

Portfolio Commentary

Large Cap Value Equity

Q4 | 2018

MARKET REVIEW

After broadly coming off record highs in September, U.S. stock markets tumbled during the fourth quarter of 2018, giving up their prior nine-month gains. Large caps generally outperformed small caps, and value stocks tended to be more defensive than their growth counterparts. The Russell 1000® Value Index declined 11.72% in the period to end the year down -8.27%. The benchmark index experienced losses across all of its sectors, except utilities (+1.07%), with the largest declines in energy (-24.49%) and industrials (-19.41%).

Strong fundamentals simply were not enough to overcome a perfect storm of investor fears. Softening global growth, trade war realities, and concerns that the Federal Reserve Board (Fed) may be tightening monetary policy too aggressively began to translate into lower capital expenditures and more cautious earnings outlooks, as companies increasingly became more uncertain about what may lie ahead. Collapsing oil prices, a flattening yield curve, and a general lack of market liquidity added to overall anxiety and the steep selloff.

PERFORMANCE

For the quarter, the Ceredex Large Cap Value Equity Composite's return of -13.34% (gross)/-13.51% (net) underperformed the Russell 1000® Value Index's return of -11.72%. Healthcare and financials stock selection, an overweight industrials position, and an underweight utilities position detracted from returns. Stock selection across all other sectors was modestly additive to performance, as were underweight financials and consumer discretionary positions.

Verizon Communications and Procter & Gamble were among the strongest performance contributors in the quarter.

- Telecommunications conglomerate Verizon Communications saw its shares climb as investors applauded the company's positive growth profile amid strengthening dynamics in the wireless segment. We continued to hold our position given the firm's steadily improving fundamentals and growing signs of increased pricing power.
- Shares of consumer goods company Procter & Gamble rebounded on the strength of the consumer staples sector. Shares also rose on organic growth gains and the firm's initiatives to enhance efficiency and reduce costs, which have helped to improve margins. The company also benefited from continued product development, packaging, and marketing innovation. We exited the position as the stock reached our price target.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	106.19	118.02
Dividend Yield (%)	2.44	2.79
Price-to-Earnings*	15.98	13.66
Price-to-Book	2.00	1.81
Price-to-Sales	1.21	1.53
Std. Dev. (3 yr) (%)	11.53	10.82
Alpha (3 yr) (%)	0.03	0.00
Beta (3 yr)	1.05	1.00
Std. Dev. (5 yr) (%)	11.54	10.76
Alpha (5 yr) (%)	-0.31	0.00
Beta (5 yr)	1.05	1.00

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

TOP RELATIVE

CONTRIBUTORS ^{1,2} (%)	Average Weight	Relative Contribution
Verizon Communications Inc.	3.33	0.17
NextEra Energy, Inc.	3.33	0.13
Procter & Gamble Co.	1.34	0.08
Diamondback Energy, Inc.	0.15	0.07
Comcast Corp. Class A	0.01	0.03
Mid-America Apartment Communities, Inc.	1.36	0.03
Abbott Laboratories	3.22	0.01
Norfolk Southern Corp.	0.69	0.01
Crown Castle International Corp.	3.32	0.00
FedEx Corp.	0.19	0.00

TOP RELATIVE

DETRACTORS ^{1,2} (%)	Average Weight	Relative Contribution
Perrigo Co. Plc	2.38	-1.39
Schlumberger NV	3.03	-1.25
Marathon Petroleum Corp.	3.50	-0.83
Zimmer Biomet Holdings, Inc.	3.54	-0.73
American International Group, Inc.	3.19	-0.72
United Technologies Corp.	2.79	-0.53
Emerson Electric Co.	2.47	-0.52
Citigroup Inc.	2.69	-0.48
Honeywell International Inc.	3.11	-0.46
AmerisourceBergen Corp.	1.78	-0.41

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

TOP 10 HOLDINGS¹ [% of Portfolio]

DowDuPont Inc.	3.74
Marathon Petroleum Corp.	3.61
Zimmer Biomet Holdings, Inc.	3.61
Chevron Corp.	3.59
JPMorgan Chase & Co.	3.54
American International Group, Inc.	3.42
Honeywell International Inc.	3.28
Bank of America Corp.	3.08
Verizon Communications Inc.	3.05
Vulcan Materials Co.	3.02

All data as of 12/31/18. Source: FactSet.

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.

Perrigo Company and Schlumberger were among the largest stock detractors during the quarter.

- Pharmaceutical firm Perrigo declined on continued disappointing earnings and weakness in its generic drug business. Shares also dropped after management announced that the company faces a potential \$2 billion tax liability. Management’s delay in alerting investors to this development contributed to a general loss of confidence in the company, and we sold our position.
- Shares of Schlumberger, the world’s largest oilfield services company, declined on energy sector weakness sparked by political uncertainty and impact on the cost of oil. Going into the quarter, factors such as Iranian sanctions had helped support favorable global supply/demand dynamics. Investors were taken by surprise when the U.S. government granted enough buyer exemptions to the sanctions that the added reserves helped prompt a collapse in oil prices. We trimmed our position for better risk/reward opportunities.

PORTFOLIO CHANGES

During the quarter, we initiated positions in Rockwell Automation and A.O. Smith. In addition to selling Perrigo Company, as mentioned, we exited a number of positions that reached our price targets.

- We bought industrial automation and information product provider Rockwell Automation, which should benefit from favorable factory growth, especially in emerging markets, and as companies look for new ways to optimize manufacturing and help control costs.
- We purchased water heater and treatment product manufacturer A. O. Smith, attracted by its healthy balance sheet, strong management team, compelling product innovation, and attractive overseas growth potential.
- We exited technology firm Apple, transportation company Norfolk Southern, and, as previously noted, Procter & Gamble, as these stocks reached our valuation targets.

PERFORMANCE ATTRIBUTION (%) AS OF 12/31/18

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Information Technology	10.12	9.31	-0.04	0.40	0.36
Communication Services	5.68	7.17	-0.09	0.43	0.34
Real Estate	4.24	4.95	0.07	0.19	0.26
Materials	8.47	4.07	-0.13	0.32	0.19
Consumer Discretionary	0.00	5.34	0.05	0.00	0.05
Consumer Staples	6.72	7.83	-0.11	0.16	0.04
Energy	9.48	9.29	-0.04	0.01	-0.03
Utilities	3.00	6.47	-0.29	0.11	-0.18
Industrials	19.11	7.35	-0.59	0.23	-0.36
Financials	17.50	22.47	0.05	-0.86	-0.81
Health Care	15.68	15.74	0.01	-1.87	-1.86
Total			-1.10	-0.90	-2.00

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

While our outlook over the past few quarters has remained generally favorable, we have also continued to express a degree of caution in light of the elevated volatility. This remains the case as we come off the fourth quarter’s sharp declines. U.S.-China trade tensions and Fed policy concerns seem to be moderating, but a flattening yield curve, slower worldwide growth, and substantial uncertainties around issues such as Brexit, ongoing U.S. political turmoil, and the potential for an economic hard landing in China remain unresolved. As bottom-up stockpickers, we remain closely focused on fundamentals—which remain generally strong—while keeping a very close eye on the risk environment.

PERFORMANCE COMPARISON (%) AS OF 12/31/18

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Large Cap Value Equity Composite (Gross)	-13.34	-9.52	-9.52	7.27	5.89	12.11
Large Cap Value Equity Composite (Net)	-13.51	-10.20	-10.20	6.48	5.10	11.36
Russell 1000® Value Index	-11.72	-8.27	-8.27	6.95	5.95	11.18
eVestment Alliance Large Cap Value Median*	-13.08	-8.50	-8.50	7.22	6.17	11.81
# of Portfolios in Median Calculation	363	363	363	361	349	296

eVestment Alliance data capture date: 1/22/19

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:

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

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LARGE CAP VALUE EQUITY COMPOSITE 7/1/98 – 12/31/18

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	-9.52	-10.20	-8.27	15	0.05	11.53	10.82	2,654	8,009
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.