

# Portfolio Commentary

## Large 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 1000® Value Index climbed 5.59%, with the strongest increases in the consumer discretionary (+15.40%), materials (+11.96%), and industrials (+11.46%) sectors and losses in the information technology (-0.51%) and energy (-19.54%) sectors.

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 Large Cap Value Equity Composite returned 8.66%/8.50% (gross/net), outperforming the Russell 1000 Value Index, which returned 5.59%. Stock selection in the information technology and financials sectors and an overweight position in the industrials sector added the most to performance. Stock selection in the industrials sector and an underweight position and stock selection in the consumer discretionary sector weighed the most on returns.

QUALCOMM and Air Products and Chemicals were the strongest stock contributors to relative performance in the quarter.

- Semiconductor manufacturer QUALCOMM climbed on news that a U.S. Appeals Court overturned the Federal Trade Commission's antitrust suit against the company, as well as the announcement of a new licensing deal with China's Huawei Technologies. We slightly trimmed our position but continued to hold the stock given its compelling competitive and royalty strengths in the 5G technology market.
- Industrial gases company Air Products and Chemicals rose on positive project announcements in its hydrogen business and solid financial results driven by strong merchant pricing. We maintained our position, as "green" hydrogen production is a major trend fueling the industry, and the company is well positioned in the space with a long runway of opportunity. It also offers a healthy balance sheet, and its take-or-pay client contracts have helped protect the stock during periods of market turbulence.

### PORTFOLIO

CHARACTERISTICS	Portfolio Benchmark	
Market Cap (\$b)	97.91	122.18
Dividend Yield (%)	1.97	2.63
Price-to-Earnings*	28.45x	19.71x
Price-to-Book	2.50x	1.97x
Price-to-Sales	1.65x	1.55x
Std. Dev. (3 yr) (%)	19.25	18.08
Alpha (3 yr) (%)	2.06	0.00
Beta (3 yr)	1.05	1.00
Std. Dev. (5 yr) (%)	16.30	15.37
Alpha (5 yr) (%)	1.54	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
QUALCOMM Inc.	4.49	0.95
Air Products and Chemicals, Inc.	2.71	0.57
Capital One Financial Corp.	3.91	0.41
NextEra Energy, Inc.	3.68	0.37
Honeywell International Inc.	4.39	0.30
Sysco Corp.	1.80	0.26
Zimmer Biomet Holdings, Inc.	2.77	0.24
Avery Dennison Corp.	2.63	0.22
AMETEK, Inc.	3.14	0.17
Stanley Black & Decker, Inc.	1.49	0.17

### TOP

DETRACTORS <sup>1,2</sup> (%)	Average Weight	Relative Attribution
Marathon Petroleum Corp.	1.39	-0.37
Chevron Corp.	2.08	-0.24
Becton, Dickinson and Co.	4.44	-0.19
Crown Castle International Corp.	3.95	-0.17
L3Harris Technologies Inc.	3.39	-0.15
Medical Properties Trust, Inc.	1.03	-0.11
Aptargroup, Inc.	1.45	-0.10
Bank of America Corp.	4.22	-0.09
Raytheon Technologies Corp.	0.84	-0.08
Coca-Cola European Partners Plc	0.77	-0.07

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

### TOP 10 HOLDINGS<sup>1</sup> (% of Portfolio)

Capital One Financial Corp.	4.52
QUALCOMM Inc.	4.50
Crown Castle International Corp.	4.28
Honeywell International Inc.	4.13
Becton, Dickinson and Co.	4.07
Merck & Co., Inc.	4.03
Bank of America Corp.	3.89
Xilinx, Inc.	3.77
Zimmer Biomet Holdings, Inc.	3.12
Willis Towers Watson Public Limited Co.	3.12

All data as of 9/30/20. Source: FactSet.

<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.

Marathon Petroleum and Chevron were the largest stock detractors from relative performance in the quarter.

- Oil refiner Marathon Petroleum underperformed on sector weakness and softening earnings estimate revisions. We still hold the stock, given the company’s potentially favorable capital reallocation with the sale of its Speedway business, but we continue to closely monitor the energy segment overall.
- Oil and gas company Chevron also suffered from broader energy sector declines. Lower peak demand forecasts and the increasing challenges facing the fossil fuel industry as investors and governments continue to move toward greener options have made it difficult to see a positive way forward for the stock any time soon, and we exited the position.

## PORTFOLIO CHANGES

New holdings added include CSX, Otis Worldwide, and Raytheon Technologies. There were also several notable portfolio exits in addition to Chevron (discussed earlier).

- We bought rail transportation firm CSX, which should benefit from rising logistics pricing due to tighter supply chains after shelter-in-place mandates and the resurgence in rail volumes after two years of general declines.
- We initiated positions in two of the new firms created when United Technologies split into three separate companies, where we believe valuations had been overly pressured by cyclical concerns from COVID-19. Elevator manufacturer Otis Worldwide offers a strong business where roughly 85% of its sales are annuity-like. Aerospace and defense product manufacturer Raytheon Technologies offers a well-priced way to play an anticipated recovery in commercial air travel as new therapies and vaccines for the virus are approved.
- In addition to exiting Chevron, we sold a number of stocks as they reached our price targets, including Abbott Laboratories, Advance Auto Parts, Illinois Tool Works, and Kellogg Company.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	1.73	9.60	-0.11	-0.06	-0.17
Consumer Discretionary	3.69	7.59	-0.19	-0.17	-0.36
Consumer Staples	4.83	8.37	-0.13	0.04	-0.09
Energy	2.35	3.99	0.29	0.07	0.36
Financials	13.59	18.12	0.06	0.45	0.52
Healthcare	16.24	14.33	0.07	0.31	0.38
Industrials	24.63	13.06	0.42	-0.57	-0.16
Information Technology	15.40	9.66	-0.14	2.11	1.97
Materials	8.42	4.75	0.36	0.18	0.54
Real Estate	6.01	4.57	0.00	-0.04	-0.04
Utilities	3.11	5.95	0.03	0.39	0.42
<b>Total</b>			<b>0.66</b>	<b>2.72</b>	<b>3.38</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

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
Large Cap Value Equity Composite (Gross)	8.66	-9.44	-1.25	4.69	9.52	10.90
Large Cap Value Equity Composite (Net)	8.50	-9.91	-1.95	3.92	8.73	10.09
Russell 1000® Value Index	5.59	-11.58	-5.03	2.63	7.66	9.95
eVestment Alliance Large Cap Value Median*	5.24	-10.25	-3.28	3.49	8.17	10.35
# of Portfolios in Median Calculation	367	367	367	361	347	300

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 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 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:

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# Q3 | 2020 Large Cap Value Equity

LARGE CAP VALUE EQUITY COMPOSITE 7/1/98 – 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	-9.44	-9.91	-11.58	14	0.31	19.25	18.08	2,310	6,959
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. As of June 1, 2020, Composite net of fee performance is calculated assuming a fee of 0.60%, the highest fee for this type of investment account. Prior to June 1, 2020, Composite net of fee performance was 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.