

# Portfolio Commentary

## Mid-Cap Value Equity

### MARKET REVIEW

Rapid surges in 10-year U.S. Treasury yield, the U.S. dollar, and oil prices dramatically changed the market landscape during the third quarter as investors began pricing in expectations for a "higher for longer" interest rate environment. U.S. value stocks generally moved lower, with interest rate sensitive and cyclical sectors suffering the largest declines. The Russell Midcap® Value Index fell 4.46% in the quarter. The largest sector losses were in communication services (-10.02%), healthcare (-9.91%), and consumer staples (-8.82%). Energy (+12.53%) and financials (+1.04%) were the only sectors to gain in the period.

The quarter ended much differently than it began, when markets were largely optimistic that the Federal Reserve (Fed) might soon shift into an easing cycle after orchestrating a soft economic landing. However, that optimism began to shift in August and then sharply faded in September as the Fed made it clear that it planned to maintain its hawkish bias given that inflation had moderated but continued to remain at uncomfortable levels. The U.S. economy appeared largely to shrug off the prospects of prolonged higher rates and continued to grow at a modest pace, supported by a cooling but still-healthy job market and resilient consumer spending.

### PERFORMANCE

The Ceredex Mid-Cap Value Equity Composite returned -4.00% gross/-4.19% net for the quarter, outperforming the Russell Midcap Value Index's return of -4.46%. Top performance contributors included: healthcare stock selection, due to the strong performance of health insurance company Humana; an overweight in financials, primarily focused on property and casualty insurers; a zero-weight position in communications services, a sector that we have not found compelling value potential in for quite some time; and information technology stock selection, on the strong performance of Dell Technologies (discussed below).

The largest performance detractors included: overweights and stock selection in consumer staples and utilities, which both generally are more interest rate-sensitive sectors that face valuation pressure when yields rise; and real estate stock selection, given our preference for higher-quality, higher-yielding real estate investment trusts (REITs) that tended to suffer more in the runup of U.S. Treasury yields.

Dell Technologies and Hess were among the strongest stock contributors to relative performance.

- Computer hardware company Dell Technologies surged on higher-than-expected earnings and revenue driven by rebounding demand and booming interest in artificial intelligence (AI) solutions. The firm increased its full-year forecast on the favorable tailwinds. We continued to hold the stock based on its strong fundamentals and upbeat outlook.
- Oil and gas producer Hess rose on earnings strength from higher production volumes and overall energy sector momentum. We added to the position as we see room for additional gains given the company's continued new oil discoveries and investment in oil-rich Guyana.

### Portfolio Characteristics

	Strategy	Benchmark
Market Cap (\$b)	27.4	20.4
Dividend Yield (%)	2.1	2.2
Price-to-Earnings (FY1)	16.8x	14.3x
Price-to-Book	2.0x	2.0x
Price-to-Sales	1.6x	1.4x
Std. Dev. (3 yr) (%)	18.22	19.58
Beta (3 yr)	0.91	1.00
Std. Dev. (5 yr) (%)	21.65	22.15
Beta (5 yr)	0.96	1.00

Portfolio characteristics are based on gross returns where applicable. See net returns presented on performance comparison page with regulatory required time periods.

### Top Contributors<sup>1,2</sup> (%)

	Average Weight	Relative Attribution
Dell Technologies, Inc. Class C	1.7	0.5
Hess Corporation	2.9	0.4
Humana Inc.	2.6	0.4
First Citizens BancShares, Inc. Class A	2.4	0.2
Allstate Corporation	2.9	0.2
Jefferies Financial Group Inc.	1.6	0.2
Avery Dennison Corporation	2.0	0.2
Baker Hughes Company Class A	1.3	0.2
Chesapeake Energy Corporation	2.3	0.2
Emerson Electric Co.	1.5	0.2

### Top Detractors<sup>1,2</sup> (%)

	Average Weight	Relative Attribution
Equifax Inc.	2.3	-0.3
Extra Space Storage Inc.	2.4	-0.3
Universal Health Services, Inc. Class B	0.6	-0.2
Power Integrations, Inc.	1.3	-0.2
Target Corporation	0.7	-0.2
Kenvue, Inc.	1.3	-0.2
Macy's, Inc.	0.7	-0.2
Zimmer Biomet Holdings, Inc.	1.4	-0.2
U.S. Bancorp	0.9	-0.2
SBA Communications Corp. Class A	1.9	-0.1

Relative attribution: excess return relative to the benchmark, limited to stocks held in the portfolio.

### Top 10 Holdings<sup>1</sup> (% of Portfolio)

Humana Inc.	3.1
Hess Corporation	3.0
Allstate Corporation	3.0
Chesapeake Energy Corporation	2.9
Revvity, Inc.	2.7
First Citizens BancShares, Inc. Class A	2.7
Equifax Inc.	2.6
Willis Towers Watson Public Limited Company	2.6
L3Harris Technologies Inc	2.5
Extra Space Storage Inc.	2.5

All data as of 09/30/23. Source: FactSet.

<sup>1</sup> See Holdings Disclosure on page 3.

<sup>2</sup> The contributors/detractors listed do not represent all securities purchased or sold for our clients. To obtain a list showing the contribution of each holding that contributed to overall performance during the quarter and the calculation methodology, please call 407-674-1270. See GIPS Composite Report on Page 4.

Equifax and Extra Space Storage were among the largest stock detractors from relative performance.

- Shares of credit reporting agency Equifax fell on softening profit and lowered forward-looking guidance due to a slowdown in mortgage originations. We added to the position as we believe the stock has been oversold.
- Self storage facilities REIT Extra Space Storage lagged on lower-than-expected earnings due to the segment's increased competition, softening demand, and rising pricing pressures after coming off pandemic-era rate and occupancy growth highs. The rapid rise in interest rates also weighed on shares. We took advantage of the price weakness to add to the position given the company's strong fundamentals, attractive dividend yield, and favorable longer-term outlook, including the potential cost and scale synergies from its recent acquisition of Life Storage.

## PORTFOLIO CHANGES

New holdings included Xylem and Louisiana-Pacific. We exited Lennar and SBA Communications Corporation.

- We bought industrial water technology firm Xylem, which should benefit from increased infrastructure spending and the integration of its recent acquisition of water treatment solutions company Evoqua Water Technologies.
- We purchased building materials manufacturer Louisiana-Pacific based on its strong products, healthy balance sheet, and favorable supply/demand dynamics once current rate volatility begins to normalize.
- We sold home construction company Lennar to fund the Louisiana-Pacific purchase given the latter's more favorable valuations and risk/reward outlook with similar end-market exposures.
- We exited wireless infrastructure REIT SBA Communications Corporation due to concerns around pricing and lease rate pressures.

## ATTRIBUTION (%) AS OF 09/30/23

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	0.0	3.2	0.2	0.0	0.2
Consumer Discretionary	1.7	9.2	0.2	-0.3	-0.1
Consumer Staples	6.4	4.0	-0.1	0.0	-0.2
Energy	5.9	5.8	0.2	-0.1	0.1
Financials	21.9	16.9	0.3	-0.1	0.2
Healthcare	7.6	7.1	0.0	0.2	0.2
Industrials	20.4	18.9	0.0	0.0	0.0
Information Technology	6.8	9.6	0.0	0.2	0.2
Materials	8.8	7.8	0.0	-0.1	-0.1
Real Estate	7.8	10.1	0.1	-0.2	-0.2
Utilities	12.7	7.4	-0.1	-0.1	-0.2
Total			0.7	-0.4	0.3

Source: FactSet.

Attribution does not incorporate the effects of cash, unclassified securities, or expenses and may change at any time without notice. The total impact may not equal the difference between Portfolio and Benchmark returns.

Attribution is based on gross returns, see net returns presented on performance comparison page.

## OUTLOOK

While U.S. economic growth, employment, and consumer spending are all showing clear signs of slowing, they remain generally resilient. We expect further cooling, but the question at this point is by how much? In our view, the risk of major recession remains small, and the most likely scenario appears to be that growth will continue to drift generally lower.

With the prospect of slowing growth, we are somewhat cautious toward the value equity market. Sentiment has clearly reset, and investment opportunities seem likely to become more company specific moving ahead. Additionally, history has shown that it can take up to 18 months for the impact of interest rate increases to fully work through the economy. Still, we continue to identify companies with interesting value potential but are being more selective in the opportunities we pursue, paying very close attention to fundamentals and how companies are likely to fare in the current and emerging environment. Overall, we remain very comfortable in our portfolio's ability to navigate the slowdown, whether it ends up being a soft or hard economic landing.

**PERFORMANCE COMPARISON (%) AS OF 09/30/23**

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Mid-Cap Value Equity Composite (Gross)	-4.00	0.01	12.40	10.09	5.73	8.41
Mid-Cap Value Equity Composite (Net)	-4.19	-0.55	11.57	9.27	4.94	7.60
Russell Midcap® Value Index	-4.46	0.54	11.05	10.98	5.18	7.92

Past performance is not indicative of future results. This presentation is solely for SUPPLEMENTAL INFORMATION purposes, intended for institutional investors and may not be provided unless accompanied or preceded by the fully compliant GIPS Composite Presentation. The comparative performance contained herein reflects annualized returns for specific time period, are not indicative of actual annual returns, and may not be relied upon for investment decisions. Complete information regarding Ceredex's returns are included on the GIPS presentation on page 4. The performance inception date for the composite is 4/1/02.

Russell Midcap® Value Index is an unmanaged index which measures the performance of those securities found in the Russell Midcap universe with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index. Investors cannot invest directly in an index.

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Dividends reflect past performance and there is no guarantee they will continue to be paid.

**IMPORTANT RISK CONSIDERATIONS**

**Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small, medium, or large-sized companies may enhance that risk. **Value Stocks:** Value stocks are subject to the risk that the broad market may not recognize their intrinsic value. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended.

**For information, contact:**

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**MID-CAP VALUE EQUITY COMPOSITE 4/1/02 – 12/30/22**

Year	Gross of Fee Return (%)	Net of Fee Return (%)	Benchmark Return (%)	Number of Portfolios	Composite Dispersion (%)	3-Year Standard Deviation		Total Composite Assets at End of Period (USD Millions)	Total Firm Assets (USD Millions)
						Composite	Benchmark		
2022	-13.07	-13.73	-12.03	6	N/A	24.19	24.44	3,096	6,767
2021	30.26	29.31	28.34	7	N/A	22.25	21.95	4,446	9,548
2020	-0.22	-0.97	4.96	8	N/A	22.91	22.62	3,851	8,175
2019	34.43	33.45	27.06	8	N/A	12.80	12.79	4,600	9,062
2018	-6.84	-7.54	-12.29	10	0.04	12.02	11.96	3,149	7,722
2017	12.75	11.91	13.34	11	0.14	11.55	10.32	3,664	10,095
2016	21.40	20.51	20.00	10	0.21	12.62	11.30	3,763	10,845
2015	-4.94	-5.65	-4.78	12	0.08	11.77	10.71	4,274	10,227
2014	12.26	11.33	14.75	12	0.06	10.83	9.81	5,027	12,269
2013	32.65	31.68	33.46	12	0.15	16.52	13.69	4,432	11,693

- Compliance Statement.** Ceredex Value Advisors LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Ceredex Value Advisors LLC has been independently verified for the periods of March 31, 2008 (the date of the Firm's founding) through December 31, 2022. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.
- Definition of the Firm.** Ceredex Value Advisors LLC ("Ceredex") is an SEC-registered investment adviser and is a wholly owned subsidiary of Virtus Investment Partners, Inc. ("Virtus"). Registration of an investment adviser does not imply any level of skill or training. Ceredex manages assets for segregated accounts and pooled investment vehicles. Ceredex became an affiliate of Virtus effective June 1, 2017, when Virtus acquired RidgeWorth Capital Management LLC and RidgeWorth Investments ("RidgeWorth"). Ceredex was created March 31, 2008, when all of the investment decision-makers associated with the value equity investment strategies of RidgeWorth became employees of Ceredex. The staff and decision-making process remained intact and independent within Ceredex. For composite reporting purposes, the Firm is defined as all equity portfolios managed by Ceredex. Composite performance results are linked to performance history generated at RidgeWorth.
- Composite Description.** The Mid-Cap Value Strategy composite includes all fully discretionary accounts managed in accordance with the mid cap value style with the objective of producing long-term capital appreciation and income. Under normal circumstances, Mid-Cap Value Portfolios will have at least 80% of their net assets invested in U.S. traded equity securities of mid-cap companies. U.S. traded equity securities may include American Depositary Receipts ("ADRs"). Ceredex considers mid-cap companies to be companies with market capitalizations similar to those of companies in the Russell Midcap Index. In selecting investments for the portfolios, Ceredex chooses companies that it believes are undervalued in the market relative to the industry sector and the company's own valuation history. Key material risks: Stock prices will decline, and the composite will underperform its benchmark. The minimum portfolio size for the Mid-Cap Value Strategy composite is \$1,000,000.
- Benchmark.** The benchmark for the Mid-Cap Value Strategy composite is the Russell Midcap® Value Index. The Russell Midcap® Value Index is an unmanaged index which measures the performance of those securities found in the Russell Midcap universe with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000® Value Index. The index is calculated on a total-return basis with dividends reinvested. Index returns do not reflect the deduction of any fees or expenses.
- Returns and Fees.** Returns are calculated based on total return which (a) includes cash returns, realized and unrealized gains plus income, and reinvestment of dividends and other earnings; (b) utilizes trade date and accrual accounting; and (c) is after the deduction of actual trading fees and expenses. Portfolio returns are calculated utilizing daily valuation. Composite returns, calculated monthly, are the weighted average return of the underlying portfolios using beginning-of-period market values. Composite gross of fee returns do not reflect any deduction for investment advisory fees, custodial charges, or other costs that a client might incur in connection with the management of an account. Investment advisory fees are described in Part 2 of the firm's Form ADV. Prior to September 1, 2015, the gross of fee return for the mutual fund was calculated by adding back the fund's published total operating expense ratio to the net of fee mutual fund performance; we now use the gross of fee return of the underlying portfolio. Composite net of fee performance is calculated assuming a fee of 0.75%, the highest fee for this type of investment account.
- Fee Schedule.** The standard management fee schedule applicable to mid-cap value accounts is as follows: 0.75% on the first \$10 million, 0.65% on the next \$40 million, 0.55% on the next \$50 million, and 0.50% on all over \$100 million. The minimum annual fee is \$15,000. Actual investment advisory fees incurred by clients may vary. For further information on investment management fees, please refer to Form ADV Part 2.
- Ex Post Standard Deviation.** The three-year annualized standard deviation measures the variability of the composite gross returns and the benchmark returns over the preceding 36-month period. No three-year annualized standard deviations are reported for periods less than 3 years (shown as N/A).
- Composite Dispersion.** The dispersion of annual or YTD returns is measured by the equal-weighted standard deviation of portfolio gross returns represented within the composite for the full year or period. No dispersion is reported for periods with five or fewer portfolios (shown as N/A).
- Currency.** Valuations and returns are computed and stated in U.S. Dollars.
- Composite Creation and Inception Date.** This composite was created March 31, 2008, the inception date of Ceredex, and continues the investment strategy of a composite originally created in 2007. The composite has performance history with an inception date of April 1, 2002.
- Significant Cash Flow Policy.** Beginning March 31, 2008, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of 10% or greater of portfolio assets.
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