

Portfolio Commentary

Small Cap Value Equity

Q1 | 2019

MARKET REVIEW

U.S. stock markets rallied during the first quarter, rebounding from the fourth quarter's losses, though higher-beta growth stocks generally outperformed value stocks in the upswing momentum. The Russell 2000® Value Index rose 11.93% with gains across all sectors, led by information technology (+19.41%), energy (+18.61%), real estate (+16.99%), and materials (+16.80%).

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 Small Cap Value Equity Composite's return of +11.53% (gross)/+11.26% (net) underperformed the Russell 2000 Value Index's return of +11.93%, with consumer staples, information technology, and communication services stock selection detracting from relative performance. Financials, consumer discretionary, and energy stock selection and an underweight financials position were additive to returns.

OUTFRONT Media and U.S. Silica Holdings were among the strongest stock contributors to performance in the quarter.

- Billboard advertiser OUTFRONT Media's stock rose on earnings strength. The firm also recently won contract renewal from the New York City Transit Authority and continued to impress with its conversion from traditional analog to more profitable digital signs. We retained our ownership of the stock given its strong fundamentals.
- Industrial mineral producer U.S. Silica Holdings benefited from rising commodity prices. The bulk of the firm's business is providing the sand used in oil fracking and horizontal drilling. However, approximately 40% comes from outside the oil and gas industry, as its products are utilized in everything from swimming pool filters to cat litter, which tend to be stable segments with high competitive entry barriers. We maintained our position, seeing additional upside potential.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	2.53	2.08
Dividend Yield (%)	2.61	2.24
Price-to-Earnings*	18.37	14.70
Price-to-Book	2.17	1.34
Price-to-Sales	0.98	0.83
Std. Dev. (3 yr) (%)	14.08	15.89
Alpha (3 yr) (%)	0.81	0.00
Beta (3 yr)	0.84	1.00
Std. Dev. (5 yr) (%)	14.36	15.68
Alpha (5 yr) (%)	2.18	0.00
Beta (5 yr)	0.86	1.00

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

TOP CONTRIBUTORS ^{1,2} (%)	Average Weight	Relative Attribution
OUTFRONT Media Inc.	3.11	0.51
U.S. Silica Holdings, Inc.	1.18	0.50
Evercore Inc. Class A	2.90	0.39
Covanta Holding Corp.	2.00	0.31
Apogee Enterprises, Inc.	1.71	0.21
Children's Place, Inc.	2.10	0.20
Alexander & Baldwin, Inc.	1.04	0.20
Physicians Realty Trust	3.43	0.19
Lithia Motors, Inc. Class A	2.07	0.18
MKS Instruments, Inc.	0.74	0.15

TOP DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
B&G Foods, Inc.	4.00	-1.13
Energizer Holdings Inc.	4.36	-0.51
Meredith Corp.	2.63	-0.27
EnerSys	0.61	-0.25
Greenbrier Companies, Inc.	0.83	-0.21
Hanover Insurance Group, Inc.	1.64	-0.17
Tanger Factory Outlet Centers, Inc.	2.79	-0.17
Cubic Corp.	2.42	-0.14
Horace Mann Educators Corp.	1.01	-0.14
Phibro Animal Health Corp. Class A	1.36	-0.11

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Power Integrations, Inc.	4.87
Energizer Holdings Inc.	4.20
Kemper Corp.	4.17
B&G Foods, Inc.	3.68
Children's Place, Inc.	3.61
Physicians Realty Trust	3.58
OUTFRONT Media Inc.	3.39
Evercore Inc. Class A	2.99
Tanger Factory Outlet Centers, Inc.	2.70
Cubic Corp.	2.33

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.

B&G Foods and Energizer Holdings were among the largest stock detractors from performance in the quarter.

- Shares of grocery brand conglomerate B&G Foods fell on concerns about its debt levels and rising input and freight costs. The stock price also suffered in reaction to a sharp stock sell-off of competitor Kraft Heinz from disappointing earnings, a large dividend cut, and a sizable write-down that pulled down the segment. We held the position given the firm's large potential new acquisition pipeline and its strong execution track record.
- Battery manufacturer Energizer's stock lagged 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

We initiated positions in Children's Place and First Hawaiian Bank and exited Hecla Mining Company and AMC Entertainment Holdings.

- We purchased apparel and accessories retailer Children's Place. The company recently bought the name, customer list, and IP information of bankrupt competitor Gymboree, which we believe will help position it well over the long term.
- We bought First Hawaiian Bank, attracted by the strength of the local market, which does not have the same big-name-bank competitive pressures as other regions. The state's economy is booming, and BNP Paribas also recently sold its stake in the firm, which we believe should help management better control its ability to improve earnings and cash flow.
- We exited Hecla Mining on asset deterioration in some of its gold and silver mines, as well as lingering labor disputes.
- We sold movie theater chain AMC Entertainment Holdings due to debt level concerns and weaker expectations for upcoming film releases.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	2.72	3.19	0.01	-0.49	-0.48
Consumer Discretionary	11.39	9.16	0.00	0.55	0.55
Consumer Staples	8.18	2.61	-0.24	-1.38	-1.62
Energy	2.08	5.74	-0.26	0.43	0.18
Financials	17.49	28.25	0.46	0.86	1.32
Health Care	2.53	4.29	0.11	0.02	0.13
Industrials	25.80	11.27	-0.26	0.23	-0.03
Information Technology	13.21	11.51	-0.03	-0.56	-0.59
Materials	4.72	4.30	0.07	-0.13	-0.05
Real Estate	11.88	12.38	-0.02	0.34	0.32
Utilities	0.00	7.31	0.15	0.00	0.15
Total			-0.01	-0.13	-0.12

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
Small Cap Value Equity Composite (Gross)	11.53	11.53	2.55	9.94	7.09	15.47
Small Cap Value Equity Composite (Net)	11.26	11.26	1.53	8.84	6.02	14.47
Russell 2000® Value Index	11.93	11.93	0.17	10.86	5.59	14.12
eVestment Alliance Small Cap Value Median*	12.78	12.78	-0.84	9.64	6.15	16.06
# of Portfolios in Median Calculation	239	239	239	232	222	193

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 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 - 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	11.53	11.26	11.93	14	0.09	14.08	15.89	1,385	8,942
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

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 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 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.