

Portfolio Commentary

Mid-Cap Value Equity

Q1 | 2019

MARKET REVIEW

U.S. stock markets rallied during the first quarter, rebounding from the fourth quarter's losses. Mid-cap value stocks broadly outperformed their large- and small-cap value peers, though value stocks in general lagged higher-beta growth stocks in the upswing momentum. The Russell Midcap® Value Index rose 14.37% with gains across all sectors, led by energy (+21.32%), information technology (+21.12%), healthcare (+16.37%), real estate (+16.04%), and industrials (+16.02%).

Stocks were lifted by major sentiment reversals on a number of macro issues that had been weighing on shares. The Federal Reserve moved to alleviate fears it was moving too quickly with monetary tightening by taking a more neutral stance and assuring investors it would employ a patient, data-dependent approach to any future rate increases. The U.S. and China also appeared to be close to reaching a trade deal. Additionally, while global economic growth continued to show signs of late-cycle slowing, investors were comforted by China's expanded fiscal stimulus as well as signals of more-accommodative policy from the European Central Bank if needed.

PERFORMANCE

For the quarter, the Ceredex Mid-Cap Value Equity Composite's returned +14.55% (gross)/+14.34% (net) compared to the Russell Midcap® Value Index's return of +14.37%. Industrials, information technology, financials, and utilities stock selection and an overweight energy position were additive to returns. Healthcare, consumer discretionary, energy, and materials stock selection detracted from returns.

Xilinx and Zimmer Biomet Holdings were among the strongest stock contributors to performance in the quarter.

- Semiconductor company Xilinx—also a top contributor last quarter—continued to outperform on earnings strength and a positive outlook for its 5G technology business. We sold our position on profit-taking, locking in sizable gains. The stock's valuation has become expensive after its recent run-up, and at current price levels we are finding greater risk/reward potential elsewhere.
- Medical device company Zimmer Biomet Holdings roared back in the market rally on higher-than-expected earnings. The firm also received FDA clearance for its ROSA® Knee System for robotically assisted knee replacement surgeries and its ROSA® ONE Spine System for robotically assisted spine surgeries, positioning it for tremendous earnings potential. We added to our position, given the firm's strong fundamentals and low multiples.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	18.45	14.89
Dividend Yield (%)	2.47	2.32
Price-to-Earnings*	16.60	17.47
Price-to-Book	1.91	1.88
Price-to-Sales	1.14	1.38
Std. Dev. (3 yr) (%)	11.98	11.78
Alpha (3 yr) (%)	2.74	0.00
Beta (3 yr)	0.99	1.00
Std. Dev. (5 yr) (%)	12.69	11.94
Alpha (5 yr) (%)	1.07	0.00
Beta (5 yr)	1.03	1.00

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

TOP CONTRIBUTORS ^{1,2} (%)	Average Weight	Relative Attribution
Xilinx, Inc.	0.84	0.40
Zimmer Biomet Holdings, Inc.	4.35	0.29
Williams Companies, Inc.	2.08	0.22
Motorola Solutions, Inc.	2.86	0.22
Conagra Brands, Inc.	0.66	0.21
Noble Energy, Inc.	1.40	0.20
Masco Corp.	0.89	0.18
Public Service Enterprise Group Inc.	1.60	0.16
Pinnacle Financial Partners, Inc.	2.81	0.16
A. O. Smith Corp.	1.50	0.14

TOP DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
Humana Inc.	4.90	-1.00
Energizer Holdings Inc.	2.98	-0.41
Marathon Petroleum Corp.	2.28	-0.25
Cabot Corp.	1.26	-0.18
Kellogg Co.	1.75	-0.17
Tapestry, Inc.	0.92	-0.14
AmerisourceBergen Corp.	2.23	-0.14
Meredith Corp.	1.66	-0.11
Omnicom Group Inc.	1.01	-0.10
Air Products and Chemicals, Inc.	0.46	-0.09

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Humana Inc.	4.97
Zimmer Biomet Holdings, Inc.	4.75
Energizer Holdings Inc.	2.85
Marathon Petroleum Corp.	2.79
Hartford Financial Services Group, Inc.	2.70
Pinnacle Financial Partners, Inc.	2.67
L3 Technologies Inc.	2.51
AmerisourceBergen Corp.	2.41
Cypress Semiconductor Corp.	2.38
Capital One Financial Corp.	2.37

All data as of 3/31/19. 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.

Humana and Energizer Holdings were among the largest stock detractors from performance in the quarter.

- Health insurance company Humana’s stock lagged on headline-risk around issues such as Senator Bernie Sanders’ calls for Medicare-for-All and the Trump administration’s proposed changes to how prescription drugs are priced and paid for in Medicare. At this point, this may be political noise in the marketplace, and it remains unclear if any of these proposals will begin to gain real traction. We took advantage of Humana’s stock price weakness to add to our position based on the firm’s strong fundamentals.
- Battery manufacturer Energizer’s stock underperformed on leverage concerns after its acquisition of Spectrum Brands’ auto care and battery and portable lighting businesses. Investors were also generally more attracted to higher-beta growth stocks in the quarter than relatively staid consumer staples names. We added to our position as the firm now holds a wide range of industry-leading battery, auto care, and auto fragrance/apparel brands that collectively offer solid upside potential.

PORTFOLIO CHANGES

During the quarter, we exited a number of stocks and initiated positions in Western Digital and Ameriprise Financial.

- In addition to Xilinx, we sold First Republic Bank, Air Products and Chemicals, Crown Castle International, Ingersoll-Rand, and Rockwell Automation when these stocks reached our valuation targets.
- We bought technology memory firm Western Digital after some earnings choppiness offered an attractive price entry point. We believe the firm stands to benefit from upside opportunities as the transition to 5G continues to gain momentum.
- We purchased Ameriprise Financial at a potentially very attractive price as the firm’s divestment of non-core businesses should help drive considerable earnings upside. It also has a solid history of returning capital through dividends and share repurchases.

PERFORMANCE ATTRIBUTION (%) AS OF 3/31/19

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	4.51	3.07	-0.04	-0.08	-0.11
Consumer Discretionary	3.48	8.74	0.02	-0.23	-0.21
Consumer Staples	6.19	4.99	-0.01	-0.08	-0.09
Energy	8.52	6.06	0.20	-0.17	0.03
Financials	21.13	17.14	-0.08	0.45	0.37
Health Care	12.12	7.12	0.09	-1.01	-0.91
Industrials	10.64	12.12	0.06	0.61	0.67
Information Technology	9.57	8.94	0.15	0.53	0.69
Materials	4.58	5.97	0.06	-0.16	-0.11
Real Estate	8.51	14.48	-0.04	0.00	-0.04
Utilities	10.74	11.38	0.15	0.35	0.50
Total			0.56	0.22	0.79

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

Our outlook remains generally confident, if slightly cautious. Company growth rates are showing signs of late-cycle slowing, and many are coming off extraordinary profitability boosts from last year’s corporate tax cuts. As such, current earnings are likely to be broadly more muted and further pressured by the recent trade war, partial government shutdown, and harsh winter weather.

Headline distractions aside, stock fundamentals overall remain fairly solid. Inflation is contained. Employment is strong, and unit labor costs are declining on productivity gains. Market expectations have also largely shifted from global recession fears to expectations of greater accommodation from major central banks. This can all provide a constructive environment for steady, if more subdued, gains. Still, given broader market uncertainties, we will be paying particularly close attention to company guidance this reporting season to see how management teams are navigating the slower growth climate.

PERFORMANCE COMPARISON (%) AS OF 3/31/19

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Mid-Cap Value Equity Composite (Gross)	14.55	14.55	7.33	12.35	8.49	17.09
Mid-Cap Value Equity Composite (Net)	14.34	14.34	6.53	11.52	7.68	16.09
Russell Midcap® Value Index	14.37	14.37	2.89	9.50	7.22	16.39
eVestment Alliance Midcap Value Median*	13.98	13.98	0.80	9.39	7.16	15.74
# of Portfolios in Median Calculation	105	105	105	103	101	89

eVestment Alliance data capture date: 4/17/19

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.

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MID-CAP VALUE EQUITY COMPOSITE 4/1/02 – 3/31/19

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		
2019 YTD	14.55	14.34	14.37	9	N/A	11.98	11.78	3,750	8,942
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

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, 2018. 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 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.