

Portfolio Commentary

Mid-Cap Value Equity

Q2 | 2018

MARKET REVIEW

Value stocks broadly rose during the second quarter, with small caps significantly outperforming as growing trade war fears weighed more heavily on large cap gains. The Russell Midcap® Value Index climbed 2.41%, with mixed performance in its underlying sectors. The energy (+17.21%), telecommunication services (+13.34%), and real estate (+8.57%) segments delivered the strongest returns, and the weakest were in industrials (-3.99%), financials (-2.70%), and consumer staples (-1.55%).

Sturdy U.S. growth continued to lead a global—albeit increasingly uneven—economic expansion, helping to keep earnings and fundamentals strong. However, there was notable divergence between the top corporate performers and the rest of the market, where price-to-earnings ratios contracted somewhat. Investors also appeared to be increasingly nervous about mounting macro uncertainties and the potential for a high-risk event, as well as tightening financial conditions from rising interest rates, a stronger dollar, and higher oil prices.

PERFORMANCE

The Mid-Cap Value Equity Composite's return of 4.04% (gross)/3.85% (net) in the quarter outperformed the 2.41% return of the Russell Midcap® Value Index. Consumer staples, financials, and real estate stock selection and an underweight financials position were additive to returns. Information technology and energy stock selection detracted from returns.

MB Financial and Andeavor were among the strongest stock contributors.

- Chicago-based bank MB Financial rose on its announced acquisition by Fifth Third Bancorp. We trimmed the position but expect to hold the new company after the deal, as it should benefit from attractive competitive positioning and cost-saving synergies. It will have combined Chicago deposit market share of approximately 6.5% and be the second-largest bank in the area in terms of middle market business relationships.
- Petroleum refiner Andeavor climbed on its announced acquisition by Marathon Petroleum. We believe this should be a powerful combination, representing roughly one billion dollars in potential synergies. The U.S. refining marketplace also remains an appealing segment of the energy sector and continues to be a beneficiary of currently wide Brent-WTI crude oil spreads.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	16.27	14.36
Dividend Yield (%)	2.13	2.14
Price-to-Earnings*	21.09	17.65
Price-to-Book	2.26	1.94
Price-to-Sales	1.31	1.49
Std. Dev. (3 yr) (%)	11.30	10.37
Alpha (3 yr) (%)	1.28	0.00
Beta (3 yr)	1.05	1.00
Std. Dev. (5 yr) (%)	11.05	10.13
Alpha (5 yr) (%)	0.33	0.00
Beta (5 yr)	1.04	1.00

*P/E is calculated using trailing 12-month earnings.

TOP RELATIVE CONTRIBUTORS ^{1,2} (%)	Avg. Wgt.	Rel. Cont.
MB Financial, Inc.	2.68	0.51
Andeavor	1.54	0.47
Humana Inc.	3.95	0.40
Anadarko Petroleum Corp.	1.53	0.31
Martin Marietta Materials, Inc.	3.15	0.28

TOP RELATIVE DETRACTORS ^{1,2} (%)	Avg. Wgt.	Rel. Cont.
Affiliated Managers Group, Inc.	1.57	-0.38
Hewlett Packard Enterprise Co.	1.89	-0.35
Perrigo Co. plc	2.49	-0.32
Hubbell Inc. Class B	2.03	-0.25
Xilinx, Inc.	1.46	-0.14

Rel. Cont. = contribution to return relative to benchmark.

Top 10 Holdings¹ (% of Portfolio)

Humana Inc.	4.34
Zimmer Biomet Holdings, Inc.	3.33
AmerisourceBergen Corp.	3.26
First Republic Bank	2.84
Pinnacle Financial Partners, Inc.	2.75
Martin Marietta Materials, Inc.	2.73
American Homes 4 Rent Class A	2.68
Perrigo Co. plc	2.63
MB Financial, Inc.	2.39
Motorola Solutions, Inc.	2.31

¹ See Holdings Disclosure on page 3.

² 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 1-407-674-1270.

All data as of 6/30/18. Source: FactSet.

Hewlett Packard Enterprise and Affiliated Managers Group were among the largest stock detractors.

- Despite solid earnings and revenue, technology company Hewlett Packard Enterprise fell on weaker forward guidance. We took advantage of lower valuations to add slightly to our position, as the firm offers attractive fundamentals, a strong balance sheet and a healthy dividend. It should also benefit from the more constructive enterprise-spending environment, as well as from potential semiconductor price declines that we expect over the next 12 to 18 months.
- Asset manager Affiliated Managers Group delivered strong earnings and revenue but lagged on active management concerns and equity outflows. Trade tariffs may have also weighed on shares given the firm's global and emerging markets product exposure. We added to the position, as the company has an excellent balance sheet with a proven track record of delivering solid results.

PORTFOLIO CHANGES

During the quarter, the portfolio initiated positions in Crown Castle International, Kellogg Company, and Sempra Energy. It sold Baker Hughes, Cousins Properties, Dr Pepper Snapple Group, Pinnacle Foods, Republic Services, and Weyerhaeuser Company as these stocks reached their price targets.

- We bought wireless infrastructure provider Crown Castle International on price volatility prompted by news that the Sprint and T-Mobile merger will shutter a sizable number of cell phone towers. However, we believe the company should benefit long term from positive trends in data transmission volume.
- We purchased food manufacturer Kellogg Company after shares appeared oversold from general first quarter weakness across the segment. The firm has reinvigorated its top line with new products and may also benefit from the uptick in food company mergers and acquisitions.
- We bought Sempra Energy, which has benefited from its acquisition of Energy Future Holdings Corp., the bankrupt owner of 80% of Oncor Electric Delivery Company. This dilutes exposure from the more challenging California climate into Texas. Activist involvement has also sent the stock higher.

PERFORMANCE ATTRIBUTION (%) AS OF 6/30/18

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Consumer Discretionary	5.85	11.41	0.10	0.07	0.18
Consumer Staples	3.17	5.11	-0.10	0.85	0.75
Energy	9.64	7.71	0.45	-0.30	0.15
Financials	16.29	18.23	0.21	0.46	0.67
Health Care	14.75	6.41	-0.13	0.13	-0.01
Industrials	14.00	11.83	-0.02	0.15	0.14
Information Technology	9.34	8.68	0.07	-0.65	-0.58
Materials	5.71	6.35	0.02	-0.05	-0.03
Real Estate	10.59	13.22	-0.09	0.36	0.26
Telecom Services	0.00	1.00	-0.01	0.00	-0.01
Utilities	10.67	10.04	0.12	0.01	0.13
Total			0.62	1.03	1.65

Overweight/Positive, Neutral, Underweight/Negative

Source: FactSet.

Performance 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.

OUTLOOK

Our investment approach firmly focuses on individual stock fundamentals, and through our research, we continue to find compelling opportunities in today's market. The overall backdrop for stocks remains positive, although we have grown slightly more cautious of late. Strong earnings expectations, a robust labor market, solid consumer spending, and signs of growing business investment all offer lots of good news about the U.S. economy and general stock outlook that could easily keep investors cheering. But we also are closely watching a number of potential overhangs that cause us concern, such as slower global growth, high leverage levels, and an increasing number of late-cycle U.S. economic indicators. The real threat of a trade war could easily cast a pall over markets as well, though it still remains to be seen how the current political rhetoric might ultimately play out.

PERFORMANCE COMPARISON (%) AS OF 6/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Mid-Cap Value Equity Composite (Gross)	4.04	3.44	8.79	10.59	12.08	12.76
Mid-Cap Value Equity Composite (Net)	3.85	3.05	7.98	9.77	11.25	12.01
Russell Midcap® Value Index	2.41	-0.16	7.60	8.80	11.27	10.06
eVestment Alliance Midcap Value Median*	2.20	0.08	8.61	9.12	11.57	10.59
# of Portfolios in Median Calculation	119	119	119	117	114	98

eVestment Alliance data capture date: 7/20/18

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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*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.

For information, contact:

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MID-CAP VALUE EQUITY COMPOSITE 4/1/02 – 6/30/18

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		
2018 YTD	3.44	3.05	-0.16	11	0.08	11.30	10.37	3,656	9,875
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
2012	23.07	22.15	18.51	9	N/A	20.63	16.76	2,857	8,740
2011	-6.31	-7.01	-1.38	4	N/A	23.75	22.78	1,940	6,493
2010	29.32	28.37	24.75	3	N/A	26.50	27.11	1,587	4,691
2009	48.43	47.68	34.21	3	N/A	23.53	25.01	696	3,082
2008	-33.72	-34.46	-38.44	3	N/A	19.32	18.74	254	2,116

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 has been independently verified for the period March 31, 2008 (the date of the Firm's founding) through December 31, 2017. A copy of the verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

- 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 and retail separate accounts and mutual funds. 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.
- The Mid-Cap Value Strategy composite includes all fully discretionary separately managed investment accounts and registered mutual funds 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 Value 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. 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. A complete description of the composite is available on request.
- The registered mutual fund was added to the composite effective April 1, 2008, immediately after the creation of Ceredex Value Advisors. Prior to that date the composite consisted of only separately managed accounts.
- 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.
- The three-year annualized standard deviations for the composite and the benchmark index are calculated using monthly returns.
- Valuations and returns are computed and stated in U.S. Dollars.
- 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.
- The dispersion of annual returns is measured by the standard deviation across equal-weighted portfolio returns represented within the composite for the full year. No dispersion is reported for periods with five or fewer portfolios (shown as N/A).
- Returns are calculated based on total return which (a) includes cash returns, realized and unrealized gains plus income; (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. Composite net of fee performance is calculated assuming a fee of 0.75%, the highest fee for this type of investment account.
- The standard management fee schedule applicable to mid-cap value accounts is as follows: 0.75% on the first \$25 million, 0.65% on the next \$25 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.
- 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.
- The minimum portfolio size for the Mid Cap Value Strategy composite is \$1 million. For further information on investment management fees, please refer to Form ADV Part 2.
- Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- A complete list and description of firm composites and performance results is available upon request.
- Past performance is not indicative of future results and no investment is guaranteed for return of principal and/or return on investments. Results may vary among accounts. All information provided and used in calculations is believed to be correct, but accuracy cannot be guaranteed. Please consult with a financial professional before investing.