

Portfolio Commentary

Mid-Cap Value Equity

Q3 | 2019

MARKET REVIEW

The third quarter saw increased market volatility, with U.S. stocks delivering mixed performance. Both the value and growth large-cap segments delivered modestly positive returns, outperforming the general losses of their small-cap counterparts. Mid-cap value stocks, as measured by the Russell Midcap® Value Index, rose 1.22% in the quarter, with the largest gains in the real estate (+8.21%), utilities (+7.30%), and consumer staples (+6.34%) sectors, and the weakest performance in the energy (-12.54%), communication services (-5.09%), and healthcare (-3.76%) 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 Mid-Cap Value Equity Composite's return of 3.39% (gross)/3.19% (net) outperformed the Russell Midcap Value Index's return of 1.22%. Healthcare, information technology, energy, and consumer staples stock selection contributed the most to returns. Financials stock selection and overweight energy and health care positions were the largest performance detractors.

Zimmer Biomet Holdings and Kellogg Company were the strongest stock contributors in the quarter.

- Medical device company Zimmer Biomet had a strong quarter, buoyed by continued earnings strength and investor enthusiasm around the firm's existing ROSA robotic surgery systems and new product announcements. We maintained our position, as we continue to see tremendous upside in the stock.
- Food manufacturer Kellogg rallied on better-than-expected earnings and a general rebound after being oversold last quarter. The company's continued business investment in marketing, advertising, and on-trend new products has paid off in top-line growth momentum above many of its competitors. We took advantage of the price gains to sell some of our position.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	18.26	15.09
Dividend Yield (%)	2.25	2.36
Price-to-Earnings*	18.31	17.48
Price-to-Book	2.16	1.87
Price-to-Sales	1.26	1.34
Std. Dev. (3 yr) (%)	13.41	13.21
Alpha (3 yr) (%)	3.97	0.00
Beta (3 yr)	1.00	1.00
Std. Dev. (5 yr) (%)	13.06	12.51
Alpha (5 yr) (%)	1.85	0.00
Beta (5 yr)	1.01	1.00

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

TOP CONTRIBUTORS ^{1,2} (%)	Average Weight	Relative Attribution
Zimmer Biomet Holdings, Inc.	5.39	0.71
Kellogg Co.	2.29	0.53
Energizer Holdings Inc.	3.47	0.44
Cabot Microelectronics Corp.	1.65	0.42
Western Digital Corp.	2.35	0.41
Marathon Petroleum Corp.	3.57	0.28
FirstEnergy Corp.	2.58	0.25
Medical Properties Trust, Inc.	1.68	0.20
Hartford Financial Services Group, Inc.	2.92	0.20
Public Service Enterprise Group Inc.	2.96	0.14

TOP DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
Xilinx, Inc.	2.11	-0.43
Diamondback Energy, Inc.	2.47	-0.40
Meredith Corp.	0.88	-0.37
Ameriprise Financial, Inc.	1.21	-0.22
Affiliated Managers Group, Inc.	1.79	-0.20
Mosaic Company	0.49	-0.18
Williams Cos., Inc.	0.76	-0.18
BorgWarner Inc.	1.41	-0.13
Cabot Corp.	0.35	-0.13
PacWest Bancorp	2.02	-0.13

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Zimmer Biomet Holdings, Inc.	5.05
Humana Inc.	4.48
Energizer Holdings Inc.	3.82
Pinnacle Financial Partners, Inc.	2.87
Public Service Enterprise Group Inc.	2.79
Hartford Financial Services Group, Inc.	2.79
Western Digital Corp.	2.71
Diamondback Energy, Inc.	2.63
FirstEnergy Corp.	2.59
Cousins Properties Inc.	2.43

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

Xilinx and Diamondback Energy were the largest stock detractors in the quarter.

- Semiconductor company Xilinx shares fell on concerns about trade war exposure and the recent ban on U.S. companies making sales to Chinese telecommunications giant Huawei Technologies. We took advantage of the price weakness to add to our position given the firm’s strength in 5G and artificial intelligence technologies.
- Hydrocarbon exploration company Diamondback Energy shares declined on oil price weakness during the quarter, and we used the opportunity to add to our position. Fundamentals have remained solid, and the company has steadily bought back stock and returned capital to shareholders. It is also well positioned as a low-cost provider, and we expect it to benefit from a long backlog of drillable assets, in light of a likely peak in U.S. oil production and generally high depletion rates.

PORTFOLIO CHANGES

During the quarter, we added two new holdings to the portfolio, Edison International and Parker-Hannifin, and we exited Ameriprise Financial and Delta Air Lines.

- California public utility holding company Edison International has been trading at an attractive discount to the utility segment. In our view, the stock price should recover given the state’s new systems to help protect utilities from the type of wildfire exposure that has weighed on valuations. The company also is poised to benefit from recurring rate-based growth from its renewable power goals.
- We believe motion and control systems manufacturer Parker-Hannifin should benefit from a number of diversifying acquisitions it has made over the past year, as well as meaningful acceleration in its order book once global macro economies begin to stabilize.
- We sold financial services firm Ameriprise due to its focus on non-core businesses, as well as likely earnings pressure from net interest margin deterioration arising from the Fed’s shift to a more accommodative monetary policy stance.
- We exited Delta Air Lines as the stock reached our price target.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	3.22	3.64	0.00	-0.29	-0.30
Consumer Discretionary	6.80	8.94	0.08	-0.31	-0.23
Consumer Staples	4.87	4.57	0.12	0.80	0.91
Energy	7.12	5.50	-0.42	0.83	0.41
Financials	16.61	18.93	-0.01	-0.55	-0.56
Healthcare	14.46	6.70	-0.38	1.42	1.04
Industrials	7.39	11.40	0.10	0.28	0.38
Information Technology	13.25	7.22	-0.04	0.88	0.84
Materials	4.58	6.53	0.09	-0.11	-0.03
Real Estate	11.51	14.73	-0.22	-0.25	-0.47
Utilities	10.20	11.83	0.06	0.10	0.17
Total			-0.63	2.79	2.17

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
Mid-Cap Value Equity Composite (Gross)	3.39	23.91	7.78	12.04	9.57	13.37
Mid-Cap Value Equity Composite (Net)	3.19	23.23	6.97	11.21	8.75	12.62
Russell Midcap® Value Index	1.22	19.47	1.60	7.82	7.55	12.29
eVestment Alliance Midcap Value Median*	1.52	20.20	0.50	8.50	7.44	11.94
# of Portfolios in Median Calculation	106	106	106	103	101	92

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 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.

For information, contact:

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MID-CAP VALUE EQUITY COMPOSITE 4/1/02 – 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	23.91	23.23	19.47	7	N/A	13.41	13.21	4,169	8,706
2018	-6.84	-7.54	-12.29	10	0.04	12.02	11.96	3,149	7,722
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.