

Portfolio Commentary

Mid-Cap Value Equity

Q4 | 2019

MARKET REVIEW

U.S. stocks broadly delivered strong gains in the fourth quarter. Growth securities generally outperformed value counterparts, led by small caps in both segments. The Russell Midcap® Value Index rose 6.36%, with the largest advances in the information technology (+11.46%), communication services (+11.21%), and energy (+10.55%) sectors, and only the real estate (-0.26%) and utilities (-0.11%) sectors suffering declines.

Markets rallied as the U.S. and China reached a phase one trade deal. Fears around other geopolitical uncertainties, such as Brexit and further escalations in Hong Kong tensions, also began to fade. In U.S. politics, investors largely shrugged off impeachment worries, and healthcare securities were lifted by growing feasibility concerns around the Medicare for All policies being floated by some of the more progressive Democratic presidential primary candidates, softening a major overhang for the sector. Adding to the enthusiasm, the U.S. economy continued to chug along at its slow-but-steady pace, and the Federal Reserve once again cut interest rates.

PERFORMANCE

For the quarter, the Ceredex Mid-Cap Value Equity Composite's return of 8.49% (gross)/8.29% (net) outperformed the Russell Midcap Value Index's return of 6.36%. Stock selection in the healthcare, consumer discretionary, and real estate sectors added the most to returns. Stock selection in the information technology, financials, and energy sectors detracted the most from performance.

Humana and Louisiana-Pacific were the strongest stock contributors in the quarter.

- Health insurer Humana's shares rose on attractive earnings and overall sector strength. The company also reported upbeat forward-looking guidance, even before Congress eliminated a major Affordable Care Act health insurance tax beginning in 2021, which should prove beneficial for the firm. We held our position, as we see more upside in the stock in light of its strong fundamentals and reasonable multiples after being pressured for most of 2019 due to the Medicare for All election rhetoric.
- Building materials manufacturer Louisiana-Pacific's stock climbed early in the quarter. The oriented strand board (a type of engineered wood) producer has benefited from low interest rates and a slowdown in manufacturing that has resulted in higher-cost competitor plant closures. This reduced industry capacity has helped the low-cost provider pick up market share and increase margins.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	20.60	15.76
Dividend Yield (%)	2.18	2.24
Price-to-Earnings*	19.63	18.69
Price-to-Book	2.17	1.97
Price-to-Sales	1.60	1.41
Std. Dev. (3 yr) (%)	12.80	12.79
Alpha (3 yr) (%)	3.93	0.00
Beta (3 yr)	0.99	1.00
Std. Dev. (5 yr) (%)	13.12	12.51
Alpha (5 yr) (%)	2.39	0.00
Beta (5 yr)	1.02	1.00

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

TOP

CONTRIBUTORS ^{1,2} (%)	Average Weight	Relative Attribution
Humana Inc.	4.06	1.43
Louisiana-Pacific Corp.	1.23	0.31
Zions Bancorporation, N.A.	2.48	0.25
Best Buy Co., Inc.	1.36	0.24
Energizer Holdings Inc.	3.22	0.23
Rockwell Automation, Inc.	1.07	0.22
Kennametal Inc.	1.30	0.21
Pinnacle Financial Partners, Inc.	2.90	0.20
BorgWarner Inc.	1.50	0.17
KLA Corp.	2.29	0.16

TOP

DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
Progressive Corp.	3.05	-0.35
Motorola Solutions, Inc.	2.95	-0.31
Spirit AeroSystems Holdings, Inc. Class A	1.47	-0.29
Edison International	0.61	-0.25
Public Service Enterprise Group Inc.	2.26	-0.16
Western Digital Corp.	3.07	-0.13
American Campus Communities, Inc.	1.82	-0.12
Cabot Microelectronics Corp.	0.82	-0.12
Hartford Financial Services Group, Inc.	2.45	-0.11
FirstEnergy Corp.	2.61	-0.09

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Zimmer Biomet Holdings, Inc.	5.00
Progressive Corp.	3.45
Motorola Solutions, Inc.	3.31
Xilinx, Inc.	3.27
Willis Towers Watson Public Limited Company	3.20
Diamondback Energy, Inc.	3.15
Energizer Holdings Inc.	2.84
KLA Corp.	2.77
Humana Inc.	2.74
FirstEnergy Corp.	2.65

All data as of 12/31/19. 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.

Progressive and Motorola Solutions were the largest stock detractors in the quarter.

- Car insurer Progressive lagged on seasonally elevated loss ratios and severity rates, as well as expected 2020 margin deterioration in the segment. We took advantage of the price softness to add to our position, given the firm’s strong underwriting and technology, which should help it benefit from a more aggressive pricing cycle.
- Communications equipment company Motorola Solutions pulled back on investor profit-taking after an extended run-up in the stock, as the firm issued lower-than-expected 2020 organic growth guidance. We added to our position. Fundamentals remain strong, and we expect the company is being conservative in its outlook, as it was in 2019.

PORTFOLIO CHANGES

New holdings added in the quarter included Comerica and Sabre. We exited Edison International and AmerisourceBergen.

- We bought banking company Comerica. The company appeared to be trading at attractive valuations relative to its segment, and we believe it should benefit from the benign credit environment and potential loan growth. Net interest margins are also likely near bottom.
- We purchased travel technology firm Sabre, the largest global distribution systems provider for air bookings in North America. We expect the firm to benefit from acquisition-related cost synergies and increased airline capacity, which should help to drive earnings expansion.
- We sold California public utility Edison International after the stock fell on continued worries around liability exposures from the state’s wildfires. The company also reported disappointing earnings.
- We sold drug wholesale company AmerisourceBergen, which has been weighed down by its exposure to the opioid crisis. Although it is involved in distribution, not prescribing the medicine, the business is likely to face continued settlement and regulatory pressures that will hold down multiples, despite overall solid fundamentals.

PERFORMANCE ATTRIBUTION (%) AS OF 12/31/19

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	3.39	3.86	-0.02	-0.16	-0.18
Consumer Discretionary	5.66	9.11	-0.04	0.82	0.79
Consumer Staples	4.20	4.68	-0.03	0.31	0.28
Energy	7.86	5.73	0.14	-0.24	-0.10
Financials	20.58	18.39	-0.04	-0.24	-0.28
Healthcare	11.78	6.87	0.14	1.56	1.70
Industrials	8.78	11.80	-0.13	-0.08	-0.21
Information Technology	14.38	7.61	0.39	-1.26	-0.87
Materials	4.92	6.74	-0.04	0.35	0.31
Real Estate	9.32	13.98	0.32	0.73	1.05
Utilities	9.12	11.23	0.17	-0.16	0.02
Total			0.86	1.64	2.51

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

Our general outlook remains largely unchanged. As bottom-up investors, our focus remains on company fundamentals. At the macro level, the market backdrop continues to be largely positive to this approach. Consumer confidence remains high, employment is strong, and wages are starting to grow. Credit spreads remain tight, central banks worldwide remain accommodative, and the dollar has weakened. Company fundamentals also remain solid. The one major negative has been business confidence, which has kept capital-expenditure spending low. Should the recent trade resolutions begin to reverse this situation, the boon to markets could be considerable. Still, great uncertainty and geopolitical risk exist at this later stage in the cycle. Earnings have the potential to grow in the current climate, but expansion is likely more limited. The key is to stay focused on fundamentals, and we remain confident in our companies’ ability to meet and exceed their growth and earnings expectations.

PERFORMANCE COMPARISON (%) AS OF 12/31/19

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Mid-Cap Value Equity Composite (Gross)	8.49	34.43	34.43	12.19	10.26	13.71
Mid-Cap Value Equity Composite (Net)	8.29	33.45	33.45	11.36	9.44	12.87
Russell Midcap® Value Index	6.36	27.06	27.06	8.10	7.62	12.41
eVestment Alliance Midcap Value Median*	7.31	28.25	28.25	8.28	8.10	11.86
# of Portfolios in Median Calculation	99	99	99	96	94	84

eVestment Alliance data capture date: 1/27/20

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 – 12/31/19

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	34.43	33.45	27.06	8	N/A	12.80	12.79	4,600	9,062
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

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.