

# Portfolio Commentary

## Small Cap Value Equity

### MARKET REVIEW

U.S. value stocks continued their broad decline during the quarter. An impressive bear market rally in July and early August gave way to a steep slide in the last half of the period, as investors were surprised by higher-than-expected headline inflation. In reaction, sentiment quickly shifted from optimism that the Federal Reserve (Fed) might slow its pace of interest rate increases to expectations that it would remain aggressive in its current hiking cycle, increasing the risk of tipping the economy into a recession. On a bright note, corporate earnings generally remained solid, though most forward-looking expectations moved lower.

Against this backdrop, the Russell 2000® Value Index fell -4.61% for the quarter, with cyclical, longer-duration, and more interest-rate-sensitive stocks tending to suffer the sharpest losses. The Index's largest sector declines were in communication services (-14.71%), real estate (-11.37%), consumer staples (-9.80%), utilities (-9.17%), and materials (-8.97%). Only energy (+7.84%) and healthcare (+3.16%) delivered positive returns.

### PERFORMANCE

The Ceredex Small Cap Value Equity Composite's return of -2.89% gross/-3.13% net for the quarter outperformed the Russell 2000 Value Index's return of -4.61%.

Strong performance contributors included: industrials stock selection, where we had transitioned the portfolio earlier in the year to focus on companies that tend to be less volatile than pure cyclicals due to products with more resilient demand even in economic slowdowns; consumer discretionary stock selection, where we also focused on companies benefiting from strong demand that has been less sensitive to economic uncertainty; and financials stock selection, where we were positioned in banks with strong credit and increasing net interest margin spreads.

Notable performance detractors included: stock selection and an underweight position in healthcare, where we were focused more on medical technology companies; and information technology stock selection, due to our semiconductor exposure, which experienced underperformance.

First Citizens BancShares and EMCOR Group were among the strongest stock contributors to relative performance.

- Bank holding company First Citizens BancShares continued to deliver strong performance after being oversold in the first quarter when it lowered its earnings estimates. Investors have continued to grow comfortable with the revised outlook, the company's increased stock buyback program, and its recently completed merger with CIT Group. We trimmed the position given CIT's loan exposure, which may be pressured in an economic slowdown.

### Portfolio

Characteristics	Strategy	Benchmark
Market Cap (\$b)	5.1	2.1
Dividend Yield (%)	2.1	2.3
Price-to-Earnings (FY1)	11.0x	9.0x
Price-to-Book	1.9x	1.2x
Price-to-Sales	0.9x	0.9x
Std. Dev. (3 yr) (%)	23.76	26.11
Alpha (3 yr) (%)	-1.66	0.00
Beta (3 yr)	0.88	1.00
Std. Dev. (5 yr) (%)	21.76	23.19
Alpha (5 yr) (%)	0.82	0.00
Beta (5 yr)	0.90	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>1,2,3</sup> (%)	Average Weight	Relative Attribution
First Citizens BancShares, Inc. Class A	2.7	0.7
EMCOR Group, Inc.	2.8	0.5
Lennox International Inc.	3.3	0.4
Academy Sports and Outdoors, Inc.	2.1	0.4
National Instruments Corporation	1.4	0.3
Toro Company	1.7	0.3
Foot Locker, Inc.	1.2	0.2
Ovintiv Inc	2.5	0.2
Armstrong World Industries, Inc.	2.1	0.2
Cullen/Frost Bankers, Inc.	1.1	0.2

### Top

Detractors <sup>1,2,3</sup> (%)	Average Weight	Relative Attribution
Patterson Companies Incorporated	2.0	-0.3
Littelfuse, Inc.	1.5	-0.3
Power Integrations, Inc.	2.8	-0.3
MillerKnoll, Inc.	0.9	-0.3
Colliers International Group Inc.	2.1	-0.3
Interface, Inc.	1.0	-0.2
MKS Instruments, Inc.	1.5	-0.2
Minerals Technologies Inc.	1.4	-0.2
Helios Technologies, Inc.	0.8	-0.2
SLM Corp	2.1	-0.2

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

### Top 10

Holdings <sup>1</sup> (% of Portfolio)	
Lennox International Inc.	3.4
EMCOR Group, Inc.	3.1
First Citizens BancShares, Inc. Class A	3.1
Ovintiv Inc	2.7
Power Integrations, Inc.	2.6
AGCO Corporation	2.3
Stantec Inc	2.2
Academy Sports and Outdoors, Inc.	2.2
Armstrong World Industries, Inc.	2.2
SLM Corp	2.1

All data as of 9/30/22. 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.

<sup>3</sup> Contributors and detractors are based on gross returns, see net returns presented on performance comparison page.

- Building engineering and services firm EMCOR Group outperformed on earnings and revenue strength. The company has benefited from continued demand momentum and pricing power. It also has been shielded from recent labor retention and cost pressures since its workforce is unionized. We continued to hold the stock given its strong fundamentals.

Patterson Companies and Littelfuse were among the largest stock detractors from relative performance.

- Dental and veterinary medical supplier Patterson Companies lagged on downbeat investor sentiment due to competitor business slowdowns and an anticipated deceleration in animal care demand following COVID-19 pandemic highs, when pet ownership surged. We maintained the position as we believe these concerns have been overstated and the stock oversold. Competitor struggles have largely failed to spill over to the company, and the vet segment slowdown has been smaller than expected and should be easily offset by increased dental segment demand.
- Despite reporting stronger-than-expected earnings and revenue, shares of electronic manufacturing company Littelfuse were weighed down by overall information technology sector weakness. We held steady with the stock given its solid fundamentals and strong position in electronic vehicles and factory floor automation, both areas with attractive long-term growth prospects.

## PORTFOLIO CHANGES

There were no new portfolio entrants or exits during the quarter.

## ATTRIBUTION (%) AS OF 9/30/22

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	1.6	3.0	0.2	0.3	0.4
Consumer Discretionary	10.3	9.6	0.0	0.9	0.9
Consumer Staples	3.8	2.7	-0.1	0.2	0.1
Energy	4.8	5.8	-0.1	-0.1	-0.2
Financials	25.2	29.1	-0.1	0.9	0.8
Healthcare	3.0	12.1	-0.6	-0.7	-1.3
Industrials	28.6	12.4	-0.4	1.8	1.4
Information Technology	9.9	5.7	0.0	-0.6	-0.6
Materials	5.2	3.7	-0.1	-0.1	-0.2
Real Estate	4.9	10.8	0.4	-0.1	0.4
Utilities	2.8	5.1	0.1	-0.2	-0.1
Total			-0.6	2.3	1.7

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

In the current environment, we are paying close attention to earnings and companies' forward-looking guidance. Our focus continues to be on individual company fundamentals. However, the macroeconomic picture paints the backdrop for these businesses to perform, and there is little question that the macro environment remains challenging. It appears that a global recession is already underway, inflation remains stubbornly high, and the Fed is likely to remain very hawkish. Add in major geopolitical wild cards, and there are certainly a lot of reasons to remain cautious. With all this in mind, an earnings season that effectively resets expectations to realistic levels could be extremely healthy for the market's outlook.

Further, even with the macro challenges, overall fundamentals for the companies held in the portfolio remain quite strong. The broad, year-to-date market selloff has offered a number of compelling value-buying opportunities. Our bottom-up research is finding potential with select consumer discretionary, industrial, and financial companies, particularly in stocks that have been beaten down this year.

PERFORMANCE COMPARISON (%) AS OF 9/30/22

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Small Cap Value Equity Composite (Gross)	-2.89	-20.02	-14.19	2.55	3.47	8.68
Small Cap Value Equity Composite (Net)	-3.13	-20.64	-15.05	1.53	2.44	7.60
Russell 2000® Value Index	-4.61	-21.12	-17.69	4.72	2.87	7.94
eVestment Alliance Small Cap Value Median*	-4.70	-20.13	-14.56	5.72	4.03	9.03
# of Portfolios in Median Calculation	411	408	408	399	378	336

eVestment Alliance data capture date: 10/21/22

**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 1/1/98.

Russell 2000® Value Index is an unmanaged index which is composed of the securities in the Russell 2000 Index with a less-than-average growth orientation. Companies in this index generally have low price-to-book and price-to-earnings ratios. Investors cannot invest directly in an index.

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\*eVestment Alliance (eA) is a manager-reported database on hundreds of investment managers and thousands of investment products covering a full range of asset classes, investment styles, and geographic concentrations. Based on manager input, eA independently constructs universes using qualitative and quantitative factors. The investment products are organized into peer groups and assessed on an ongoing basis to ensure the consistency of a product's attributes within a designated style classification. In addition, eA utilizes style analysis tools, performance analytics, and the review of a product's investment strategy narrative in the construction of wide-ranging universes that are both pure in style and consistent over time.

The eVestment Number of Portfolios represents the number of investment products included in the calculation of the median return for the given eVestment universe for the given time period. Individual investment managers may have more than one investment product included in the universe, so the number of observations will likely be greater than the actual number of investment managers represented.

**HOLDINGS DISCLOSURE**

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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 or medium-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. Price changes may be short- or long-term. Local, regional, or global events such as war [e.g., Russia's invasion of Ukraine], acts of terrorism, the spread of infectious illness (e.g., COVID-19 pandemic) or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's assets as intended.

**For information, contact:**

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SMALL CAP VALUE EQUITY COMPOSITE 1/1/98 – 9/30/22

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 YTD	-20.02	-20.64	-21.12	16	0.20	23.76	26.11	1,067	6,390
2021	28.49	27.23	28.27	14	0.37	23.22	25.00	1,664	9,548
2020	2.28	1.25	4.63	15	0.36	24.37	26.12	1,481	8,175
2019	18.64	17.47	22.39	14	0.27	15.85	15.68	1,494	9,062
2018	-11.39	-12.28	-12.86	14	0.28	13.87	15.76	1,318	7,722
2017	11.48	10.38	7.84	15	0.34	12.29	13.97	1,947	10,095
2016	30.64	29.33	31.74	15	0.33	13.97	15.50	1,997	10,845
2015	-4.56	-5.51	-7.47	13	0.09	14.16	13.46	1,857	10,227
2014	3.30	2.28	4.22	16	0.14	13.47	12.79	2,612	12,269
2013	36.41	35.08	34.52	17	0.71	15.12	15.82	3,021	11,693
2012	18.55	17.38	18.05	20	0.36	17.32	19.89	2,557	8,740

- 1. 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, 2021. 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.
- 2. Definition of the Firm.** Ceredex Value Advisors LLC ("Ceredex") is an SEC-registered investment adviser and is a wholly owned subsidiary of Virtus Partners, Inc., 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 on behalf of institutional separate 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.
- 3. Composite Description.** The Small Cap Value Strategy composite includes fully discretionary accounts managed in accordance with the small cap value style with the objective of producing long-term capital appreciation and income. Under normal circumstances, Small Cap Value Portfolios will have at least 80% of their net assets invested in U.S. traded equity securities of small cap companies. U.S. traded equity securities may include American Depositary Receipts ("ADRs"). Ceredex considers small cap companies to be companies with market capitalizations similar to those of companies in the Russell 2000 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. Small Cap equity prices can be more volatile than larger-cap stocks and carry more risk. 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. The minimum portfolio size for the Small Cap Value Strategy composite is \$1,000,000.
- 4. Benchmark.** The benchmark for the Small Cap Value Strategy composite is the Russell 2000® Value Index, which is composed of the securities in the Russell 2000® Index with a less-than-average growth orientation. Companies in this index generally have low price-to-book and price-to-earnings ratios. The index is calculated on a total-return basis with dividends reinvested. Index returns do not reflect the deduction of any fees or expenses.
- 5. 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. Composite net of fee performance is calculated assuming a fee of 1.00%, the highest fee for this type of investment account.
- 6. Fee Schedule.** The standard management fee schedule applicable to small cap equity accounts is as follows: 1.00% on the first \$10 million, 0.80% on the next \$40 million, 0.75% on the next \$50 million and 0.65% on all over \$100 million. The minimum annual fee is \$10,000. Actual investment advisory fees incurred by clients may vary. For further information on investment management fees, please refer to Form ADV Part 2.
- 7. 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).
- 8. Composite Dispersion.** The dispersion of annual returns is measured by the equal-weighted standard deviation of portfolio gross returns represented within the composite for the full year. No dispersion is reported for periods with five or fewer portfolios (shown as N/A).
- 9. Currency.** Valuations and returns are computed and stated in U.S. Dollars.
- 10. 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 1998. The composite has performance history with an inception date of January 1, 1998.
- 11. 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.
- 12. Availability of Information.** Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. A list of all composite investment strategies offered by the firm, with a description of each strategy, is available upon request. The type of portfolios in which each strategy is available (segregated account, limited distribution pooled fund, or broad distribution pooled fund) is indicated in the description of each strategy.
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