

# Portfolio Commentary

## Small Cap Value Equity

Q3 | 2019

### MARKET REVIEW

The third quarter saw increased market volatility, with U.S. stocks delivering mixed performance. Small-cap value stocks, as measured by the Russell 2000® Value Index, fell slightly, by 0.57%, though notably outperformed generally steeper losses in the small-cap growth segment. The sectors with the largest gains were real estate (+5.76%), consumer discretionary (+5.31%), consumer staples (+4.65%), and information technology (+4.61%), while energy (-20.97%), healthcare (-7.88%), communication services (-5.60%), and materials (-4.96%) were the weakest performing sectors.

After a tepid start in July, markets were rattled by an escalation in U.S.-China trade tensions that sparked a sharp sell-off and kept volatility high throughout August, before stocks broadly regained their footing in September. Signs of continued deceleration in global economic growth increased the general level of uncertainty. Even the Federal Reserve's back-to-back rate cuts, in August and September, failed to fully shake off elevated market nervousness, as investors continued to worry that monetary policy on its own may not be enough to protect against late-cycle slowing.

### PERFORMANCE

For the quarter, the Ceredex Small Cap Value Equity Composite's return of 1.40% (gross)/1.15% (net) outperformed the Russell 2000 Value Index's return of -0.57%. Stock selection within information technology and industrials and an underweight energy position contributed the most to returns. Stock selection within consumer discretionary and financials and an underweight utilities position detracted the most from performance.

Power Integrations and Cabot Microelectronics were the strongest stock contributors during the quarter.

- Semiconductor manufacturer Power Integrations posted another strong quarter, rising on upbeat earnings and positive sector flows. The firm has seen strong adoption of its high-performance electronic components used in high-voltage power-conversion systems. We continued to hold the stock but slightly trimmed our relatively larger position on profit-taking.
- Cabot Microelectronics, which provides consumable materials to semiconductor manufacturers and pipeline companies, also climbed on earnings strength and sector momentum. We maintained our position as the company's attractive fundamentals offer the potential for further gains.

### PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	3.24	2.00
Dividend Yield (%)	2.49	2.25
Price-to-Earnings*	18.27	13.78
Price-to-Book	2.12	1.25
Price-to-Sales	1.11	0.78
Std. Dev. (3 yr) (%)	16.60	17.43
Alpha (3 yr) (%)	0.89	0.00
Beta (3 yr)	0.90	1.00
Std. Dev. (5 yr) (%)	15.16	15.94
Alpha (5 yr) (%)	2.92	0.00
Beta (5 yr)	0.89	1.00

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

### TOP

CONTRIBUTORS <sup>1,2</sup> (%)	Average Weight	Relative Attribution
Power Integrations, Inc.	5.12	0.79
Cabot Microelectronics Corp.	2.39	0.63
Energizer Holdings Inc.	3.83	0.52
OUTFRONT Media Inc.	3.26	0.40
Cubic Corp.	3.30	0.29
Ritchie Bros. Auctioneers Inc.	1.37	0.28
MKS Instruments, Inc.	1.28	0.24
Lithia Motors, Inc. Class A	1.31	0.23
Knoll, Inc.	1.80	0.20
Monolithic Power Systems, Inc.	1.36	0.19

### TOP

DETRACTORS <sup>1,2</sup> (%)	Average Weight	Relative Attribution
Children's Place, Inc.	3.52	-0.69
Phibro Animal Health Corp. Class A	1.06	-0.48
Kemper Corp.	4.69	-0.39
B&G Foods, Inc.	1.07	-0.30
Granite Construction Inc.	0.43	-0.26
Evercore Inc. Class A	2.58	-0.22
U.S. Silica Holdings, Inc.	0.88	-0.21
SLM Corp.	0.71	-0.18
Apogee Enterprises, Inc.	1.54	-0.14
Wabash National Corp.	1.05	-0.10

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

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

Kemper Corp.	4.98
Power Integrations, Inc.	4.82
Energizer Holdings Inc.	4.36
First American Financial Corp.	4.10
SLM Corp	3.90
Physicians Realty Trust	3.80
Sabre Corp.	3.53
Cubic Corp.	3.36
Children's Place, Inc.	3.11
American Eagle Outfitters, Inc.	2.79

All data as of 9/30/19. 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 407-674-1270.

Children’s Place and Phibro Animal Health were the largest stock detractors from performance in the quarter.

- Apparel and accessories retailer Children’s Place fell on softer earnings, general segment weakness, and investor disappointment over how long it is taking to realize gains from the company’s acquisition of its bankrupt competitor Gymboree’s brand, customer list, and intellectual property. We held our position as we believe the company remains well situated for the long term, particularly as competitors continue to close stores.
- Phibro Animal Health, which develops animal health and nutrition products, reported disappointing financial results and forward-looking guidance due to a faster-than-expected ramp down in some of the company’s vaccine businesses and an uptick in research and development spending. We continued to hold the stock but substantially reduced our position.

## PORTFOLIO CHANGES

During the quarter, we bought SLM Corp. and First American Financial for the portfolio, and we sold B&G Foods and Brady Corporation.

- We bought consumer banking company SLM, which is best known for its Sallie Mae education loan business, as the stock appeared very undervalued. Its shares have been weighed down by increased political rhetoric around tuition-free college and paying off student loans, as well as industry accounting standard changes that have made long-term loans appear less attractive. It remains to be seen if this talk translates into actual segment changes, but the firm remains a leader in the space in the meantime, offering an attractive return on equity compared to the average bank.
- We purchased real estate title insurance provider First American Financial, seeking to capture upside from housing market and refinancing strength.
- We sold branded food company B&G Foods on softening sales and heavier promotional spending activity.
- We exited Brady Corporation, which manufactures identification solutions and workplace safety products, when the stock reached our price target on continued strong earnings and operating metrics.

## PERFORMANCE ATTRIBUTION (%) AS OF 9/30/19

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	0.95	2.43	0.07	0.03	0.10
Consumer Discretionary	11.82	9.90	0.13	-1.14	-1.01
Consumer Staples	4.38	2.57	0.15	-0.04	0.11
Energy	1.18	5.96	1.18	-0.03	1.15
Financials	25.91	30.46	-0.09	-0.31	-0.39
Healthcare	2.50	4.90	0.15	-0.22	-0.07
Industrials	21.01	12.64	-0.11	0.70	0.59
Information Technology	17.19	8.63	0.44	1.09	1.53
Materials	3.56	4.48	0.01	0.34	0.35
Real Estate	11.50	11.55	0.08	-0.17	-0.09
Utilities	0.00	6.48	-0.29	0.00	-0.29
<b>Total</b>			<b>1.72</b>	<b>0.26</b>	<b>1.97</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

At these late stages of both the business and market cycles, stock multiples remain high based on an absolute basis, but not necessarily relative to bond yields and other investment metrics, where they continue to appear fairly reasonable. As such, we believe select opportunities for attractive long-term return potential remain, just not at cheap valuations. The U.S. economy has continued to grind slowly along, earnings have not been bad, and employment levels and consumer confidence have remained solid. At the same time, business confidence and capital expenditure spending have stayed stubbornly low. Still, with all the uncertainty swirling around the market landscape, it remains as important as ever to pay close attention to company fundamentals.

## PERFORMANCE COMPARISON (%) AS OF 9/30/19

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Small Cap Value Equity Composite (Gross)	1.40	15.61	-3.71	6.77	9.41	12.21
Small Cap Value Equity Composite (Net)	1.15	14.76	-4.67	5.71	8.32	11.21
Russell 2000® Value Index	-0.57	12.82	-8.24	6.54	7.17	10.06
eVestment Alliance Small Cap Value Median*	-0.11	15.27	-6.12	7.05	7.51	11.65
# of Portfolios in Median Calculation	244	244	244	238	227	201

eVestment Alliance data capture date: 10/22/19

**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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# Q3 | 2019 Small Cap Value Equity

SMALL CAP VALUE EQUITY COMPOSITE 1/1/98 - 9/30/19

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	15.61	14.76	12.82	14	0.19	16.60	17.43	1,463	8,706
2018	-11.39	-12.28	-12.86	14	0.28	13.87	15.76	1,318	7,722
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.