

Portfolio Commentary

Large Cap Value Equity

Q3 | 2018

MARKET REVIEW

Strong fundamentals and positive earnings momentum helped to lift stock markets higher during the quarter, with large caps generally outperforming small caps and growth leading value. The Russell 1000® Value Index rose 5.70% on impressive gains in the healthcare (+15.63%), industrials (+8.32%), information technology (+7.79%), and telecommunications services (+7.41%) sectors, as well as advancements across all other segments except for a minor loss in materials (-0.06%) that modestly weighed on returns.

Although stocks broadly remained attractive from a bottom-up perspective, investors began to face the conundrum of what may lie ahead for equity markets. The U.S. economy remained solid but continued to show growing signs of late-stage expansion. Additionally, concerns around price-to-earnings contraction, higher bond yields, and the negative impact of a strengthening U.S. dollar on emerging markets added to increased levels of general market anxiety.

PERFORMANCE

The Large Cap Value Equity Composite's return of 6.72% (gross)/6.52% (net) outperformed the 5.70% return of the Russell 1000 Value Index. Stock selection in the industrials, real estate, and consumer staples sectors contributed to outperformance. Underweight positions in financials and consumer discretionary and an overweight position in industrials were also additive. Stock selection in the healthcare and consumer discretionary sectors and an overweight materials position detracted from returns.

Zimmer Biomet Holdings and Abbott Laboratories were among the strongest stock contributors.

- Shares of medical device company Zimmer Biomet climbed on positive sector momentum, stronger-than-expected earnings, and a general rebound after being oversold on regulatory concerns. The firm also saw market share stabilization and continued to benefit from strong management under its new CEO.
- Healthcare conglomerate Abbott Laboratories' stock also rose on sector strength and higher-than-expected earnings. In addition, the company's strong product portfolio received a number of approvals and favorable trial results that helped to buoy investor enthusiasm for the stock.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	144.13	126.43
Dividend Yield (%)	2.17	2.38
Price-to-Earnings*	18.61	16.45
Price-to-Book	2.23	2.09
Price-to-Sales	1.51	1.76
Std. Dev. (3 yr) (%)	9.94	9.22
Alpha (3 yr) (%)	0.70	0.00
Beta (3 yr)	1.05	1.00
Std. Dev. (5 yr) (%)	10.06	9.53
Alpha (5 yr) (%)	-0.03	0.00
Beta (5 yr)	1.03	1.00

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

TOP RELATIVE CONTRIBUTORS ^{1,2} (%)	Avg. Wgt.	Rel. Cont.
Abbott Laboratories	3.42	0.66
Zimmer Biomet Holdings, Inc.	3.44	0.58
Marathon Petroleum Corp.	3.41	0.48
Honeywell International Inc.	2.89	0.45
Microsoft Corp.	2.71	0.42

TOP RELATIVE DETRACTORS ^{1,2} (%)	Avg. Wgt.	Rel. Cont.
Schlumberger NV	3.31	-0.28
Microchip Technology Inc.	1.21	-0.27
Omnicom Group Inc.	2.21	-0.24
Vulcan Materials Co.	1.73	-0.18
BlackRock, Inc.	1.31	-0.14

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Chevron Corp.	3.96
Abbott Laboratories	3.69
Microchip Technology Inc.	3.62
Schlumberger NV	3.57
Zimmer Biomet Holdings, Inc.	3.55
DowDuPont Inc.	3.55
Marathon Petroleum Corp.	3.52
JPMorgan Chase & Co.	3.49
Crown Castle International Corp.	3.38
NextEra Energy, Inc.	3.35

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 9/30/18. Source: FactSet.

Omnicom Group and Schlumberger were among the largest stock detractors.

- Advertising firm Omnicom Group fell on disappointing revenue and lackluster overall results. While it is a strong company with a healthy balance sheet, the firm continued to suffer from generally declining advertising budgets, and we exited the position.
- The world's largest oilfield services company, Schlumberger, declined on softer year-over-year earnings and subdued investor expectations for lower sales and profits looking ahead. We continued to hold our position, as we believe slowdown worries are exaggerated. The firm has consistently demonstrated an ability to deliver solid results and generate cash flows in both good and challenging oil markets, capitalizing on its leadership position.

PORTFOLIO CHANGES

The portfolio initiated positions in Perrigo and Nielsen Holdings. In addition to selling Omnicom Group, it also exited a number of positions that reached our price targets.

- We bought pharmaceuticals firm Perrigo after its shares sold off on lowered forward-looking guidance from delayed generic drug approval. The company announced plans to divest its generics prescription business to focus on its more profitable private-labeled, over-the-counter consumer products, which should garner a higher multiple.
- We purchased information, data, and measurement company Nielsen Holdings after a steep selloff following disappointing financial results and the abrupt departures of its CEO and CFO. The firm consists of two divisions: its well-known TV ratings business, which has performed favorably, and its product sales and market share data business, which has not. The lower stock valuation appeared to be an attractive entry point given growing pressures from the board of directors and activist investor Elliott Management Corp. that could lead to a favorable split of the two businesses.
- We exited oil and gas companies BP and Royal Dutch Shell, commercial real estate company Simon Property Group, and low-cost carrier Southwest Airlines as they had reached our valuation targets.

PERFORMANCE ATTRIBUTION (%) AS OF 9/30/18

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Consumer Discretionary	1.06	8.07	0.15	-0.17	-0.02
Consumer Staples	4.83	7.19	0.04	0.13	0.17
Energy	11.06	10.78	-0.05	-0.04	-0.10
Financials	18.59	22.85	0.17	-0.07	0.09
Health Care	16.80	15.22	0.02	-0.23	-0.20
Industrials	16.18	8.08	0.16	0.93	1.09
Information Technology	12.06	10.04	0.06	0.07	0.13
Materials	9.38	3.89	-0.23	-0.01	-0.24
Real Estate	3.38	4.64	0.06	0.16	0.22
Telecomm Services	3.31	3.67	-0.02	0.04	0.02
Utilities	3.35	5.57	0.10	-0.04	0.06
Total			0.46	0.76	1.23

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

In our view, it is stock fundamentals that matter most in the current market. While we remain bullish on the overall economy and see further upside potential in stocks, particularly in the companies we own, mounting signs of late-cycle pressures and the general increase in investor anxiety warrant a degree of caution—especially at today's higher valuations. Investors should also expect that stocks will continue to be more severely punished for results that miss market expectations than rewarded for beating them. In this type of environment, we believe it is imperative to keep risk exposure tightly controlled.

PERFORMANCE COMPARISON (%) AS OF 9/30/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Large Cap Value Equity Composite (Gross)	6.72	4.42	10.84	15.05	11.01	11.37
Large Cap Value Equity Composite (Net)	6.52	3.83	10.02	14.20	10.19	10.62
Russell 1000® Value Index	5.70	3.92	9.45	13.55	10.72	9.79
eVestment Alliance Large Cap Value Median*	5.64	5.07	11.48	14.45	11.37	10.79
# of Portfolios in Median Calculation	375	375	375	372	360	305

eVestment Alliance data capture date: 10/22/18

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 7/1/98.

Russell 1000® Value Index is composed of the securities in the Russell 1000 Index with a less-than-average growth orientation. Companies in this index generally have low price-to-book and price-to-earnings ratios, higher dividend yields, and lower forecasted growth values. 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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LARGE CAP VALUE EQUITY COMPOSITE 7/1/98 – 9/30/18

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	4.42	3.83	3.92	15	0.06	9.94	9.22	3,227	9,637
2017	17.12	16.26	13.66	24	0.25	10.71	10.20	3,765	10,095
2016	16.47	15.63	17.34	23	0.19	11.32	10.77	4,291	10,845
2015	-3.79	-4.51	-3.83	23	0.13	11.19	10.70	3,570	10,227
2014	12.09	11.26	13.45	20	0.14	9.29	9.20	4,078	12,269
2013	35.28	34.30	32.53	23	0.11	12.67	12.70	3,699	11,693
2012	17.18	16.31	17.51	22	0.21	15.71	15.51	3,189	8,740
2011	-0.83	-1.57	0.39	14	N/A	19.05	20.69	2,196	6,493
2010	19.27	18.39	15.51	7	0.25	21.39	23.18	1,411	4,691
2009	25.63	24.88	19.69	7	0.27	18.99	21.10	1,341	3,082
2008	-31.56	-32.34	-36.85	8	N/A	14.76	15.36	1,176	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 Large Cap Value Strategy composite includes fully discretionary separately managed investment accounts and registered and unregistered mutual funds managed in accordance with the large cap value style with the objective of producing long-term capital appreciation and income. Under normal circumstances, Large Cap Value portfolios will have at least 80% of their net assets invested in U.S. traded equity securities of large cap companies. U.S. traded equity securities may include American Depositary Receipts ("ADRs"). Ceredex considers large cap companies to be companies with market capitalizations similar to those of companies in the Russell 1000 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 and unregistered mutual funds were 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 Large Cap Value Strategy composite is the Russell 1000® Value Index, which is composed of the securities in the Russell 1000® Index with a less-than-average growth orientation. Companies in this index generally have low price-to-book and price-to-earnings ratios, higher dividend yields, and lower forecasted growth values. 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 equal-weighted standard deviation of 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 large cap equity accounts is as follows: 0.75% on the first \$10 million, 0.45% on the next \$40 million, and 0.25% on all over \$50 million. The minimum annual fee is \$10,000. 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 1998. The Composite has performance history with an inception date of July 1, 1998.
- The minimum portfolio size for the Large Cap Value Strategy composite is \$500,000. 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 will 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.