

Portfolio Commentary

Mid-Cap Value Equity

Q2 | 2019

MARKET REVIEW

U.S. stock markets once again posted positive returns during the quarter. Growth stocks generally outperformed their value counterparts, with large cap securities leading in both segments. The Russell Midcap® Value Index rose 3.19% with gains in most sectors, led by industrials (+8.31%), communication services (+7.75%), and financials (+7.47%). Three sectors—energy (-8.11%), consumer staples (-1.53%), and consumer discretionary (-0.58%)—posted declines.

Overall returns were muted by mid-period volatility prompted by elevated trade war rhetoric, softening corporate earnings, continued signs of slowing global economic growth, and a degree of uncertainty around whether the Federal Reserve's (Fed) more dovish tone might start to translate into actual interest rate cuts. However, investors shrugged off these worries toward quarter-end, with markets generally pricing in expected monetary stimulus. Additionally, despite lower growth and earnings expectations, the risk of a near-term U.S. recession appears to remain low. Against this backdrop, risk assets and traditional safe-havens alike began to rally to end the quarter higher.

PERFORMANCE

For the quarter, the Ceredex Mid-Cap Value Equity Composite's return of 4.64% (gross)/4.44% (net) outperformed the Russell Midcap Value Index's return of 3.19%. Stock selection in the information technology and energy sectors contributed the most to returns. Stock selection in the consumer staples and healthcare sectors detracted from performance.

Cypress Semiconductor and American International Group were the strongest stock contributors.

- Chip manufacturer Cypress Semiconductor's shares rose on the news that the company would be acquired by German chip maker Infineon Technologies. We sold the stock to lock in the gains.
- Insurance company American International Group's stock climbed after being oversold at the end of 2018 and relatively flat performance in the first quarter. The company benefited from firming property casualty rates and a strong management team. We continue to hold the stock, although we trimmed the position on profit taking.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	18.16	15.65
Dividend Yield (%)	2.40	2.30
Price-to-Earnings*	18.22	18.46
Price-to-Book	2.02	1.90
Price-to-Sales	1.06	1.42
Std. Dev. (3 yr) (%)	13.29	13.00
Alpha (3 yr) (%)	3.91	0.00
Beta (3 yr)	1.01	1.00
Std. Dev. (5 yr) (%)	13.41	12.64
Alpha (5 yr) (%)	1.16	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
Cypress Semiconductor Corp.	1.83	0.92
American International Group, Inc.	1.80	0.46
L3 Technologies Inc.	1.74	0.37
Capital One Financial Corp.	1.36	0.21
Hartford Financial Services Group, Inc.	2.77	0.21
Motorola Solutions, Inc.	1.84	0.21
Ameriprise Financial, Inc.	2.55	0.19
Martin Marietta Materials, Inc.	1.75	0.19
Omnicom Group Inc.	1.79	0.17
Progressive Corp.	1.41	0.16

TOP

DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
Energizer Holdings Inc.	3.18	-0.56
Zimmer Biomet Holdings, Inc.	4.88	-0.47
A. O. Smith Corp.	1.00	-0.38
Affiliated Managers Group, Inc.	2.01	-0.31
Kellogg Co.	2.59	-0.25
Marathon Petroleum Corp.	3.16	-0.23
Noble Energy, Inc.	1.80	-0.18
Cousins Properties Inc.	1.63	-0.15
Humana Inc.	5.28	-0.13
CenterPoint Energy, Inc.	1.68	-0.12

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Humana Inc.	5.52
Zimmer Biomet Holdings, Inc.	5.01
Marathon Petroleum Corp.	3.74
Energizer Holdings Inc.	3.17
Public Service Enterprise Group Inc.	2.88
Kellogg Co.	2.87
Hartford Financial Services Group, Inc.	2.87
Pinnacle Financial Partners, Inc.	2.82
Ameriprise Financial, Inc.	2.62
AmerisourceBergen Corp.	2.57

All data as of 6/30/19. 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.

Energizer Holdings and Zimmer Biomet Holdings were the largest stock detractors.

- Battery manufacturer Energizer’s stock declined on debt concerns and softer selling in some of its business lines. An analyst ratings downgrade and slashed price target from J.P. Morgan also weighed on shares. We took advantage of the price weakness to add to our position based on the company’s solid overall fundamentals and the strong potential we see in its recent acquisitions.
- Medical device company Zimmer Biomet Holdings was negatively impacted by broad sector weakness from growing political rhetoric around potential healthcare reform as the U.S. presidential election cycle heats up. We took the opportunity to add to our position given the firm’s strong earnings, attractive fundamentals, and compelling growth prospects with its ROSA products for robotically assisted knee replacement and spinal surgeries.

PORTFOLIO CHANGES

During the quarter, we sold several positions: Cypress Semiconductor (discussed earlier), water heater manufacturer A.O. Smith on concerns related to its Chinese operations, and Capital One Financial when it approached our price target. We purchased two new holdings, PVH Corp. and Spirit AeroSystems Holdings.

- We bought clothing company PVH Corp. after its stock fell sharply on lower earnings expectations. The company, with brands that include Tommy Hilfiger and Calvin Klein, offers a strong balance sheet and a number of positive licensing and inventory catalysts that could generate solid price gains.
- Aerospace company Spirit AeroSystems supplies several important pieces for Boeing aircraft. Although the stock has suffered because of Boeing’s 737 MAX crisis, we believe the company should be able to recover once that situation is resolved. Spirit’s fundamentals and balance sheet remain strong and appear to be attractively priced at recent lower valuations.

PERFORMANCE ATTRIBUTION (%) AS OF 6/30/19

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	4.91	3.21	0.07	-0.01	0.06
Consumer Discretionary	3.60	8.43	0.25	0.35	0.60
Consumer Staples	6.75	4.73	-0.10	-0.58	-0.68
Energy	10.09	5.38	-0.37	0.62	0.25
Financials	20.27	17.84	0.18	0.32	0.50
Health Care	13.96	7.13	0.08	-0.53	-0.46
Industrials	6.18	12.70	-0.23	-0.01	-0.24
Information Technology	10.09	9.04	0.06	1.19	1.26
Materials	5.53	6.03	0.03	0.38	0.41
Real Estate	9.14	14.05	0.17	-0.10	0.07
Utilities	9.48	11.44	0.03	-0.16	-0.13
Total			0.17	1.48	1.64

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

We remain generally confident in our market outlook. Elevated investor uncertainty seems to be the new norm, but stock fundamentals remain solid on the whole and have not changed much, despite the extreme market movements of the past few quarters. Recent overall multiples do not appear particularly expensive, even with flatter earnings expectations. Further, the current elongated expansion has experienced a number of mini episodic slowdowns over the past decade, and if central banks can successfully navigate through the current period, there appears to be no reason why the slow-growth cycle cannot continue.

Historically, most recessions result from the Fed tightening into market excesses, and we have yet to see any evidence of that. Still, while consumer spending has remained solid, slowing manufacturing activity and generally dormant corporate capital expenditures may be reasons for pause, especially if they begin to spill over into employment numbers. With these dynamics in mind, we remain focused on finding potential value through extensive fundamental research, which has continued to lead us to attractive companies that we believe will serve our investors well over the long term.

PERFORMANCE COMPARISON (%) AS OF 6/30/19

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Mid-Cap Value Equity Composite (Gross)	4.64	19.86	7.95	13.19	8.10	15.55
Mid-Cap Value Equity Composite (Net)	4.44	19.42	7.14	12.35	7.29	14.80
Russell Midcap® Value Index	3.19	18.02	3.68	8.95	6.72	14.56
eVestment Alliance Midcap Value Median*	3.64	18.26	1.34	9.81	6.71	13.88
# of Portfolios in Median Calculation	108	108	108	107	105	92

eVestment Alliance data capture date: 7/19/19

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 – 6/30/19

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	19.86	19.42	18.02	8	N/A	13.29	13.00	3,985	9,041
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.