

Portfolio Commentary

Large 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 1000® Value Index climbed 14.29%, with the strongest gains in the energy (+32.32%), consumer discretionary (+29.93%), and materials (+27.64%) sectors, and the smallest gains in the utilities (+2.85%) and consumer staples (+7.79%) segments.

PERFORMANCE

For the quarter, the Ceredex Large Cap Value Equity Composite's return of 15.47%/15.28% (gross/net) outperformed the Russell 1000 Value Index's return of 14.29%. Stock selection in the information technology, healthcare, and consumer discretionary sectors, combined with overweight positions in technology and materials and an underweight position in consumer staples, contributed the most to performance. Stock selection in materials and communication services, combined with underweight positions in the energy and consumer discretionary sectors, weighed the most on returns.

QUALCOMM and BorgWarner were the strongest stock contributors to relative performance.

- Semiconductor manufacturer QUALCOMM strongly rebounded after coming under extreme pressure in the first quarter sell-off. The company is well positioned to benefit as the next generation of 5G mobile-device technology begins to be introduced into the market. It also has a new product cycle starting with the new Apple iPhone, which is expected to launch by year end. While we made some opportunistic trades in the stock to capitalize on market volatility, we continued to hold roughly the same-sized portfolio position.
- Automotive parts supplier BorgWarner outperformed after we purchased the stock during last quarter's sharp decline. Both the expected acquisition of Delphi Technologies and the ongoing transition to hybrid and electric vehicle technology—an area of competitive strength for the company—should help drive attractive growth potential looking ahead.

PORTFOLIO

CHARACTERISTICS	Portfolio Benchmark	
Market Cap (\$b)	96.56	113.59
Dividend Yield (%)	2.38	2.80
Price-to-Earnings*	21.51x	17.32x
Price-to-Book	2.62x	1.91x
Price-to-Sales	1.99x	1.48x
Std. Dev. (3 yr) (%)	18.95	17.84
Alpha (3 yr) (%)	1.37	0.00
Beta (3 yr)	1.05	1.00
Std. Dev. (5 yr) (%)	16.39	15.52
Alpha (5 yr) (%)	1.06	0.00
Beta (5 yr)	1.04	1.00

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

TOP CONTRIBUTORS ^{1,2} (%)	Average Weight	Relative Attribution
QUALCOMM Inc.	4.16	0.75
BorgWarner Inc.	1.95	0.55
Xilinx, Inc.	4.12	0.46
Stanley Black & Decker, Inc.	1.38	0.46
Humana Inc.	3.05	0.41
Microsoft Corp.	2.90	0.39
Advance Auto Parts, Inc.	1.38	0.29
American International Group, Inc.	1.69	0.26
Marathon Petroleum Corp.	1.53	0.20
AMETEK, Inc.	1.72	0.19

TOP DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
L3Harris Technologies Inc.	3.62	-0.68
NextEra Energy, Inc.	4.50	-0.55
Becton, Dickinson and Co.	4.86	-0.39
Wells Fargo & Co.	2.84	-0.35
Capital One Financial Corp.	0.36	-0.31
Chevron Corp.	1.51	-0.29
Merck & Co., Inc.	2.59	-0.20
American Electric Power Company, Inc.	1.99	-0.20
Vulcan Materials Co.	0.80	-0.17
Kellogg Co.	3.12	-0.15

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Becton, Dickinson and Co.	4.92
Abbott Laboratories	4.73
Merck & Co., Inc.	4.72
QUALCOMM Inc.	4.49
Xilinx, Inc.	4.49
Bank of America Corp.	4.47
NextEra Energy, Inc.	4.38
Honeywell International Inc.	4.34
Crown Castle International Corp.	3.72
Air Products and Chemicals, Inc.	3.50

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.

L3Harris Technologies and NextEra Energy were the largest stock detractors to relative performance.

- Defense contractor L3Harris Technologies underperformed on growing market expectations for a Democratic sweep in the November federal elections. This appears to be more about perceived threat versus actual risk, since there is no historical correlation between defense spending and the incumbent political party. We believe in the company's strong prospects after completing last year's powerhouse acquisition that combined information technology services provider Harris Corp. with sensor and night-vision equipment maker L3 Technologies, and we purchased more of the stock.
- Electric services company NextEra Energy lagged on muted returns across the utilities sector. We continued to hold our position given the firm's attractive fundamentals.

PORTFOLIO CHANGES

We purchased Agilent Technologies and AMETEK for the portfolio in the quarter, and we sold Fastenal, IDEX, and Wells Fargo.

- We bought laboratory instrument manufacturer Agilent Technologies and electronic instruments manufacturer AMETEK as both companies appeared to be undervalued relative to their strong fundamentals after the COVID-19 market sell-off.
- We sold industrial supplies company Fastenal and fluidics manufacturer IDEX when the companies reached our price targets.
- We exited Wells Fargo as the bank has continued to be highly scrutinized by regulators, which has persistently weighed on share valuations.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	4.19	9.33	0.07	-0.31	-0.23
Consumer Discretionary	4.47	6.98	-0.34	0.47	0.13
Consumer Staples	2.47	8.12	0.49	0.12	0.61
Energy	3.86	5.28	-0.69	-0.17	-0.85
Financials	11.56	18.52	0.19	-0.01	0.17
Healthcare	19.84	14.08	-0.10	0.85	0.75
Industrials	17.50	12.34	0.25	-0.20	0.05
Information Technology	13.81	10.22	0.37	0.83	1.20
Materials	8.37	4.48	0.39	-0.62	-0.22
Real Estate	6.71	4.75	0.00	0.06	0.06
Utilities	7.22	5.91	0.13	-0.20	-0.07
Total			0.76	0.82	1.58

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
Large Cap Value Equity Composite (Gross)	15.47	-16.65	-5.57	3.13	5.82	11.12
Large Cap Value Equity Composite (Net)	15.28	-16.96	-6.27	2.36	5.04	10.30
Russell 1000® Value Index	14.29	-16.26	-8.84	1.82	4.64	10.41
eVestment Alliance Large Cap Value Median*	16.11	-14.52	-6.34	3.13	5.40	10.96
# of Portfolios in Median Calculation	366	366	366	361	346	296

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 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. **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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LARGE CAP VALUE EQUITY COMPOSITE 7/1/98 – 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	-16.65	-16.96	-16.26	14	0.30	18.95	17.84	2,257	6,974
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, 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 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: 0.60% on the first \$10 million, 0.55% on the next \$40 million, 0.45% on the next \$50 million and 0.40% on all over \$100 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.