

# Portfolio Commentary

## Large 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 1000® Value Index rose 7.41% with gains in all sectors except real estate (-0.02%), led by information technology (+12.20%), healthcare (+12.02%), and financials (+10.00%).

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 Large Cap Value Equity Composite's return of 9.04% (gross)/8.84% (net) outperformed the Russell 1000 Value Index's return of 7.41%. Stock selection in the healthcare and consumer discretionary sectors and an overweight position in the information technology sector added the most to returns. Stock selection in the industrials and information technology sectors detracted the most from performance.

Humana and Cigna were the strongest stock contributors in the quarter.

- Health insurers Humana and Cigna both rose on attractive earnings and overall healthcare sector strength. Both companies 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 firms. We held both positions after some profit taking. We see more upside in both stocks, given their strong fundamentals and reasonable multiples, which were pressured for most of 2019 due to Medicare for All election rhetoric.

Boeing and Progressive were the largest stock detractors in the quarter.

- Commercial jetliner and defense systems manufacturer Boeing continued to lag due to disappointing news around its troubled 737 Max aircraft. The planes have been grounded for most of the past year, which has pressured earnings and the stock price. Also, the company announced in December that production would be halted as a result of uncertain FAA reservice approval, with no date set for when it will resume. We took advantage of lower valuations to add to our position, as we expect Boeing will end up successfully resolving the 737 Max issues, even if it is taking longer than expected. When it does, we believe the stock should enjoy attractive upside.

<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.

### PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	129.08	130.61
Dividend Yield (%)	2.27	2.43
Price-to-Earnings*	20.04	18.46
Price-to-Book	2.44	2.05
Price-to-Sales	1.75	1.68
Std. Dev. (3 yr) (%)	12.56	11.85
Alpha (3 yr) (%)	1.68	0.00
Beta (3 yr)	1.04	1.00
Std. Dev. (5 yr) (%)	12.62	11.88
Alpha (5 yr) (%)	0.74	0.00
Beta (5 yr)	1.04	1.00

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

### TOP

CONTRIBUTORS <sup>1,2</sup> (%)	Average Weight	Relative Attribution
Humana Inc.	4.09	1.28
Cigna Corp.	2.86	0.72
Diamondback Energy, Inc.	1.56	0.46
Bank of America Corp.	4.25	0.30
Emerson Electric Company	4.06	0.28
Marriott International, Inc. Class A	1.27	0.25
JP Morgan Chase & Company	4.95	0.23
QUALCOMM Inc.	2.30	0.20
Best Buy Co., Inc.	0.99	0.18
Lennar Corp. Class A	0.55	0.16

### TOP

DETRACTORS <sup>1,2</sup> (%)	Average Weight	Relative Attribution
Boeing Company	3.66	-0.82
Progressive Corp.	4.02	-0.52
Motorola Solutions, Inc.	3.86	-0.47
BP PLC Sponsored ADR	3.72	-0.24
L3Harris Technologies Inc.	1.61	-0.16
Crown Castle International Corp.	3.22	-0.13
Xilinx, Inc.	3.34	-0.12
CSX Corp.	4.51	-0.11
Fidelity National Information Services, Inc.	4.47	-0.10
FedEx Corp.	0.69	-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)

JP Morgan Chase & Company	5.08
Zimmer Biomet Holdings, Inc.	4.88
Fidelity National Information Services, Inc.	4.52
Bank of America Corp.	4.26
Wells Fargo & Company	4.15
Progressive Corp.	4.14
Emerson Electric Company	3.94
Motorola Solutions, Inc.	3.85
Xilinx, Inc.	3.85
Chevron Corp.	3.81

All data as of 12/31/19. Source: FactSet.

- 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.

## PORTFOLIO CHANGES

During the quarter, we initiated a position in Deere. Notable exits included Honda Motor and Omnicom Group, as well as a number of stocks that had reached our price targets.

- We bought heavy machinery manufacturer Deere. The stock has been trading at attractive valuations due to trade and agricultural concerns, and we expect it to benefit from improving supply/demand dynamics in farming equipment.
- We exited automobile manufacturer Honda Motors and advertising firm Omnicom Group, as these stocks have generally lagged our expectations, and we found stronger investment opportunities looking out over the next 12 months.
- We sold finance and insurance company AIG, consumer electronics retailer Best Buy, food manufacturer Kellogg, homebuilder Lennar, motion and control technology manufacturer Parker-Hannifin, and industrial automation firm Rockwell Automation when the stocks reached our price targets. We used the funds mainly to add to existing cyclical names in the portfolio that had been hit hard early in the quarter on trade tensions.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	5.82	8.15	0.01	-0.05	-0.05
Consumer Discretionary	1.65	5.88	0.09	0.74	0.82
Consumer Staples	0.00	8.87	0.33	-0.01	0.33
Energy	12.19	8.21	0.10	0.06	0.17
Financials	20.56	23.88	-0.20	0.09	-0.11
Healthcare	13.16	12.95	0.12	1.44	1.56
Industrials	22.24	9.69	0.22	-1.10	-0.88
Information Technology	15.64	6.27	0.47	-1.09	-0.63
Materials	2.30	4.31	0.00	0.03	0.03
Real Estate	3.26	5.17	0.17	0.10	0.27
Utilities	3.17	6.61	0.26	0.14	0.40
<b>Total</b>			<b>1.56</b>	<b>0.35</b>	<b>1.90</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

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
Large Cap Value Equity Composite (Gross)	9.04	31.89	31.89	11.81	9.39	12.65
Large Cap Value Equity Composite (Net)	8.84	30.93	30.93	10.98	8.58	11.82
Russell 1000® Value Index	7.41	26.54	26.54	9.68	8.29	11.80
eVestment Alliance Large Cap Value Median*	7.75	26.69	26.69	10.65	8.78	11.93
# of Portfolios in Median Calculation	376	376	376	366	354	302

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 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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# Q4 | 2019 Large Cap Value Equity

LARGE CAP VALUE EQUITY COMPOSITE 7/1/98 – 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	31.89	30.93	26.54	13	0.16	12.56	11.85	2,768	9,062
2018	-9.52	-10.20	-8.27	15	0.05	11.53	10.82	2,654	7,722
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

**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.