

Portfolio Commentary

Small Cap Value Equity

Q2 | 2020

MARKET REVIEW

The second quarter saw U.S. stock markets rebounding from the prior quarter's steep sell-off. Investors' initial fears around the economic destruction due to COVID-19-forced shutdowns began to recede in response to massive U.S. monetary and fiscal stimulus actions. Healthcare workers also began to learn more about how to deal with the virus, and some states announced plans to reopen their economies.

Despite bleak unemployment and GDP numbers, investors took the more positive news as an indication that markets were oversold in the initial pandemic reaction, prompting a broad momentum snapback across stock valuations, led by higher-beta growth and small-cap stocks. However, the realities of the many uncertainties overhanging the market began to mute this risk rally toward the end of the quarter. Against this backdrop, the Russell 2000® Value Index climbed 18.91%, with the strongest gains in the consumer discretionary (+63.60%), healthcare (+33.99%), and materials (+30.08%) sectors. Only the utilities sector experienced a decline (-4.84%).

PERFORMANCE

For the quarter, the Ceredex Small Cap Value Equity Composite's return of 17.65%/17.37% (gross/net) underperformed the Russell 2000 Value Index's return of 18.91%. An underweight position in the consumer discretionary sector and stock selection in healthcare and financials weighed the most on performance. Stock selection in the information technology sector, an underweight position in utilities, and an overweight position in materials added the most to returns.

Power Integrations and W. R. Grace were the strongest stock contributors to relative performance.

- Semiconductor manufacturer Power Integrations continued to be a top portfolio performer. The company makes niche chips for charging apparatuses and has benefited from strong product demand and a pristine balance sheet. We slightly trimmed our position to maintain its size, and continue to see a long growth runway for the company.
- Specialty chemical company W. R. Grace rebounded on softening concerns around temporary reduced volumes resulting from the COVID shutdowns. The firm also has been very efficient in managing its operations and inventories. We held our position as we expect demand will continue to normalize as economies open up.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	4.65	1.66
Dividend Yield (%)	2.31	3.18
Price-to-Earnings*	17.87x	10.66x
Price-to-Book	2.08x	0.98x
Price-to-Sales	1.61x	0.60x
Std. Dev. (3 yr) (%)	23.03	23.25
Alpha (3 yr) (%)	1.68	0.00
Beta (3 yr)	0.97	1.00
Std. Dev. (5 yr) (%)	19.63	20.57
Alpha (5 yr) (%)	0.80	0.00
Beta (5 yr)	0.91	1.00

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

TOP CONTRIBUTORS ^{1,2} (%)	Average Weight	Relative Attribution
Power Integrations, Inc.	5.22	0.70
W R Grace & Co.	2.52	0.50
Monolithic Power Systems, Inc.	2.50	0.44
Penske Automotive Group, Inc.	1.76	0.39
MKS Instruments, Inc.	2.00	0.34
Ashland Global Holdings, Inc.	1.96	0.31
Physicians Realty Trust	4.73	0.31
Pentair plc	3.60	0.28
Energizer Holdings Inc.	0.84	0.25
EnerSys	2.28	0.24

TOP DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
Kemper Corp.	5.14	-1.36
SLM Corp.	3.43	-0.71
Hill-Rom Holdings, Inc.	5.23	-0.55
Healthcare Trust of America, Inc. Class A	4.58	-0.36
Cubic Corp.	0.50	-0.31
Aptargroup, Inc.	4.46	-0.31
Healthcare Realty Trust Inc.	1.86	-0.31
First Hawaiian, Inc.	2.27	-0.30
Horace Mann Educators Corp.	1.35	-0.23
CubeSmart	1.03	-0.19

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Kemper Corp.	5.04
Power Integrations, Inc.	5.03
Hill-Rom Holdings, Inc.	4.97
Physicians Realty Trust	4.81
Quanta Services, Inc.	4.60
Healthcare Trust of America, Inc. Class A	4.47
AptarGroup, Inc.	4.43
First American Financial Corp.	4.13
Pentair plc	3.75
SLM Corp.	3.04

All data as of 6/30/20. 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.

Kemper and SLM were the largest stock detractors from relative performance.

- Insurance provider Kemper lagged as investors favored higher-beta, higher-risk-profile securities in the market upswing. The firm continued to deliver attractive financial results, and we maintained our position as we view the stock as undervalued.
- Consumer banking company SLM, best known for its education loan business Sallie Mae, underperformed given the uncertain outlook for how the college student market might look in the fall and over the next academic year. We held our position in view of indications that most campuses will likely resume with onsite students, with some adaptations. At current valuations, we believe the stock should enjoy a strong recovery path.

PORTFOLIO CHANGES

We bought two new holdings, Brooks Automation and CONMED. Notable exits included Cubic Corporation, American Eagle Outfitters, Herman Miller, and Penske Automotive.

- Semiconductor manufacturer Brooks Automation offered an attractive buying opportunity below its historical valuation range after the COVID market sell-off, given the company's strong fundamentals and increasing product demand.
- Surgical and medical instrument manufacturer CONMED also appeared to be favorably priced after being oversold on concerns about temporary bans on elective surgeries.
- We exited Cubic Corporation, one of the largest providers of toll road and transit authority equipment, due to greater uncertainty around key revenue drivers such as contactless payment systems for subways and buses.
- We sold clothing company American Eagle Outfitters, furniture company Herman Miller, and transportation services and dealership company Penske Automotive after all of these companies eliminated their dividends.

PERFORMANCE ATTRIBUTION (%) AS OF 6/30/20

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	0.99	2.42	0.12	-0.01	0.11
Consumer Discretionary	0.88	10.91	-2.34	-0.55	-2.89
Consumer Staples	3.75	3.51	0.02	0.07	0.09
Energy	0.00	4.44	-0.27	0.00	-0.27
Financials	25.65	28.96	0.22	-0.84	-0.62
Healthcare	9.42	6.21	0.22	-1.68	-1.46
Industrials	17.35	16.08	0.15	-0.05	0.10
Information Technology	18.58	6.16	-0.15	2.38	2.22
Materials	9.27	5.47	0.52	-0.45	0.07
Real Estate	14.12	10.43	-0.12	0.22	0.10
Utilities	0.00	5.42	1.69	0.00	1.69
Total			0.06	-0.92	-0.85

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 outlook remains dependent on the trajectory of the pandemic, as that will continue to shape any economic recovery. The good news is that there are now more therapeutics that appear to help lower death rates, a key metric the market is paying closer attention to than new cases alone, as well as positive signs in vaccine development. Still, there is a tremendous amount of investment uncertainty. Many companies have suspended any forward-looking guidance, and COVID-19 hospitalizations are also increasing across Sun Belt and western states. Add in a heating-up U.S. election cycle, and it is easy to see how volatility could quickly escalate.

Even so, we continue to find relatively attractive investment potential at current valuations, with a longer-term perspective in mind. Our emphasis is on companies that we believe are positioned to emerge from the pandemic in relatively solid financial shape and that are able to leverage and adapt their business models for the new normal. Our strict focus on dividends has also offered important insights into business health and management recovery outlooks. Throughout the crisis, these criteria have once again proven to be a very valuable component of our research process.

PERFORMANCE COMPARISON (%) AS OF 6/30/20

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Small Cap Value Equity Composite (Gross)	17.65	-21.60	-18.42	-2.64	1.94	9.08
Small Cap Value Equity Composite (Net)	17.37	-22.01	-19.25	-3.61	0.92	7.99
Russell 2000® Value Index	18.91	-23.50	-17.48	-4.35	1.26	7.82
eVestment Alliance Small Cap Value Median*	20.93	-21.73	-15.72	-3.29	1.71	9.20
# of Portfolios in Median Calculation	232	232	232	226	217	195

eVestment Alliance data capture date: 7/21/20

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 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. **Market Volatility:** Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the fund and its investments, including hampering the ability of the fund's portfolio manager(s) to invest the fund's assets as intended.

For information, contact:

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SMALL CAP VALUE EQUITY COMPOSITE 1/1/98 – 6/30/20

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		
2020 YTD	-21.60	-22.01	-23.50	14	0.13	23.03	23.25	1,172	6,974
2019	18.64	17.47	22.39	14	0.27	15.85	15.68	1,494	9,062
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

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, 2019. 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 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, 0.75% on the next \$50 million and 0.65% on all over \$100 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.