

Portfolio Commentary

Mid-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 Midcap® Value Index declined 14.95% in the quarter to end the year down 12.29%. The benchmark index experienced losses across all of its sectors, with the largest declines in energy (-35.29%), consumer discretionary (-17.74%), industrials (-17.73%), and information technology (-17.24%).

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 (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 Mid-Cap Value Equity Composite returned -13.02% (gross)/-13.19% (net), outperforming the -14.95% return of the benchmark Russell Midcap® Value Index. Stock selection in the information technology, energy, materials, real estate, and communication services sectors was additive to returns. Stock selection in the healthcare and consumer staples sectors, an underweight position in real estate, and an overweight position in energy detracted from performance.

Xilinx and American Electric Power were among the strongest stock contributors in the quarter.

- Shares of semiconductor company Xilinx rose on strong earnings and an upbeat outlook due to the firm's attractive 5G technology business. The company also increased its business investment, which should pay off in future growth gains as 5G usage continues to build momentum in the U.S. We continue to hold the position, given these favorable growth dynamics and the firm's strong management and healthy balance sheet.
- Utility company American Electric Power's share price climbed on general utility sector strength as investors sought safety amid increased stock market volatility. Shares also rebounded after lagging for much of the year, as the company moved past its failure to secure regulatory approval for its Wind Catcher Energy Connection project in Oklahoma and began to refocus on growing its rate base and investing in its transmission and distribution networks. We trimmed the position on price gains.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	16.36	12.90
Dividend Yield (%)	2.51	2.59
Price-to-Earnings*	14.22	13.47
Price-to-Book	1.87	1.65
Price-to-Sales	1.26	1.29
Std. Dev. (3 yr) (%)	12.02	11.96
Alpha (3 yr) (%)	2.40	0.00
Beta (3 yr)	0.98	1.00
Std. Dev. (5 yr) (%)	12.07	11.32
Alpha (5 yr) (%)	0.77	0.00
Beta (5 yr)	1.03	1.00

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

TOP RELATIVE CONTRIBUTORS ^{1,2} (%)	Average Weight	Relative Contribution
Xilinx, Inc.	2.01	0.24
Andeavor	0.02	0.20
Willis Towers Watson Public Limited Co.	2.13	0.14
Diamondback Energy, Inc.	0.12	0.14
Medical Properties Trust, Inc.	1.73	0.13
Cabot Oil & Gas Corp.	0.98	0.13
American Electric Power Company, Inc.	1.91	0.11
Xcel Energy Inc.	1.18	0.10
Cinemark Holdings, Inc.	0.63	0.06
Eergy, Inc.	0.72	0.06

TOP RELATIVE DETRACTORS ^{1,2} (%)	Average Weight	Relative Contribution
Perrigo Co. Plc	3.39	-1.96
Affiliated Managers Group, Inc.	2.68	-0.74
Zimmer Biomet Holdings, Inc.	3.91	-0.71
Pinnacle Financial Partners, Inc.	2.83	-0.65
Marathon Petroleum Corp.	1.60	-0.64
Energizer Holdings Inc	2.66	-0.61
Humana Inc.	3.79	-0.54
Noble Energy, Inc.	1.36	-0.50
Patterson-UTI Energy, Inc.	0.99	-0.43
Devon Energy Corporation	1.18	-0.42

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Humana Inc.	4.58
Zimmer Biomet Holdings, Inc.	4.06
Motorola Solutions, Inc.	3.43
L3 Technologies Inc.	3.20
Energizer Holdings Inc.	3.14
American Homes 4 Rent Class A	2.84
Affiliated Managers Group, Inc.	2.79
Pinnacle Financial Partners, Inc.	2.77
Hartford Financial Services Group, Inc.	2.64
Sempra Energy	2.48

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 and Marathon Petroleum were among the largest stock detractors in the quarter.

- Pharmaceutical firm Perrigo’s shares declined on continued disappointing earnings and weakness in its generics business. Shares also dropped after management announced that the company faces a potential \$2 billion tax liability. Management’s delay in alerting investors to the development contributed to a general loss of confidence in the company, and we sold our position.
- Refining company Marathon Petroleum’s shares fell during the quarter on oil price weakness. We took advantage of the decline to add to our position. The firm has remained very committed to focusing on invested capital return and rewarding investors. It also closed on its acquisition of Andeavor, which should result in significant synergy gains.

PORTFOLIO CHANGES

During the quarter, we initiated positions in Capital One Financial and PacWest Bancorp. In addition to selling Perrigo, as mentioned, we exited utility companies Xcel Energy and Energy as their stocks reached our price targets.

- We bought bank holding company Capital One Financial because of its strong credit card business—one of the most attractive segments in the financials sector, with favorable spreads and a relatively quick ability to respond to credit risk. We believe the company is well positioned to capitalize on these dynamics, and its current earnings growth appears undervalued.
- We also purchased California commercial bank holding company PacWest Bancorp. We believe the quarter’s volatility offered an attractive entry point for ownership, as bank stocks generally suffer from a flatter yield curve. The firm offers a large dividend, strong business prospects, and recently announced plans to acquire El Dorado Savings Bank, which will expand deposits and help manage its net interest margin.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Information Technology	11.42	8.42	-0.06	1.44	1.38
Energy	8.13	5.75	-0.37	0.92	0.55
Materials	5.90	6.15	0.02	0.43	0.45
Communication Services	2.46	2.90	0.06	0.36	0.42
Financials	20.41	17.53	0.06	0.19	0.25
Utilities	8.58	11.96	-0.01	0.27	0.25
Consumer Discretionary	2.27	9.18	0.19	0.04	0.23
Real Estate	9.93	14.22	-0.36	0.40	0.04
Industrials	14.39	11.91	0.00	-0.18	-0.18
Consumer Staples	5.82	5.17	-0.05	-0.32	-0.37
Health Care	10.70	6.81	-0.15	-1.42	-1.57
Total			-0.68	2.13	1.44

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
Mid-Cap Value Equity Composite (Gross)	-13.02	-6.84	-6.84	8.44	6.34	14.85
Mid-Cap Value Equity Composite (Net)	-13.19	-7.54	-7.54	7.64	5.55	14.10
Russell Midcap® Value Index	-14.95	-12.29	-12.29	6.06	5.44	13.03
eVestment Alliance Midcap Value Median*	-16.33	-13.51	-13.51	5.63	4.97	12.91
# of Portfolios in Median Calculation	107	107	107	106	103	89

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 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 – 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	-6.84	-7.54	-12.29	10	0.04	12.02	11.96	3,149	8,009
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.