

Portfolio Commentary

Small 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 categories. The Russell 2000® Value Index rose 1.38%, with the largest gains in the industrials (+6.99%), utilities (+5.31%), and financials (+5.28%) sectors, and the weakest performance in energy (-8.71%), consumer staples (-8.17%), and communication services (-7.48%).

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 Small Cap Value Equity Composite returned 2.24% (gross)/1.98% (net), outperforming the Russell 2000 Value Index, which returned 1.38%. Stock selection in industrials, consumer discretionary, information technology, and financials added the most to returns, as did an overweight industrials position. Real estate stock selection, an overweight position in consumer staples, and an underweight in financials were the largest detractors.

Power Integrations and Herman Miller were the strongest stock contributors to performance in the quarter.

- Shares of semiconductor manufacturer Power Integrations rose on strong sector performance. We maintained our position given the company's attractive fundamentals and healthy balance sheet.
- Furniture company Herman Miller rallied at quarter-end on stronger-than-expected earnings. The firm has benefited from continued growth across its office, hospitality, medical, and education segments, as well as solid performance from its new products and its retail stores, Design Within Reach. We continue to hold the stock, as we believe there is room for further gains.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	2.80	2.19
Dividend Yield (%)	2.61	2.22
Price-to-Earnings*	19.68	15.12
Price-to-Book	2.22	1.36
Price-to-Sales	1.04	0.83
Std. Dev. (3 yr) (%)	16.32	17.08
Alpha (3 yr) (%)	-0.31	0.00
Beta (3 yr)	0.90	1.00
Std. Dev. (5 yr) (%)	15.58	16.28
Alpha (5 yr) (%)	1.91	0.00
Beta (5 yr)	0.90	1.00

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

TOP CONTRIBUTORS ^{1,2} (%)	Average Weight	Relative Attribution
Power Integrations, Inc.	5.06	0.68
Herman Miller, Inc.	2.43	0.57
Lithia Motors, Inc. Class A	2.47	0.55
Kemper Corp.	4.66	0.47
OUTFRONT Media Inc.	3.55	0.35
Tetra Tech, Inc.	1.24	0.32
Cubic Corp.	2.52	0.32
Knoll, Inc.	1.62	0.31
Cohen & Steers, Inc.	1.38	0.24
Apogee Enterprises, Inc.	1.81	0.23

TOP DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
Energizer Holdings Inc.	4.17	-0.62
Tanger Factory Outlet Centers, Inc.	2.31	-0.61
American Eagle Outfitters, Inc.	2.02	-0.54
B&G Foods, Inc.	3.46	-0.50
U.S. Silica Holdings, Inc.	1.01	-0.32
Physicians Realty Trust	3.46	-0.25
MKS Instruments, Inc.	1.29	-0.23
SM Energy Co.	0.66	-0.23
Movado Group, Inc.	0.46	-0.13
Children's Place, Inc.	3.79	-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.	5.62
Kemper Corp.	4.76
Energizer Holdings Inc	3.64
OUTFRONT Media Inc.	3.63
Children's Place, Inc.	3.57
Physicians Realty Trust	3.35
B&G Foods, Inc.	3.16
Cubic Corp.	3.06
Sabre Corp.	2.98
Evercore Inc. Class A	2.71

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 Tanger Factory Outlet Centers were the largest stock detractors.

- Battery manufacturer Energizer 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 continued to hold the stock due to the company's solid overall fundamentals and the strong potential we see in its recent acquisitions.
- Tanger Factory Outlet Centers, which invests in outlet store shopping centers, was hurt by general sector weakness and lingering concerns about retailers exiting malls. We maintained our position, however, as we believe the price displacement the stock has suffered is overblown. While the overall industry is certainly in a shakeout phase, with poorly run retailers struggling, outlets have generally performed well. Tanger's occupancy rate has remained solid, and it has been able to replace tenants fairly quickly, often with higher rents. It also maintains a healthy balance sheet and a talented management team.

PORTFOLIO CHANGES

We purchased Sabre Corporation and sold Meredith Corporation in the quarter.

- We bought travel technology firm Sabre, the largest global provider for air bookings in North America. Shares have been trading at depressed valuations due to elevated expenses that have pressured earnings as the company transitions to a cloud infrastructure. Ultimately, this will dramatically reduce expenses. Its underlying business remains stable and well positioned to secure upcoming renewals and gain new customers.
- We exited international media company Meredith on profit taking. The company has also been experiencing delays in asset sales connected with its acquisition of Time Inc.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	1.71	2.93	0.13	0.01	0.14
Consumer Discretionary	11.31	8.51	-0.19	0.46	0.26
Consumer Staples	6.85	2.37	-0.54	-0.39	-0.94
Energy	1.55	5.09	0.37	-0.39	-0.02
Financials	18.79	29.38	-0.41	0.42	0.02
Health Care	3.69	4.05	0.15	0.05	0.20
Industrials	24.09	11.58	0.68	0.96	1.64
Information Technology	16.43	11.92	0.00	0.45	0.45
Materials	4.37	4.22	-0.04	0.32	0.27
Real Estate	11.21	12.32	-0.01	-0.74	-0.75
Utilities	0.00	7.64	-0.28	0.00	-0.28
Total			-0.14	1.14	0.99

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
Small Cap Value Equity Composite (Gross)	2.24	14.02	-3.50	8.42	6.78	14.14
Small Cap Value Equity Composite (Net)	1.98	13.46	-4.47	7.34	5.71	13.14
Russell 2000® Value Index	1.38	13.47	-6.24	9.81	5.39	12.40
eVestment Alliance Small Cap Value Median*	2.18	15.20	-4.69	9.72	5.93	13.83
# of Portfolios in Median Calculation	237	237	237	229	219	195

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 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.

Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

This information and general market-related projections are based on information available at the time, are subject to change without notice, are for informational purposes only, are not intended as individual or specific advice, may not represent the opinions of the entire firm, and may not be relied upon for individual investing purposes. Information provided is general and educational in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. This information may coincide or conflict with activities of the portfolio managers. It is not intended to be, and should not be construed as investment, legal, estate planning, or tax advice. Ceredex Value Advisors does not provide legal, estate planning or tax advice. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decisions. Portfolio characteristics, sector analysis, and holdings exclude cash and may change at any time without notice.

*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:

Ceredex Value Advisors | 407-674-1270 | www.ceredexvalue.com

Q2 | 2019 Small Cap Value Equity

SMALL CAP VALUE EQUITY COMPOSITE 1/1/98 – 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	14.02	13.46	13.47	14	0.12	16.32	17.08	1,533	9,041
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.