

Portfolio Commentary

Small 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 the prior nine-month gains. Large caps generally outperformed small caps, and value stocks tended to be more defensive than their growth counterparts. The Russell 2000® Value Index declined 18.67% in the period to end the year down 12.86%. The benchmark index experienced losses across all of its sectors, with the largest declines in energy (-41.12%), healthcare (-29.53%), and materials (-27.31%).

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 Small Cap Value Equity Composite returned -16.71% (gross)/-16.93% (net), outperforming the -18.67% return of the benchmark Russell 2000® Value Index. Stock selection in the healthcare, consumer discretionary, real estate, and communication services sectors and an underweight position in energy were additive to performance. Stock selection in the industrials, financials, and energy sectors and underweight positions in utilities and financials detracted from returns.

B&G Foods and Meredith Corp. were among the strongest stock contributors for the quarter.

- B&G Foods, which manufactures multiple food brands, rebounded after underperforming in the prior quarter as investors flocked to defensive names in an uncertain market. The company also benefited from stronger performance by its largest product line, Green Giant.
- International media company Meredith's shares rose as it continued to work through the integration of its Time Inc. acquisition, avoiding the business missteps some investors had anticipated, while moving forward on a number of asset sales and cost-cutting measures. The company also benefited from strong political advertising sales at its television stations.

PORTFOLIO

| CHARACTERISTICS | Portfolio | Benchmark |
|----------------------|-----------|-----------|
| Market Cap (\$b) | 2.26 | 1.82 |
| Dividend Yield (%) | 2.88 | 2.45 |
| Price-to-Earnings* | 16.54 | 11.65 |
| Price-to-Book | 1.95 | 1.21 |
| Price-to-Sales | 0.92 | 0.77 |
| Std. Dev. (3 yr) (%) | 13.87 | 15.76 |
| Alpha (3 yr) (%) | 2.67 | 0.00 |
| Beta (3 yr) | 0.82 | 1.00 |
| Std. Dev. (5 yr) (%) | 13.96 | 15.05 |
| Alpha (5 yr) (%) | 1.78 | 0.00 |
| Beta (5 yr) | 0.86 | 1.00 |

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

TOP RELATIVE

| CONTRIBUTORS ^{1,2} (%) | Average Weight | Relative Contribution |
|---|----------------|-----------------------|
| Nutrisystem, Inc. | 1.03 | 0.29 |
| B&G Foods, Inc. | 4.35 | 0.23 |
| Meredith Corp. | 4.78 | 0.06 |
| AAR Corp. | 0.00 | 0.03 |
| Retail Opportunity Investments Corp. | 0.01 | 0.03 |
| EMCOR Group, Inc. | 0.02 | 0.02 |
| Andersons, Inc. | 0.01 | 0.01 |
| Monmouth Real Estate Investment Corp. Class A | 0.09 | 0.00 |
| NorthWestern Corp. | 0.01 | 0.00 |
| Standard Motor Products, Inc. | 0.41 | 0.00 |

TOP RELATIVE

| DETRACTORS ^{1,2} (%) | Average Weight | Relative Contribution |
|--|----------------|-----------------------|
| Energizer Holdings Inc. | 4.57 | -1.05 |
| Tetra Tech, Inc. | 3.75 | -0.93 |
| Evercore Inc Class A | 2.68 | -0.82 |
| Kemper Corp. | 4.11 | -0.68 |
| Cubic Corp. | 2.49 | -0.68 |
| SM Energy Co. | 1.01 | -0.65 |
| U.S. Silica Holdings, Inc. | 1.20 | -0.63 |
| Apogee Enterprises, Inc. | 1.73 | -0.51 |
| Herman Miller, Inc. | 2.38 | -0.50 |
| AMC Entertainment Holdings, Inc. Class A | 1.33 | -0.50 |

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

TOP 10 HOLDINGS¹ (% of Portfolio)

| | |
|-------------------------------------|------|
| Power Integrations, Inc. | 4.94 |
| Meredith Corp. | 4.92 |
| B&G Foods, Inc. | 4.79 |
| Energizer Holdings Inc | 4.64 |
| Hill-Rom Holdings, Inc. | 4.55 |
| Kemper Corp. | 4.10 |
| Tetra Tech, Inc. | 3.47 |
| Physicians Realty Trust | 3.42 |
| OUTFRONT Media Inc. | 2.89 |
| Tanger Factory Outlet Centers, Inc. | 2.85 |

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.

SM Energy and U.S. Silica Holdings were among the largest stock detractors.

- Exploration and production firm SM Energy suffered sharp price declines amid overall weakness in the energy sector and investor concerns about how a potentially slower economy might affect oil prices. We maintained our position, as we believe the company is being priced too cheaply, especially given its attractive assets.
- Declining oil prices also pushed down shares of industrial mineral producer U.S. Silica, which supplies silica sand used in hydraulic drilling. We continued to hold our position, as we remain positive on the firm's growth prospects. Additionally, approximately 40% of the company's business comes from outside the oil and gas industry, as its products are used in everything from swimming pool filters to cat litter.

PORTFOLIO CHANGES

During the quarter, the portfolio initiated positions in Valmont Industries and Neenah, Inc., and exited Nutrisystem and Plantronics.

- We bought fabricated metal manufacturer Valmont Industries, which makes products ranging from farming irrigation systems to highway lighting to wireless towers. Shares appeared attractively priced during the quarter's broad market selloff, given anticipated growth in highway barriers, wireless expansion, and increased farming capital expenditures once trade issues are resolved.
- We purchased paper producer Neenah after shares sold off on general weakness across paper firms. The company makes high-end, specialty papers, including those used in filtration equipment, which are generally not as cyclically sensitive as more traditional paper products. This made current valuations compelling, given the firm's attractive profit margins and global expansion.
- We exited weight-loss company Nutrisystem after shares rose on the announcement it would be acquired by Tivity Health.
- We sold headset manufacturer Plantronics on mounting concerns that its acquisition of audio equipment company Polycom would not be as beneficial as once expected. Additionally, we anticipate that the rapid acceleration in video gaming—a prime driver in the company's headset sales—may be peaking.

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

| | Quarter-end Sector Weights | | Impact | | |
|------------------------|----------------------------|-----------|---------------|-----------------|-------------|
| | Portfolio | Benchmark | Sector Weight | Stock Selection | Total |
| Health Care | 6.03 | 4.29 | -0.18 | 1.22 | 1.04 |
| Energy | 1.69 | 5.41 | 1.27 | -0.28 | 1.00 |
| Consumer Discretionary | 7.02 | 9.44 | -0.04 | 0.86 | 0.82 |
| Consumer Staples | 9.83 | 2.63 | 0.27 | 0.40 | 0.67 |
| Communication Services | 7.01 | 3.09 | 0.02 | 0.51 | 0.53 |
| Real Estate | 11.06 | 11.72 | -0.03 | 0.50 | 0.47 |
| Information Technology | 9.16 | 10.74 | -0.08 | 0.44 | 0.37 |
| Materials | 5.31 | 4.06 | 0.06 | -0.12 | -0.07 |
| Financials | 13.96 | 29.51 | -0.50 | -0.31 | -0.81 |
| Utilities | 0.00 | 7.29 | -1.05 | -0.02 | -1.06 |
| Industrials | 28.93 | 11.83 | -0.15 | -1.14 | -1.29 |
| Total | | | -0.41 | 2.06 | 1.65 |

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 |
|--|--------|--------|--------|--------|--------|---------|
| Small Cap Value Equity Composite (Gross) | -16.71 | -11.39 | -11.39 | 8.87 | 4.94 | 13.63 |
| Small Cap Value Equity Composite (Net) | -16.93 | -12.28 | -12.28 | 7.79 | 3.89 | 12.63 |
| Russell 2000® Value Index | -18.67 | -12.86 | -12.86 | 7.37 | 3.61 | 10.40 |
| eVestment Alliance Small Cap Value Median* | -18.87 | -13.87 | -13.87 | 6.50 | 4.07 | 12.92 |
| # of Portfolios in Median Calculation | 237 | 237 | 237 | 230 | 220 | 190 |

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 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.

For information, contact:

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SMALL CAP VALUE EQUITY COMPOSITE 1/1/98 - 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 | -11.39 | -12.28 | -12.86 | 14 | 0.28 | 13.87 | 15.76 | 1,318 | 8,009 |
| 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.