KKR)** and **lululemon athletica Inc. (LULU)**.

OUTLOOK

- Our outlook remains cautious** due to fiscal and Fed policy uncertainty. Positively, **portfolio valuations have improved** and the **relative outlook for value stocks versus growth is attractive**.



Market & Portfolio Commentary

Large Cap Value Select

Q1 2025

MARKET REVIEW

The drumroll...

Stocks declined in Q1 as fading growth expectations and trade policy uncertainty eroded the post-election surge in business, consumer, and investor sentiment – **the remainder of which was obliterated following 'Liberation Day.'** The quarter began with encouraging earnings and inflation data that helped initially lift stocks. Yet, early cracks emerged.

In February, tariff concerns began to escalate and the economy showed signs of weakening. Additionally, **earnings expectations for Q1 plunged even though estimates for the full year remained mostly intact.** As our companies began to report, it became evident that expectations for 2025 were too optimistic. Then, on February 28, **the Atlanta Fed slashed its Q1 GDP estimate from +2.3% to -1.5%** – a steep drop from **+3.9%** just four weeks prior.

March brought steeper declines as data worsened and markets braced for the President's self-proclaimed 'Liberation Day.' **Recession chatter gained traction**, even as most strategists placed their odds well below 40%. As volatility spiked and credit spreads widened, **the Atlanta Fed's real Q1 GDP estimate briefly turned notably negative.**

...followed by the big reveal

On April 2, President Trump unveiled a sweeping list of tariffs targeting nearly every economy around the globe. The scope and magnitude of the increases far exceeded the reciprocal tariffs investors were expecting. More alarming was the lack of clarity around how the tariffs were calculated, which many described as non-sensical. **CEOs, investors, and foreign leaders were left wondering whether the President was serious or employing a radical negotiating tactic.**

Wall Street did not wait for answers. In the four trading sessions that followed, the S&P 500 plunged **-12.12%**, leaving the index **-18.90%** (based on price return) below the all-time high. In the broader scope of financial markets, **it was an orderly correction as there was no serious liquidity or default events.** The President's initial reaction to the decline was acceptance, likening the U.S. economy to a "sick patient" and the tariffs as "necessary medicine."

Shortly after midnight on April 9, volatility spiked in the 10-year Treasury market, spooking Treasury Secretary Scott Bessent. Then, at 9:38 am, the President texted a characteristically bold proclamation on Truth Social, "THIS IS A GREAT TIME TO BUY!!!" **At approximately 1:30 pm, with the S&P 500 entering a bear market, the President announced a 90-day pause to kickstart trade negotiations.** While he left in place a 10% baseline tariff, he doubled down on China, raising their punitive rate to 125%. China responded by raising its rate on the U.S. to +84%. Stocks exploded to the upside, with **the S&P 500 turning a -0.69% morning slump into a stunning +9.52% gain.**

Large cap value stocks outpace the market

Large cap stocks led the market in Q1, **extending a trend of outperformance over small cap stocks for more than eight years.** For Q1, the Russell 1000 and S&P 500 returned **-4.49%** and **-4.27%**, respectively, versus **-9.48%** for the Russell 2000. Meanwhile, growth stocks lost their market leadership, with value outperforming growth across all market caps. The Russell 1000 Value (**+2.14%**) and the Russell 3000 Value (**+1.64%**) were **the only Russell indices to post positive returns for the quarter.** For Q1, the Russell 1000 Value returned **+2.14%** versus **-9.97%** for the Russell 1000 Growth, **marking the widest quarterly value-growth margin since 2001.** The smallest value-growth performance gap was in small caps, with the Russell 2000 Value returning **-7.74%** versus **-11.12%** for the Russell 2000 Growth.

Within the Russell 1000 Value index, **Energy (+9.46%)** delivered the highest total return in Q1, while **Information Technology (-5.70%)** delivered the lowest.

Factors were mixed in Q1

We focus on key factors we believe tend to primarily influence the relative performance of the Large Cap Value Select (LCVS) strategy over time, including overweights to **quality (through ROE)** and **value (through EBITDA to EV).** In Q1, **the portfolio's overweight to value stocks was a tailwind** while the overweight to quality stocks was a small headwind.

LCVS vs R1V Style Mine Performance

Factor	Q1		
	Factor Active Wgt (Top Half)	Relative Return (Top Half)	Asset Allocation (Overall)
EBITDA to EV	16.22	1.90	1.21
Return on Equity	9.45	0.22	-0.04

StyleAnalytics Past performance is no guarantee of future results. There is a risk that invested capital may be lost. Data is provided by Style Analytics Inc. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group. Please see appendix for additional disclosures.



PORTFOLIO REVIEW

For Q1, the Large Cap Value Select (LCVS) composite returned **+2.70% (+2.66% net)** versus **+2.14%** for the benchmark.

The key drivers of relative performance included the following:

- **Positive stock selection (+32 bps)**, primarily driven by **Consumer Staples (+208 bps)** and **Real Estate (+48 bps)**, partially offset by negative stock selection in **Financials (-74 bps)** and **Materials (-37 bps)**.
- **Positive sector allocation (+17 bps)**, driven by the lack of exposure to **Information Technology (+73 bps)** and the overweight position in **Consumer Staples (+26 bps)**, partially offset by an overweight position in **Consumer Discretionary (-53 bps)** and an underweight position in **Energy (-19 bps)**.
- **High conviction holdings (1.0-2.0 rating)** outperformed the benchmark, returning **+4.05%** versus **+2.14%** for the Russell 1000 Value.

Q1 2025

	LCVS		
	Avg Wgt	Total Return	Contrib Return
Conviction			
High: 1.0-2.0	53.60	4.05	2.15
Above Average: 2.5	31.44	1.71	0.58
Average / Low: 3.0-5.0	12.75	-2.92	-0.33
Cash	2.16	1.94	0.03
Total	100.00	2.63	2.63
LCVS Composite - Gross		2.70	
LCVS Composite - Net		2.66	
Russell 1000 Value Index		2.14	

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. Attribution is shown gross of fees. Attribution assesses conviction daily; conviction determinations are made by River Road and are subject to revision. Stocks without a reported conviction (e.g., corporate reorganizations, mergers, acquisitions, dissolutions) are not presented. Except for the composite performance, information is based on a representative portfolio within the strategy. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group. All representative portfolio information is supplemental to the composite presentation. Please see appendix for additional disclosures.

Q1 2025

	LCVS			Russell 1000 Value			Attribution Analysis		
	Avg Wgt	Total Return	Contrib Return	Avg Wgt	Total Return	Contrib Return	Allocat Effect	Select Effect	Total Effect
GIICS Direct Sector									
Consumer Staples	17.59	18.31	2.95	7.87	5.38	0.37	0.26	2.08	2.34
Information Technology	--	--	--	9.19	-5.70	-0.50	0.73	--	0.73
Real Estate	3.99	14.95	0.53	4.67	2.58	0.10	0.00	0.48	0.48
Industrials	10.61	-4.40	-0.43	14.54	-2.89	-0.37	0.19	-0.14	0.05
Utilities	2.23	4.21	0.15	4.63	6.19	0.27	-0.19	-0.04	-0.22
Health Care	16.30	4.65	0.64	14.47	6.38	0.87	0.02	-0.29	-0.27
Materials	6.29	-4.56	-0.26	4.22	1.67	0.08	-0.01	-0.37	-0.39
Communication Services	1.37	-17.39	-0.24	4.35	6.96	0.27	-0.17	-0.31	-0.48
Energy	4.54	1.72	0.11	6.80	9.46	0.67	-0.19	-0.33	-0.52
Consumer Discretionary	13.39	-4.73	-0.66	6.02	-4.49	-0.28	-0.53	-0.00	-0.53
Financials	21.52	-0.68	-0.20	23.24	2.74	0.65	-0.03	-0.74	-0.77
Cash	2.16	1.94	0.03	--	--	--	0.08	--	0.08
Unassigned	--	--	--	--	--	--	--	--	--
Total	100.00	2.63	2.63	100.00	2.14	2.14	0.17	0.32	0.49
Gross Composite / Index		2.70			2.14				
Net Composite		2.66							

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. Attribution is shown gross of fees. Except for the composite performance, information is based on a representative portfolio within the strategy. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group. All representative portfolio information is supplemental to the composite presentation. Please see appendix for additional disclosures.

What worked...

The largest positive contributor this quarter was **BJ's Wholesale Club Holdings Inc. (BJ)**, a warehouse club operator with 250 locations across 21 U.S. states, serving over 7.5 million members with a value-driven assortment of groceries, general merchandise, and fuel. **For 25 consecutive years, BJ's has delivered membership fee income growth**, a testament to its sticky, recession-resilient model, with these fees now comprising ~50% of EBITDA – providing a high-margin, predictable cash flow stream. **Private label penetration has climbed to 26% (targeting 30%)**, boosting margins and member savings, while CEO Bob Eddy's push to **accelerate new club openings from a historical 1-2 to 10-12 annually is unlocking scale and market share gain opportunities**. This potent combination of membership durability, margin expansion, and unit growth positions BJ's as a compounding machine, with its value proposition poised to gain wallet share in a potential economic slowdown.

In Q4 2024, BJ's delivered robust results, propelling its outperformance, as comparable sales excluding fuel rose +4.6%, **fueled by 3% traffic growth** and standout performances in perishables (+4%) and general merchandise (+5%), the latter reflecting assortment enhancements in electronics and toys. **Membership reached a record 7.5 million, with a 90%**



renewal rate and +7.9% fee income growth to \$117 MM, underpinned by digital engagement (+26% comp growth) and three new club openings, including the milestone 250th location in Louisville, KY. Despite a modest 10 bps merchandise margin dip from pricing investments, **the flywheel of traffic, membership, and unit expansion continues to spin faster** – yet BJ's trades at 12.5x forward EV/EBITDA, a steep discount to Costco's 31x, offering compelling upside as its value proposition strengthens.

Another top contributor was **Elevance Health Inc. (ELV)**, the nation's second-largest managed care organization by medical membership, overseeing 45.6 million members with a sprawling network of health benefits and services spanning medical, dental, vision, and pharmacy offerings. **We are drawn to ELV's local dominance** – akin to mini-monopolies in 14 core markets where it commands ~35% share – **coupled with its national scale**, making it the lowest-cost provider in ~70% of its footprint; this cost advantage fuels a virtuous cycle of savings passed to members, driving retention and attracting new enrollments. The company's proven ability to deliver double-digit EPS growth, with management reiterating confidence in at least +12% annual growth, underscores its operational excellence. In the large cap space, it is rare to find such a consistent EPS grower with a compelling long-term outlook trading at 11x 2026 EPS estimates – **a disconnect that amplifies its appeal**.

In Q4 24, ELV faced Medicaid redeterminations and a heightened medical utilization environment, yet its resilience drove strong performance. Higher costs from re-joiners – members returning sicker after coverage lapses – spurred an “unprecedented” mix shift and lagging rates led to cost mismatches. Beginning in the second half of 2025, higher **rates should begin to align with costs as states lean on ELV's expertise in managing Medicaid populations**. Despite a Q4 24 full-year MLR headwind of ~150 bps and flat EPS, **ELV repurchased 4.5 million shares for \$1.8 B (~2% of shares outstanding) at ~\$400/share and raised the dividend +4.9%**, reinforcing management's confidence in at least mid-single-digit EPS growth for 2025 and returning to +12% EPS growth longer term.

Another top contributor was **Berkshire Hathaway Inc. (CI B) (BRK.B)**, a collection of diverse businesses, including world-class operations in insurance, railroads, utilities, and manufacturing machines, with a large float for Warren Buffett to deploy. BRK.B's insurance operations stand out for their disciplined approach, underwriting only profitable policies and patiently waiting for attractive opportunities to deploy capital – a strategy that mirrors the patience and selectivity of smart investing. Buffett has strategically sought out and invested in businesses like GEICO and BNSF that inherently possess **sustainable competitive advantages, strong pricing power, and consistent earnings**, while his substantial share repurchases, totaling \$70.6 B from 2020 to 2024, and his massive personal investment – holding the vast majority of his net worth in BRK – **exemplify his commitment to enhancing shareholder value**. With a +19.9% per annum stock price increase from 1965 to 2024 versus +10.4% for the S&P 500, BRK.B aligns with our focus on **long-term value creation through proven owner-operators**.

In Q1 2025, BRK.B delivered exceptional performance, driven by a robust insurance segment, particularly GEICO's **remarkable turnaround under Todd Combs' leadership, which Buffett praised for significantly increasing efficiency and modernizing underwriting practices, resulting in GEICO's lowest combined ratio since at least 2007** at 81.5% in FY 24. Higher investment income from redeployed cash and contributions from Berkshire Hathaway Energy, alongside a +3.2% quarter-over-quarter increase in book value per share, further propelled the stock's strong performance. Notably, BRK.B ended 2024 with **cash representing approximately 29% of total assets, the highest level since at least 2000** and well above the historical average of 13%, positioning the company exceptionally well to capitalize on future market opportunities.

What didn't work...

The top negative contributor was **KKR & Co. Inc. (KKR)**, a leading global alternative asset manager. Institutions have relied on KKR's exceptional investment expertise for nearly five decades, drawn to its ability to deliver across private equity, infrastructure, real estate, credit, and liquid strategies. **The company's assets under management have grown at an 18% CAGR since 2010, with management fees compounding at +25% over the same period**, reflecting a broadening product lineup that now serves both institutional and retail investors. **Over 40% of its assets sit in perpetual vehicles**, ensuring remarkable stability, while **insiders own 36% of the company** and we believe a

Q1 2025 Top Contributors

Symbol	Company	Total Return	PCAR
BJ	BJ's Wholesale Club Holdings Inc.	27.61	1.66
ELV	Elevance Health Inc.	18.40	0.47
BRK.B	Berkshire Hathaway Inc. (CI B)	17.23	0.45

Q1 2025 Bottom Contributors

Symbol	Company	Total Return	PCAR
KKR	KKR & Co. Inc.	-21.75	-1.08
LULU	lululemon athletica Inc.	-25.98	-0.85
GPN	Global Payments Inc.	-12.39	-0.51



fortress balance sheet – with slight net debt dwarfed by massive illiquid investment holdings poised to yield significant dividends – anchors its resilience.

In Q1 25, KKR's stock weakened despite strong fundamentals, as alternative asset managers like KKR tend to mirror the broader market's direction with amplified swings, a trend exacerbated this quarter. **Management fees rose +15% year-over-year, fee-related earnings jumped +24%**, and Q4 2024 fundraising hit \$27 B, marking the start of a fundraising "super-cycle" – with only 15% of 2024's \$114 B from flagship funds – yet some softness tied to a modest convertible preferred offering to bolster Strategic Holdings, the company's distinctive Berkshire Hathaway-esque strategy to let PE investments compound, unsettled investors amid a choppy backdrop. **We see compelling long-term potential in KKR's dry powder across funds, pristine balance sheet, Asia PE foothold with unmatched growth prospects, emerging retail channel, and 80% of funds still scaling to peak economics.**

Another bottom contributor was **lululemon athletica Inc. (LULU)**, a premium athletic apparel brand renowned for pioneering the athleisure trend with its innovative technical fabrics and accessories. **Its tightly controlled distribution model – 90% of sales through company-owned channels – ensures exceptional brand integrity and pricing power**, driving a +24% revenue CAGR over the past five years and sustained 40%+ returns on invested capital. The growth track record shines brightest in the international segment, with a +41% CAGR since 2019, particularly in China, while the men's segment (+27% CAGR since 2019) adds further momentum. We believe **a rock-solid balance sheet and aggressive share repurchasing amplify its appeal as a long-term compounder.**

LULU stumbled in Q1 2025 as **it was weighed down by a softening U.S. market** where declining mall traffic and negative same-store sales signaled broader economic headwinds. Despite strong China growth (+48% in Q4) and promising innovations like *Lulu Linen* and *Daydrift*, Americas growth slowed to +3% in Q4 (+15% in the U.S.), with FY 25 guidance projecting low-to-mid single-digit growth with the U.S. up "modestly for the year" amid rising SG&A costs. Proposed Trump administration tariffs (30-50%) on Southeast Asian suppliers, particularly Vietnam, loomed large, but we expect Vietnam to negotiate relief, and **LULU's pricing power and high gross margins should mitigate impacts, bolstered by a strong balance sheet, with the stock closing the quarter near an enticing 10x NTM EBITDA.**

Another bottom contributor this quarter was **Global Payments Inc. (GPN)**, a leading payments technology company for approximately four million merchant locations and more than 1,500 financial institutions across more than 170 countries. The firm's merger with Total Systems Services in 2019 bulked up its acquiring business and added critical scale, as once a payment platform is established, there is little incremental cost to additional transactions. We appreciate the **firm's three-to five-year contracts with significant switching costs, high retention rates (85%), and long customer tenure (80 months)**. The business generates consistent free cash flow, which management has rightly applied to **deleveraging the balance sheet and opportunistic buybacks.**

In Q1 25, GPN's stock lagged as its Q4 24 results missed consensus expectations on both revenue and EPS, while 2025 guidance also fell short of market forecasts. Despite stable merchant metrics (POS and Integrated/Embedded segments grew high single-digits, and Issuer Solutions saw sequential transaction volume improvement), **investors were frustrated by the lack of growth acceleration amid operational changes like the Genius rebrand and salesforce realignment**, as well as a notable FX headwind impacting guidance. Trading at an undemanding 8.3x 2025e P/E with leverage trending down, the stock's potential for +10-15% EPS growth over several years is overshadowed by investor skepticism, contributing to its negative performance this quarter.

Portfolio positioning...

As of March 31, the portfolio held **27** positions, down **2** positions from Q4. During Q1, the largest sector increase was **+681 bps** within Health Care, while the largest decrease was **-363 bps** within Consumer Staples. We established **2** new positions, received **1** spinoff position, and eliminated **5** positions.

GE Healthcare Technologies Inc. (GEHC, 2.0 conviction) is discussed below as the largest new position.

Q1 2025	
Established	Eliminated
GE Healthcare Technologies Inc.	Millrose Properties Inc. (CI A)
Restaurant Brands International Inc.	Nestle S.A. Sponsored ADR
	Starbucks Corp.
	United Parcel Service Inc. (CI B)
	Vail Resorts Inc.

Another new position in Q1 was **Restaurant Brands International Inc. (QSR, 2.5 conviction)**. QSR is one of the largest quick-service restaurant companies in the world, operating under four major brands: Tim Hortons, Burger King, Popeyes, and Firehouse Subs. **The company employs a capital-light franchise model, with 95% of its locations being franchises, allowing for significant global scale.** The three primary concepts are the #1 or #2 player in their respective categories, boasting attractive unit-level profitability that draws in top-performing operators, thus enhancing operational performance and unit growth. Tim Hortons, the largest concept, has 25% market share in Canada. **We view the international segment**



as QSR's crown jewel with higher margins and growth. We purchased the shares at 12x NTM EV/EBITDA, over a 30% discount compared to peer multiples.

During the quarter, we eliminated **Nestle S.A. Sponsored ADR (NSRGY, 2.0 conviction)** as the company struggled post-COVID to align rising volumes and prices. **The abrupt dismissal of CEO Mark Schneider in 2024, coupled with uncertainties around GLP-1 drug impacts and shifting bargaining power from brands to retailers, raised concerns about deeper challenges ahead.** We sold the stock as it approached our reduced assessed valuation, reallocating the proceeds to better risk/reward opportunities. Regrettably, **our past success with NSRGY fostered complacency, turning a once-significant positive portfolio contribution to active return (PCAR) into a negative PCAR by the time we eliminated the position.** This experience underscores a key lesson: **even our most successful investments and highest conviction positions (NSRGY once rated as 1.0 conviction) evolve, requiring us to constantly challenge our convictions, thesis, and assessed values.**

We sold **Starbucks Corp. (SBUX, 2.5 conviction)** during the quarter as its price exceeded our assessed value. The stock surged +20% after former Chipotle CEO Brian Niccol was named CEO. **While we remain optimistic about a turnaround and strategic options for the China segment, we exited the stock above its assessed value because we believe the stock's rally outpaced the fundamental results.** SBUX generated a positive PCAR.

We eliminated **United Parcel Service Inc. (CI B) (UPS, 3.0 conviction)** during the quarter as the investment thesis failed. **Amazon announced a strategic shift in strategy to reduce UPS volumes by -50%,** prioritizing its internal delivery network. Although Amazon's business carries low margins, UPS' high operating leverage model amplifies the impact of such volume declines. With no near-term recovery in sight, we decided to exit the position, incurring a small PCAR loss. We are not interested in proving to the market our intellectual prowess by hoping for a turnaround. **We would rather maintain intellectual honesty and admit our mistake.** Our decisive actions **resulted in a loss and did not dampen our willingness to take calculated risk in the future, and our intellectual curiosity allowed us to quickly redeploy the capital to better risk/reward opportunities.**

We eliminated **Vail Resorts Inc. (MTN, 3.0 conviction)** during the quarter, as **we lost confidence in the management team** and the enduring qualities of the business. Additionally, we questioned management's decision to allocate capital toward less attractive international expansion while the stock traded at a depressed multiple. Furthermore, a mismanaged ski patrol strike during a peak weekend triggered a public relations crisis. Lastly, **we grew wary of the company's elevated leverage and worse-than-expected visitation declines, exacerbated by price hikes.** We sold the position and realized a negative PCAR.

We eliminated **Millrose Properties Inc. (CI A) (MRP)** during the quarter. We received MRP from current holding Lennar Corp. (CI A) (LEN) as a spinoff and decided to exit the stock because its business model is vastly different than LEN.

	12/31/2024		3/31/2025				
GICS Sector	LCVS	R1V	LCVS	Change from 12/31	R1V	Change from 12/31	Over / Under
Health Care	14.0%	14.2%	20.8%	6.8%	14.8%	0.6%	6.1%
Financials	22.0%	23.1%	20.7%	-1.3%	23.2%	0.2%	-2.6%
Cons Staples	18.5%	7.9%	14.8%	-3.6%	8.2%	0.2%	6.7%
Cons Disc	15.3%	6.2%	13.4%	-1.9%	5.8%	-0.5%	7.7%
Industrials	9.4%	14.7%	11.7%	2.3%	14.1%	-0.7%	-2.4%
Materials	6.1%	4.2%	5.7%	-0.4%	4.2%	0.0%	1.5%
Energy	4.5%	6.7%	4.5%	-0.1%	7.1%	0.4%	-2.6%
Real Estate	4.1%	4.7%	3.8%	-0.3%	4.7%	0.0%	-1.0%
Utilities	3.2%	4.6%	2.0%	-1.2%	4.8%	0.2%	-2.8%
Comm Svcs	1.9%	4.4%	1.3%	-0.7%	4.5%	0.2%	-3.3%
Info Tech	—	9.3%	—	—	8.7%	-0.6%	-8.7%
Cash	1.0%	—	1.4%	0.4%	—	—	1.4%
Total	100.0%	100.0%	100.0%	—	100.0%	—	—

Information is based on a representative portfolio within the strategy. Sector classifications are defined by GICS. Stocks without a reported sector are not presented.

	3/31/2025				
GICS Sector	LCVS	# of Holdings	Avg Pos Size	Wtd Avg % of AV	Wtd Avg Conviction
Energy	4.5%	2	2.2%	69.8%	3.5
Cons Disc	13.4%	5	2.7%	73.1%	2.5
Materials	5.7%	1	5.7%	74.6%	1.5
Comm Svcs	1.3%	1	1.3%	78.1%	2.0
Industrials	11.7%	3	3.9%	79.5%	2.4
Utilities	2.0%	1	2.0%	79.9%	2.5
Health Care	20.8%	5	4.2%	80.9%	2.3
Financials	20.7%	5	4.1%	84.1%	2.1
Real Estate	3.8%	1	3.8%	87.3%	2.5
Cons Staples	14.8%	3	4.9%	96.6%	1.7
Info Tech	-	-	-	-	-
Cash	1.4%	-	-	-	-
Total	100.0%	27	-	82.0%	2.2

Information is based on a representative portfolio within the strategy. Sector classifications are defined by GICS. Stocks without a reported sector are not presented.



New purchase...

The largest new position added during the quarter was the following:

- **GE Healthcare Technologies Inc. (GEHC)**

GE Healthcare Technologies Inc. (GEHC), a stock we previously owned with a positive PCAR, is a global leader in medical technology, pharmaceutical diagnostics, and digital solutions. It anchors the healthcare ecosystem with a **four-million-device installed base** and operates across four segments: Imaging (**45% of FY 24 sales**), Advanced Visualization Solutions (AVS) (**26%**), Patient Care Solutions (PCS) (**16%**), and Pharmaceutical Diagnostics (PDx) (**13%**). With a **century-long legacy**, GEHC serves over 160 countries through 10,000 sales professionals, 8,500 field engineers, and 43 manufacturing sites in 17 nations. Chairman **Lawrence Culp Jr.** (61), a distinguished leader with a proven track record at GE and Danaher, and CEO Peter Arduini (60), a 15-year GEHC veteran appointed in June 2021, lead the charge. Spun off from General Electric in January 2023, GEHC is headquartered in Chicago, IL.

GEHC holds the **#1 position in Ultrasound and Imaging** – markets growing +4-7% through 2025 and projected to sustain +4-5% growth through 2030 – buoyed by demographic shifts and precision health trends. Its **45% recurring revenue stream**, tied to servicing its installed base, imaging agents, and software, provides a strong foundation for consistent performance. Innovation drives growth, with R&D at 5-6.5% of sales fueling 50% of 2024 revenue from products launched in the last three years, including 85 FDA-authorized AI solutions. GEHC is the only vertically integrated diagnostic manufacturer, pairing devices with imaging agents to create synergies and customer stickiness. Its global service capabilities, with 8,500 field engineers, ensure reliable support and deepen client relationships across 160 countries.

Execution is hitting new highs: Q4 2024 delivered a **record backlog**, **+6% organic order growth**, and a **1.09x book-to-bill ratio**. U.S. strength (44% of sales) offset China softness, driving +4-5% ex-China growth. This durability, underpinned by recurring revenues, a leading market position, unique integration, and robust service offerings, positions GEHC for **sustainable growth**, with a **long runway** in expanding healthcare markets driven by aging populations, the rise of precision health, and consistent new product introductions.

Financial strength is a cornerstone. GEHC sports an **investment-grade balance sheet** (Baa2/BBB), with leverage at a lean **1.6x TTM EBITDA**, ample liquidity, and a coverage ratio above **4.5x**, insulating it from rate shocks with **90% fixed-rate debt** at 6%. Free cash flow remains robust and supports tuck-in M&A, like the 2021 \$1.45 B acquisition of BK Medical, a leader in surgical visualization that expands GEHC's ultrasound capabilities. Risks include volatile hospital capex cycles, which contribute to the 55% of revenues from non-recurring sources, though U.S. demand remains supportive – half of customers expect incremental imaging investments, particularly in outpatient settings; a large international exposure (55% of sales, with 11% from China, introducing F/X and geopolitical risks); and the highly scrutinized nature of healthcare spending. We believe these are mitigated by **recurring revenues, a strong backlog, and GEHC's market leadership**.

Shareholder orientation rounds out the story. The GE overhang – once a drag – vanished by November 2024 as GE sold its remaining stake in GEHC, removing selling pressure and enabling GEHC to trade on its fundamentals. **Culp's proven track record in capital allocation and operational expertise** inspires confidence. At Danaher, he delivered stock returns that beat the S&P 500 by ~550 bps per year over his 14-year tenure, through disciplined M&A and lean management; at GE, he spearheaded a turnaround that reduced debt by over \$100 B through strategic divestitures and operational improvements, later focusing on GEHC and GE Aerospace as Chairman of both post breakup, though the team's brief standalone history is a caveat. As a recent spinoff, GEHC remains an underappreciated opportunity, trading at a ~25% discount to peer multiples – partly due to its spinoff status and skepticism about growth – with its dominance in Ultrasound and Imaging driving value. We believe GEHC's **strongest-ever backlog**, recurring revenue stability, and off-the-beaten-path status position it well for sustained growth – poised to deliver as execution and fundamentals align.

GEHC is followed by **River Road Senior Equity Research Analyst Allen Harris, CFA**.

OUTLOOK

Fiscal policy (i.e., tariffs) promises to be painful in the short run, and any relief may be slow to arrive

Last quarter we noted, that **“fiscal policy could produce erratic effects in 2025,”** and **President Trump wasted little time proving this to be an understatement.** ‘Liberation Day’ kicked off a period of historic volatility as single social media posts proved capable of swinging markets wildly. The VIX spiked to levels not seen since COVID. The three-year SOFR swap spread, a gauge of financial stability, collapsed, and the intra-day swings in the equity markets were staggering to behold. At the time of writing, President Trump has backed down from the broad imposition of tariffs, noting that more than 75 countries have come to the negotiating table. However, he continued to ratchet up the pressure on the one country which has so far failed to cooperate – China. To date, China has vowed to “fight to the end” and retaliated, spurring a rapid



tit-for-tat escalation in tariff rates that is the trade war equivalent to a nuclear exchange. Unless one side backs down very quickly, the decoupling that started in 2018 could build tremendous momentum, even if the tariffs are reversed in the coming months. **Business leaders across the U.S. and China cannot afford to be blasé about a capricious trade policy that results in >100% tariffs.** In the end, the entire global supply chain has been put into a state of flux, and inputs will be more expensive as a result. Fortunately, we doubt this will be the final word for fiscal policy in 2025 as changes in income tax rates and/or regulatory relief could eventually provide a positive offset to tariffs. However, **any positive impacts that such relief would bring will do little to offset the “pain” of tariffs in the short run.**

The Fed was seemingly unmoved by the chaos in fiscal policy and equity markets; will wait for the dust to settle?

While we can be sure that the events of early April did not go unnoted in the halls of the Federal Reserve, to all outward appearances, Fed officials were content to focus on economic data and watch events unfold. As we discussed last quarter, **“the Fed faces considerable challenges [in 2025].”** As was so aptly demonstrated in recent days, unlike tax or regulatory shifts which typically must wind their way through the legislative process, **tariffs are a fiscal policy tool that can be very quickly enacted and retracted by a single individual**, and their impact is quickly felt. Fed officials are acutely aware of this and **demonstrated their resolve to wait for the process to play out and respond to fallout** rather than step in early **and perhaps wrongly**. We do not expect the Fed will rush in to save the day as long as the chaos is isolated to equity markets, but it will likely act if employment data takes a turn for the worse and inflation remains tame.

Sentiment turns negative

Following the election, sentiment was a bright spot in our outlook. The NFIB Small Business Optimism index posted a record increase, the CEO Confidence Index turned positive, and the University of Michigan Consumer Sentiment Index saw a sharp uptick. While we remained cautious about the combination of high valuations and bullish investor sentiment, we felt the broadly optimistic mood among businesses and consumers was an encouraging signal for the economy.

However, **sentiment indicators eroded quickly in Q1 amid growing concerns over tariffs and a potential recession**; the Conference Board’s consumer confidence index declined for a fourth consecutive month, falling to its lowest level since January 2021, while the University of Michigan’s preliminary consumer sentiment reading plunged to 57.7 – down double-digits since February and marking its lowest point since November 2022. **The one silver lining came after Liberation Day, when investor sentiment reached crisis-level lows, creating the conditions for the sharp rebound on April 9.**

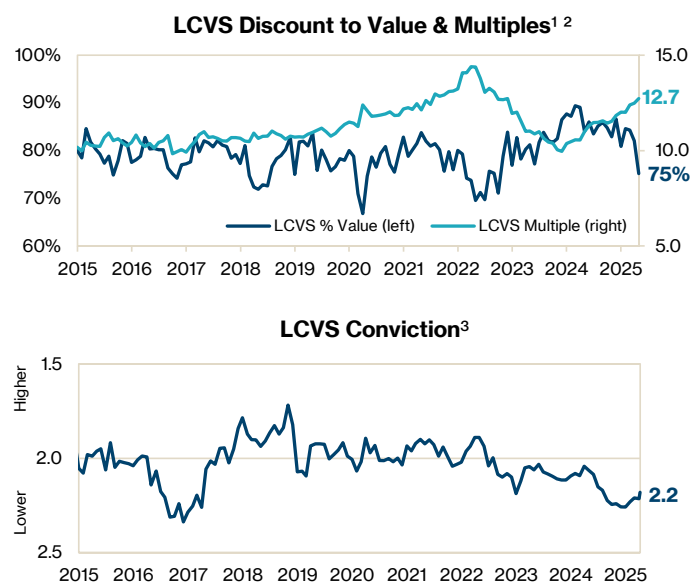
Value stocks outperformed yet remain reasonably priced versus growth

According to Jefferies, at the end of Q1, the Russell 1000 traded at a forward P/E of **20.7x**, a **26%** premium to its long-term average, while the Russell 2000 traded at **17.5x**, just a **5%** premium to its long-term average. Large caps are trading at an **+18%** premium to small caps.

While value outperformed growth in Q1, value stocks continue to look more reasonably priced on an absolute and relative basis. The forward P/E for the Russell 1000 Value trades at **13.6x**, in line with the index’s long-term average of **13.4x**. However, other valuation metrics suggest the Russell 1000 Value is more expensive compared to historical averages. The price to cash flow ratio for the index is **18.9x** compared to the historical average of **11.9x**, and the price to sales ratio is **2.0x** versus the historical average of **1.3x**. As for the Russell 1000 Growth, despite growth underperforming in the quarter, it continues to appear significantly overvalued across a variety of valuation methodologies, with valuations ranging from 19.7% to 61.1% above long-term averages. For instance, the price to cash flow for the Russell 1000 Growth is **21.8x**, which is **+25.8%** higher than the long-term average. The forward P/E for the Russell 2000 Value is just **+6.9%** higher than the index’s long-term average.

Internal valuations and conviction improved

Portfolio valuations improved in Q1. The discount to value for the portfolio’s holdings increased to **82%** at



Preliminary charts are shown through **April 8, 2025**. Information based on a representative portfolio within the strategy. Assessed valuation, multiple, and conviction determinations are made by River Road and are subject to revision. Conviction: 1.0 = highest; 5.0 = lowest. ¹Monthly weighted average price percent of assessed valuation of all portfolio holdings. ²Monthly weighted average multiple; excludes Financials sector and companies with non-cash flow-based valuations. ³Monthly weighted average conviction rating.



the end of the quarter but decreased to 75% on April 8. **The decrease in the discount to value was driven by the market decline through April 8.**

In Q1, we focused on **rebuilding positions in high-conviction stocks** previously trimmed for valuation reasons and increased new investments to target weights. We funded these by **exiting positions with weakened theses** (discussed above) and **trimming stocks resilient in the post-quarter sell-off**. We are focusing on health care and industrials for their strong risk/reward profiles, prioritizing companies with robust balance sheets. We remain open to cyclical firms with solid financials and savvy management teams that can capitalize on market dislocations. **Our emphasis is on resilient business models with stable revenue streams, like those driven by replacement cycles, locked-in assets, loyal customer bases, or membership fees.**

In summary, we remain cautious due to fiscal and Fed policy uncertainty, with potential tariff risks likely outweighing tax and regulatory benefits. We expect Fed intervention only if the economy, especially jobs, weakens significantly. Positively, portfolio valuations have improved since Q1 24 peaks. Rising rates, inflation, tight labor markets, a late-cycle economy, disappointing earnings, and a wide growth-to-value valuation gap **suggest a potential shift favoring value stocks over growth.**

We believe the portfolio reflects a **balanced mix of value, quality, and attractive growth**. According to FactSet, the portfolio trades at 11.5x EV/EBITDA compared to the Russell 1000 Value's multiple of 13.0x. The portfolio also demonstrates higher quality with a five-year average return on equity of 16.5% versus 15.9% for the benchmark. Furthermore, the portfolio's expected long-term growth (as measured by published long-term estimates) is healthy at 10.8% versus the benchmark's 8.3%. **We believe the strategy is well positioned to navigate an uncertain market.**

Thank you for investing with River Road!

- **April 16, 2025**



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The Large Cap Value Select composite was created and inceptioned on November 1, 2014.

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