

OBJECTIVE OF THE STRATEGY:

The strategy seeks to provide long-term capital appreciation and income by investing primarily in U.S. companies with market capitalizations similar to companies in the Russell Midcap Index, and which managers believe are undervalued in the market place at the time of purchase.

MID-CAP VALUE EQUITY STRATEGY

+ Dividend orientation

+ Valuation approach

+ Positive catalysts

WHAT PRINCIPLES HAVE ENABLED THE STRATEGY TO BE SUCCESSFUL?

Dividend orientation – dividends are a good indicator of management’s confidence in the earnings potential of the company. Dividends also provide an important source of total return and lower overall volatility. Ceredex only invests in companies that pay a dividend.

Valuation approach – analyze valuation relative to peers, the industry, the market, and the company’s own historical valuation. Key in on those companies that are in the lower third of their own historical valuations.

Positive catalysts – look for catalysts that have the potential to drive meaningful price appreciation over a 12- to 24-month time frame. Positive catalysts could include management changes, restructuring, or new product introductions.

HOW IS THE INVESTMENT PROCESS IMPLEMENTED?

SCREENS

Initial screens narrow the universe of stocks to those that:

- Pay dividends
- Have market capitalizations similar to the Russell Midcap Index companies
- Are actively traded

VALUATION

Valuation approach looks at:

- Valuation relative to historical value
- Valuation vs. peers, industry and markets
- Specific valuation metrics, like price-to-book and price-to-sales

FUNDAMENTALS

Fundamentals analysis includes:

- Financial Statements – balance sheet, income statement, cash flow statement
- Catalysts – management change, new products, restructuring, etc.

BUILD AND MONITOR

Portfolio of 60-80 stocks that pay dividends, have attractive valuations, and have catalysts for price appreciation

Quantitative screens – the team identifies companies that pay dividends, have market capitalizations similar to the companies in the Russell Midcap Index, and are actively traded.

Absolute and relative valuations – the team looks for companies that have attractive valuations: (1) relative to their own historical value, (2) relative to their peers, the market and the industry, and (3) based on specific valuation metrics, like price-to-book and price-to-sales.

Fundamental analysis – the team does in-depth analysis of financial statements to ensure that companies are financially sound. In that analysis, the team looks for companies that have improving fundamental characteristics. They also determine whether catalysts are in place to drive growth.

Build and monitor – the portfolio manager constructs a portfolio of companies that pay dividends, are in the lower third of their historical valuation, and have a positive catalyst. If a company stops paying a dividend or its catalyst isn’t leading to meaningful change, the team may replace the stock with one that meets their stringent requirements.

Past performance is no guarantee of future results. There is no guarantee this strategy will work for you.

INVESTMENT CONSIDERATIONS

Stocks are more volatile and carry more risk and return potential than other forms of investments. Value-based investments are subject to the risk that the broad market may not recognize their intrinsic value. Mid-capitalization stocks typically carry additional risks as smaller companies generally have a higher risk of failure.