

Portfolio Commentary

Small 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 2000® Value Index rose 1.60% on impressive gains in the telecommunication services (+31.07%), healthcare (+7.51%), and industrials (+5.07%) sectors, while the consumer staples (-6.95%), energy (-1.68%), and real estate (-0.96%) segments weighed on returns.

Although stocks broadly remained attractive from a bottom-up perspective, investors began to face a 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

For the quarter, the Small Cap Value Equity Composite returned 1.62% (gross)/1.36% (net) while its benchmark, the Russell 2000 Value Index, returned 1.60%. Consumer staples, real estate, and consumer discretionary stock selection and an overweight industrials position and underweight energy position contributed positively to returns. Information technology and healthcare stock selection and an overweight consumer staples position detracted from returns.

AMC Entertainment Holdings and Tetra Tech were among the strongest stock contributors.

- Movie theater chain AMC Entertainment's stock climbed on a strong box office and a \$600 million investment from private equity firm Silver Lake. The cash enabled AMC to distribute a special dividend and repurchase shares from its top investor, Chinese real estate conglomerate Dalian Wanda Group, which had come under pressure by Chinese authorities to reduce its foreign holdings given strained U.S.-China trade relations. AMC's Stubs A-List subscription service was also more popular than expected, benefiting from the demise of MoviePass.
- Water and infrastructure consulting firm Tetra Tech's stock rose on strong earnings and upbeat guidance. The company has seen attractive economic activity and new contract wins from higher infrastructure demand and increased municipal tax revenues. It also has profited from business acquisitions and operational efficiency gains.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	2.57	2.14
Dividend Yield (%)	2.37	1.94
Price-to-Earnings*	17.69	14.90
Price-to-Book	2.35	1.48
Price-to-Sales	1.00	0.94
Std. Dev. (3 yr) (%)	11.81	13.39
Alpha (3 yr) (%)	2.73	0.00
Beta (3 yr)	0.79	1.00
Std. Dev. (5 yr) (%)	12.64	13.40
Alpha (5 yr) (%)	2.27	0.00
Beta (5 yr)	0.86	1.00

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

TOP RELATIVE CONTRIBUTORS ^{1,2} (%)	Avg. Wgt.	Rel. Cont.
AMC Entertainment Holdings, Inc. Class A	1.71	0.59
Tetra Tech, Inc.	3.65	0.55
Cubic Corp.	2.55	0.31
Hill-Rom Holdings, Inc.	3.89	0.30
Herman Miller, Inc.	2.40	0.30

TOP RELATIVE DETRACTORS ^{1,2} (%)	Avg. Wgt.	Rel. Cont.
Plantronics, Inc.	2.14	-0.50
Energizer Holdings Inc.	4.78	-0.30
Lithia Motors, Inc. Class A	1.85	-0.27
Korn/Ferry International	1.35	-0.26
Apogee Enterprises, Inc.	1.89	-0.26

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Energizer Holdings Inc.	4.50
Meredith Corp.	4.22
Kemper Corp.	4.11
Power Integrations, Inc.	4.08
Hill-Rom Holdings, Inc.	4.01
Tetra Tech, Inc.	3.76
B&G Foods, Inc.	3.75
Evercore Inc. Class A	2.98
Physicians Realty Trust	2.95
Tanger Factory Outlet Centers, Inc.	2.65

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.

Effective April 20, 2012, the Small Cap Value Equity Strategy closed to new investors.

Plantronics and Energizer Holdings were among the largest stock detractors.

- Despite strong financials, headset manufacturer Plantronics saw a reversal of its impressive gains from the first half of the year on profit-taking and concerns its market capitalization had grown too big from overenthusiasm around its acquisition of audio equipment company Polycom. We reduced our stake as we expect further pressures due to a natural slowdown from the rapid acceleration in gaming that has been a prime driver of headset sales.
- Battery manufacturer Energizer Holdings reported strong earnings but the stock still fell on concerns about forward-looking guidance. Concerns about the EU not approving the company's acquisition of Spectrum's global battery and lighting business, plus rising interest rates, are headwinds for consumer staples in general. We maintained our position given the firm's solid overall fundamentals and our optimism about the Spectrum acquisition.

PORTFOLIO CHANGES

The portfolio initiated positions in Power Integrations and Nutrisystem and exited a number of positions.

- Semiconductor manufacturer Power Integrations was a new holding purchased after the stock appeared oversold on general sector softness. The firm focuses on high-voltage power management in items such as washers and dryers, electric vehicles, and larger battery-powered goods. We believe the segment's growth prospects are significant, and the company enjoys an attractive degree of pricing power, with much lower competition than the low-voltage space.
- We bought weight loss firm Nutrisystem on attractive valuation disparity from the stock's historical norms as well as relative to competitors such as Weight Watchers and Medifast. The company has a range of popular products, as well as plans for new offerings, that should benefit from the strong post-year-end holiday seasonal nature of the business.
- We exited avocado distributor Calavo Growers, footwear retailer DSW, fragrance manufacturer Inter Parfums, and drive-in fast-food chain Sonic as they reached valuation targets.
- We sold a small position in pizza chain Papa John's International given the high-profile challenges the firm continued to face surrounding its former chairman.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Consumer Discretionary	16.35	11.56	0.02	0.29	0.31
Consumer Staples	8.84	2.53	-0.75	0.38	-0.37
Energy	2.67	7.52	0.28	0.11	0.39
Financials	14.63	28.20	0.12	0.07	0.19
Health Care	5.62	5.03	0.06	-0.22	-0.15
Industrials	29.87	12.05	0.58	0.13	0.71
Information Technology	8.21	10.52	-0.02	-0.75	-0.77
Materials	3.50	4.43	0.00	-0.18	-0.19
Real Estate	10.24	11.48	-0.12	0.34	0.21
Telecom Services	0.00	0.70	-0.16	0.00	-0.16
Utilities	0.05	5.97	-0.11	-0.01	-0.12
Total			-0.11	0.15	0.03

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
Small Cap Value Equity Composite (Gross)	1.62	6.39	14.23	15.54	10.91	12.22
Small Cap Value Equity Composite (Net)	1.36	5.60	13.10	14.39	9.81	11.22
Russell 2000® Value Index	1.60	7.14	9.33	16.12	9.91	9.52
eVestment Alliance Small Cap Value Median*	1.66	5.37	9.07	14.98	10.55	11.81
# of Portfolios in Median Calculation	244	244	244	238	227	196

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 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.

Effective 4/20/12, the Ceredex Small Cap Value Equity Strategy is closed to new investors.

For information, contact:

Ceredex Value Advisors | 407-674-1270 | www.ceredexvalue.com

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SMALL CAP VALUE EQUITY COMPOSITE 1/1/98 - 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	6.39	5.60	7.14	15	0.24	11.81	13.39	1,800	9,637
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
2011	-2.61	-3.60	-5.50	17	0.48	21.31	26.05	1,795	6,493
2010	30.34	29.07	24.50	15	0.37	25.66	28.37	1,529	4,691
2009	37.37	36.37	20.58	15	0.30	23.64	25.62	948	3,082
2008	-31.08	-32.08	-28.92	16	0.36	20.03	19.14	619	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 Small Cap Value Strategy composite includes fully discretionary separately managed investment accounts and registered and unregistered mutual funds 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 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 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.
- The three-year annualized standard deviations for the composite and the benchmark index are calculated using monthly values.
- 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. Partial year dispersion is measured by the equal-weighted standard deviation of portfolio returns represented in the composite for the partial year period specified.
- 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 1.00%, the highest fee for this type of investment account.
- 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, and 0.60% on all over \$50 million. 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 January 1, 1998.
- The minimum portfolio size for the Small 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 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.