

Portfolio Commentary

Mid-Cap Value Equity

Q3 | 2020

MARKET REVIEW

U.S. stocks continued their broad upward trajectory in the third quarter, despite gains fading for most of September. The Russell Midcap® Value Index climbed 6.40%, with all but one sector rising. The strongest sectors were communication services (+15.38%), consumer discretionary (+14.60%), and materials (+13.09%), and the weakest were in financials (+2.40%), real estate (+0.11%), and energy (-16.24%).

It is easy to see why stocks have continued to do well, coming off their steep losses earlier in the year. Optimism around more effective COVID-19 treatments and the promise of a likely vaccine sometime in 2021, continued massive monetary support from the Federal Reserve, and the U.S. government's massive fiscal stimulus response with general expectations for more to come have all helped to spark a V-shaped recovery in corporate profits across many areas of the market. While earnings growth remains below 2019 levels, the threat of recession seems to have been largely avoided for now, giving investors much to cheer about in the current environment.

PERFORMANCE

For the quarter, the Ceredex Mid-Cap Value Equity Composite returned 6.43%/6.24% (gross/net), as compared to the Russell Midcap Value Index, which returned 6.40%. Stock selection in the utilities and consumer staples sectors and an underweight position in the consumer discretionary sector weighed the most on performance. An underweight position in the energy sector and stock selection in the financials and healthcare sectors added the most to returns.

Capital One Financial and PerkinElmer were the strongest stock contributors to relative performance.

- Shares of Capital One Financial, one of the Fund's largest holdings, climbed as investors realized that it had likely held too much in reserves for a potential increase in bad credit exposures from the COVID-19 lockdown. The bank holding company will probably begin releasing these reserves over the next few quarters, pointing to continued earnings expectations that appeared too low based on current valuations. We added to our position given this strong tailwind.
- Science research company PerkinElmer rose on strength in lab testing. The company has been a clear beneficiary of the large increase in COVID-19 testing, as it offers some of the best instruments on the market. It also enjoys a number of state contracts that should prove highly accretive over the next few years. We bought more of the stock.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	23.78	15.48
Dividend Yield (%)	1.58	2.48
Price-to-Earnings*	25.09x	20.17x
Price-to-Book	2.47x	1.83x
Price-to-Sales	1.81x	1.22x
Std. Dev. (3 yr) (%)	21.61	21.15
Alpha (3 yr) (%)	2.96	0.00
Beta (3 yr)	1.01	1.00
Std. Dev. (5 yr) (%)	18.30	17.79
Alpha (5 yr) (%)	2.55	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
Capital One Financial Corp.	4.09	0.45
PerkinElmer, Inc.	1.92	0.35
Progressive Corp.	2.49	0.30
Motorola Solutions, Inc.	4.78	0.27
Sysco Corp.	1.46	0.23
Celanese Corp.	1.49	0.20
PPG Industries, Inc.	2.32	0.19
Agilent Technologies, Inc.	2.97	0.17
Marvell Technology Group Ltd.	1.78	0.17
Avery Dennison Corp.	2.01	0.15

TOP

DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
FirstEnergy Corp.	0.86	-0.71
Energizer Holdings Inc.	3.02	-0.69
Medical Properties Trust, Inc.	2.17	-0.35
Pinnacle Financial Partners, Inc.	1.46	-0.29
Zions Bancorporation, N.A.	1.60	-0.29
FLIR Systems, Inc.	1.69	-0.27
Eergy, Inc.	0.74	-0.23
Analog Devices, Inc.	0.64	-0.20
Phillips 66	0.44	-0.16
Teleflex Inc.	1.41	-0.16

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Motorola Solutions, Inc.	5.20
Capital One Financial Corp.	5.18
Xilinx, Inc.	4.31
Agilent Technologies, Inc.	3.20
L3Harris Technologies Inc.	2.90
BorgWarner Inc.	2.86
Marvell Technology Group Ltd.	2.80
KLA Corp.	2.73
PerkinElmer, Inc.	2.65
Energizer Holdings Inc.	2.48

All data as of 9/30/20. 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.

FirstEnergy and Energizer Holdings were the largest stock detractors from relative performance.

- Shares of FirstEnergy fell on the announcement that the electric utility company had been subpoenaed in connection with Ohio House Bill 6. The bill, signed into law in July 2019, relaxed renewable energy standards in the state, but now involves accusations of bribery and illicit payments that include the company. We exited the position on the news.
- Battery manufacturer Energizer Holdings lagged on disappointing profitability from increased logistics costs. While sales and revenue gains remained strong in its battery and auto care businesses, higher shipping and employee expenses weighed on earnings. We continued to hold our position as we believe these are likely short-term obstacles.

PORTFOLIO CHANGES

During the quarter, there were several notable portfolio exits, including FirstEnergy (discussed above). Several new positions were also added, including Carrier Global, NXP Semiconductors, and Synchrony Financial.

- In addition to selling FirstEnergy, we sold a number of stocks as they reached our price targets, including Alexandria Real Estate Equities, Analog Devices, Best Buy, Broadridge Financial Solutions, and Kroger.
- We bought HVAC equipment company Carrier Global, one of the new firms created when United Technologies split into three separate companies. The standalone business stands to benefit from higher replacement demand from people spending more time at home, as well as increased retrofitting of corporate ventilation systems to help address COVID-19 concerns.
- We used some of the proceeds from the sale of Analog Devices to initiate a position in chip manufacturer NXP Semiconductors, which we believe offers a more compelling risk/reward profile at current valuations.
- We bought Synchrony Financial, a consumer financial services company with an attractive affinity credit card business.

PERFORMANCE ATTRIBUTION (%) AS OF 9/30/20

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	0.00	4.07	-0.31	0.00	-0.31
Consumer Discretionary	4.85	11.99	-0.39	-0.20	-0.58
Consumer Staples	4.89	4.42	-0.02	-0.45	-0.48
Energy	1.51	3.41	0.77	0.00	0.78
Financials	13.52	14.79	0.00	0.73	0.74
Healthcare	15.26	7.91	0.10	0.53	0.63
Industrials	21.92	17.35	0.05	-0.15	-0.10
Information Technology	26.00	9.61	-0.09	0.08	0.00
Materials	6.38	7.06	0.01	0.23	0.24
Real Estate	5.67	10.39	0.24	0.01	0.25
Utilities	0.00	9.01	0.01	-0.96	-0.95
Total			0.38	-0.17	0.21

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

We continue to see a largely favorable environment for U.S. stocks. The optics of the recovery have been aggressively strong for earnings growth. The Federal Reserve has been sending a clear message that it is firmly on the side of investors, committing to a very accommodative policy for an extended period of time. Investors also seem to be largely expecting that, despite the current gridlock in Washington, a new round of fiscal stimulus will ultimately be approved, although questions remain around size and timing. Even with the upcoming election, it seems that past investor concerns about increased tax and regulatory burdens from a potential change in administration have given way to growing comfort with the odds of a “blue wave.” Against this backdrop, our focus remains squarely focused on company fundamentals, and we view current overall fundamentals as generally very sound.

PERFORMANCE COMPARISON (%) AS OF 9/30/20

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Mid-Cap Value Equity Composite (Gross)	6.43	-15.30	-8.11	3.70	9.07	10.56
Mid-Cap Value Equity Composite (Net)	6.24	-15.78	-8.80	2.93	8.26	9.74
Russell Midcap® Value Index	6.40	-12.84	-7.30	0.82	6.38	9.71
eVestment Alliance Midcap Value Median*	5.09	-15.12	-8.97	0.13	6.24	9.52
# of Portfolios in Median Calculation	104	104	104	103	99	90

eVestment Alliance data capture date: 10/19/20

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.

Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

This information and general market-related projections are based on information available at the time, are subject to change without notice, are for informational purposes only, are not intended as individual or specific advice, may not represent the opinions of the entire firm, and may not be relied upon for individual investing purposes. Information provided is general and educational in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. This information may coincide or conflict with activities of the portfolio managers. It is not intended to be, and should not be construed as investment, legal, estate planning, or tax advice. Ceredex Value Advisors does not provide legal, estate planning or tax advice. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decisions. Portfolio characteristics, sector analysis, and holdings exclude cash and may change at any time without notice.

*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 issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended.

For information, contact:

Ceredex Value Advisors | 407-674-1270 | www.ceredexvalue.com

Q3 | 2020 Mid-Cap Value Equity

MID-CAP VALUE EQUITY COMPOSITE 4/1/02 – 9/30/20

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	-15.30	-15.78	-12.84	7	N/A	21.61	21.15	3,404	6,959
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, 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 Mid-Cap Value Strategy composite includes all fully discretionary separately managed investment accounts, registered and unregistered 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® 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.