

# Portfolio Commentary

## Large 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 1000® Value Index rose 3.84% led by financials (+7.68%), industrials (+6.64%), and communication services (6.41%). energy (-3.62%) was the only negative sector.

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 Large Cap Value Equity Composite's return of 4.10% (gross)/3.91% (net) outperformed the Russell 1000 Value Index's return of 3.84%. Stock selection in information technology, financials, communication services, and real estate contributed the most to performance, while stock selection in healthcare, industrials, and consumer staples detracted the most.

American International Group and Walt Disney were the strongest stock contributors.

- 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.
- Walt Disney's shares rose after the company announced plans for new offerings and synergies with its recently purchased 21st Century Fox assets. The entertainment conglomerate also enjoyed strong performance across its theme parks, as well as its movie studio and consumer product businesses. We took advantage of the gains to trim our position but continued to hold the stock, as we believe the company offers solid fundamentals and tremendous potential to expand its competitive leadership in content creation.

### PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	142.34	129.65
Dividend Yield (%)	2.46	2.52
Price-to-Earnings*	17.64	17.33
Price-to-Book	1.73	1.97
Price-to-Sales	1.33	1.63
Std. Dev. (3 yr) (%)	12.65	11.94
Alpha (3 yr) (%)	0.23	0.00
Beta (3 yr)	1.04	1.00
Std. Dev. (5 yr) (%)	12.62	11.83
Alpha (5 yr) (%)	-0.21	0.00
Beta (5 yr)	1.05	1.00

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

TOP CONTRIBUTORS <sup>1,2</sup> (%)	Average Weight	Relative Attribution
American International Group, Inc.	2.87	0.61
Walt Disney Co.	2.32	0.42
Microsoft Corp.	3.88	0.34
Omnicom Group Inc.	2.93	0.26
Motorola Solutions, Inc.	1.67	0.22
Fidelity National Information Services, Inc.	3.71	0.18
Honeywell International Inc.	2.88	0.16
JPMorgan Chase & Co.	4.75	0.16
Harris Corp.	1.09	0.16
Citigroup Inc.	3.03	0.13

TOP DETRACTORS <sup>1,2</sup> (%)	Average Weight	Relative Attribution
A. O. Smith Corp.	1.24	-0.48
Zimmer Biomet Holdings, Inc.	3.91	-0.42
Marathon Petroleum Corp.	4.07	-0.37
Kellogg Co.	3.56	-0.36
AmerisourceBergen Corp.	0.75	-0.27
Wells Fargo & Co.	4.07	-0.18
Cigna Corp.	3.69	-0.16
DuPont de Nemours, Inc.	3.22	-0.14
Dow, Inc.	1.79	-0.13
Verizon Communications Inc.	4.06	-0.13

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

### TOP 10 HOLDINGS<sup>1</sup> (% of Portfolio)

JPMorgan Chase & Co.	4.85
Verizon Communications Inc.	4.68
Bank of America Corp.	4.68
Marathon Petroleum Corp.	4.41
Humana Inc.	4.32
Zimmer Biomet Holdings, Inc.	4.26
Fidelity National Information Services, Inc.	4.19
Cigna Corp.	4.10
DuPont de Nemours, Inc.	3.96
Kellogg Co.	3.76

All data as of 6/30/19. Source: FactSet.

<sup>1</sup> See Holdings Disclosure on page 3.

<sup>2</sup> 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.

A. O. Smith and Marathon Oil were among the largest stock detractors.

- Water heater manufacturer A.O. Smith stumbled on lower earnings guidance and concerns around its Chinese business, which accounts for roughly one-third of its sales. U.S.-China trade tensions weighed on shares, but even more troubling were potential issues with the company’s business and accounting practices in the region. We sold our position.
- Oil refiner Marathon Oil was negatively impacted by weak financial results and falling demand that narrowed the company’s crack spreads—the pricing differential between a barrel of crude oil and the products refined from it. We maintained our position. Spreads have recently improved, and we anticipate more constructive demand moving ahead. Marathon also stands to benefit from synergies from the recent Andeavor merger and continues to add assets to its master limited partnership (MLP), which should provide an uplift in value.

## PORTFOLIO CHANGES

During the quarter, we sold our position in A.O. Smith (discussed earlier). We also sold our positions in Colgate-Palmolive, Vulcan Materials, and FedEx when they reached our price targets. We added two new holdings: Boeing and Honda Motor Co.

- We bought aerospace firm Boeing on stock price weakness stemming from the 737 MAX crisis. Over the past few years, the company has significantly improved its supply chain and cash flow generation. It also basically operates in a duopoly, and we expect it will be able to soon move past its recent issues.
- We purchased Honda Motor Co. after the stock significantly sold off on trade war and auto segment fears. We found the valuations extremely attractive given the company’s pristine balance sheet, conservative management, and steady growth in China, the U.S., and frontier markets.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	8.94	7.08	0.04	0.34	0.38
Consumer Discretionary	2.10	5.28	0.01	-0.02	-0.02
Consumer Staples	3.77	7.78	0.06	-0.27	-0.21
Energy	12.15	8.98	-0.03	0.11	0.07
Financials	14.32	22.50	-0.15	0.36	0.21
Health Care	16.27	15.15	-0.08	-0.62	-0.70
Industrials	11.35	8.00	0.12	-0.57	-0.45
Information Technology	12.43	9.73	0.01	1.05	1.06
Materials	6.55	4.03	0.01	-0.22	-0.21
Real Estate	5.54	5.04	0.00	0.27	0.27
Utilities	6.58	6.42	0.02	-0.02	0.00
<b>Total</b>			<b>0.02</b>	<b>0.40</b>	<b>0.42</b>

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
Large Cap Value Equity Composite (Gross)	4.10	16.42	7.66	10.85	7.58	13.46
Large Cap Value Equity Composite (Net)	3.91	15.99	6.86	10.03	6.78	12.71
Russell 1000® Value Index	3.84	16.24	8.46	10.19	7.46	13.19
eVestment Alliance Large Cap Value Median*	3.64	15.46	6.37	11.05	7.70	13.24
# of Portfolios in Median Calculation	363	363	363	354	345	300

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 7/1/98.

Russell 1000® Value Index is composed of the securities in the Russell 1000 Index with a less-than-average growth orientation. Companies in this index generally have low price-to-book and price-to-earnings ratios, higher dividend yields, and lower forecasted growth values. 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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# Q2 | 2019 Large Cap Value Equity

LARGE CAP VALUE EQUITY COMPOSITE 7/1/98 – 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	16.42	15.99	16.24	14	0.13	12.65	11.94	2,764	9,041
2018	-9.52	-10.20	-8.27	15	0.05	11.53	10.82	2,654	8,009
2017	17.12	16.26	13.66	24	0.25	10.71	10.20	3,765	10,095
2016	16.47	15.63	17.34	23	0.19	11.32	10.77	4,291	10,845
2015	-3.79	-4.51	-3.83	23	0.13	11.19	10.70	3,570	10,227
2014	12.09	11.26	13.45	20	0.14	9.29	9.20	4,078	12,269
2013	35.28	34.30	32.53	23	0.11	12.67	12.70	3,699	11,693
2012	17.18	16.31	17.51	22	0.21	15.71	15.51	3,189	8,740
2011	-0.83	-1.57	0.39	14	N/A	19.05	20.69	2,196	6,493
2010	19.27	18.39	15.51	7	0.25	21.39	23.18	1,411	4,691
2009	25.63	24.88	19.69	7	0.27	18.99	21.10	1,341	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 Large Cap Value Strategy composite includes fully discretionary separately managed investment accounts and registered and unregistered mutual funds managed in accordance with the large cap value style with the objective of producing long-term capital appreciation and income. Under normal circumstances, Large Cap Value portfolios will have at least 80% of their net assets invested in U.S. traded equity securities of large cap companies. U.S. traded equity securities may include American Depositary Receipts ("ADRs"). Ceredex considers large cap companies to be companies with market capitalizations similar to those of companies in the Russell 1000® 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 Large Cap Value Strategy composite is the Russell 1000® Value Index, which is composed of the securities in the Russell 1000® Index with a less-than-average growth orientation. Companies in this index generally have low price-to-book and price-to-earnings ratios, higher dividend yields, and lower forecasted growth values. 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 equal-weighted standard deviation of 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 large cap equity accounts is as follows: 0.75% on the first \$10 million, 0.45% on the next \$40 million, and 0.25% on all over \$50 million. The 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 July 1, 1998.
- The minimum portfolio size for the Large Cap Value Strategy composite is \$500,000. 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.