

Portfolio Commentary

Small 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. Small-cap securities generally lagged large-cap names, and the Russell 2000® Value Index climbed 2.56%, with mixed performance across sectors. The strongest increases were in the consumer discretionary (+20.91%), healthcare (+7.61%), industrials (+7.29%), and consumer staples (+7.14%) sectors. The communication services (-1.28%), real estate (-2.58%), utilities (-3.40%), financials (-3.88%), and energy (-9.97%) sectors all posted losses.

It is easy to see why many stocks continued to rise during the period, continuing to come off their steep losses from 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 profits for many companies. While earnings growth still remained below 2019 levels, the threat of recession seemed to have been largely avoided for now, giving investors reasons to cheer in the current environment.

PERFORMANCE

For the quarter, the Ceredex Small Cap Value Equity Composite's returned 2.44%/2.18% (gross/net), as compared to the Russell 2000 Value Index, which returned 2.56%. An underweight position in the consumer discretionary sector and stock selection in the healthcare and materials sectors weighed the most on performance. Stock selection in the industrials, financials, and real estate sectors added the most to returns.

Quanta Services and Pentair were the strongest stock contributors to relative performance.

- Specialty infrastructure contractor Quanta Services rose on strong earnings and favorable investor sentiment. Increased demand is expected for the electric power, pipeline, and industrial distribution line services the company provides. This includes over the short term as a result of this year's devastating wild fires, heavy rain and flooding, and vicious hurricane season, as well as long term due to the general move toward greener energy. We continued to hold the stock given its strong fundamentals.
- Pool and water treatment equipment company Pentair continued to rebound after being oversold earlier in the year. The company benefited from the increased demand for swimming pools prompted by shelter-in-place mandates and resiliency in its municipal pump and filtration business, both of which helped investors look past softness in its restaurant and hospitality industry exposures. We maintained our position as we see room for additional gains.

PORTFOLIO

CHARACTERISTICS	Portfolio	Benchmark
Market Cap (\$b)	4.82	1.86
Dividend Yield (%)	2.40	2.93
Price-to-Earnings*	18.01x	13.27x
Price-to-Book	2.05x	1.07x
Price-to-Sales	1.62x	0.61x
Std. Dev. (3 yr) (%)	22.79	23.23
Alpha (3 yr) (%)	1.79	0.00
Beta (3 yr)	0.95	1.00
Std. Dev. (5 yr) (%)	19.44	20.57
Alpha (5 yr) (%)	0.39	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
Quanta Services, Inc.	4.91	1.36
Pentair plc	4.06	0.66
Ritchie Bros. Auctioneers Inc.	1.62	0.54
SLM Corp.	3.28	0.44
Monolithic Power Systems, Inc.	2.91	0.40
Entegris, Inc.	1.28	0.26
Evercore Inc. Class A	2.47	0.25
Tetra Tech, Inc.	1.25	0.20
PerkinElmer, Inc.	0.91	0.19
First American Financial Corp.	4.26	0.19

TOP DETRACTORS ^{1,2} (%)	Average Weight	Relative Attribution
Hill-Rom Holdings, Inc.	4.34	-1.27
W. R. Grace & Co.	2.24	-0.56
Kemper Corp.	4.84	-0.43
First Hawaiian, Inc.	2.16	-0.39
Power Integrations, Inc.	4.52	-0.39
Bank of Hawaii Corp.	1.57	-0.33
FLIR Systems, Inc.	2.20	-0.32
Hanover Insurance Group, Inc.	1.87	-0.19
Reynolds Consumer Products Inc.	1.22	-0.18
Energizer Holdings Inc.	0.80	-0.16

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

TOP 10 HOLDINGS¹ (% of Portfolio)

Quanta Services, Inc.	5.10
Physicians Realty Trust	4.78
Healthcare Trust of America, Inc. Class A	4.41
Aptargroup, Inc.	4.35
Power Integrations, Inc.	4.33
Kemper Corp.	4.23
First American Financial Corp.	4.20
Pentair plc	4.15
SLM Corp.	3.83
Hill-Rom Holdings, Inc.	3.81

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.

Hill-Rom Holdings and W. R. Grace & Co. were the largest stock detractors from relative performance.

- Despite reporting strong financial results, medical technology company Hill-Rom Holdings underperformed the broader segment. One of its business lines makes ventilators and hospital beds, and investors showed increasing signs of fatigue around anything COVID-19 related, based on growing expectations for a vaccine and that the worst of the pandemic may be over. We added to our position on the price weakness, as we believe the company offers a long upside runway.
- Specialty chemical company W. R. Grace & Co. lagged on soft refinery product demand due to decreased oil and gas production. Investors seemed to discount the company's other value-add, higher-margin offerings and instead lump it in with the poor-performing commodity energy segment. We saw the pullback as a buying opportunity and purchased more of the stock.

PORTFOLIO CHANGES

During the quarter, IDACORP was the only new holding added. The only exit was Herman Miller.

- We bought electricity holding company IDACORP on its compelling valuation. The company is based in Idaho and expected to benefit from steady population acceleration as people continue to move from higher-cost areas, such as California, and from additional green energy build-outs.
- We sold office furniture retailer Herman Miller when it suspended its dividend.

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

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	2.04	2.36	-0.01	0.05	0.04
Consumer Discretionary	0.98	13.29	-1.80	-0.15	-1.95
Consumer Staples	3.30	3.66	-0.01	-0.44	-0.44
Energy	0.00	3.92	0.52	0.00	0.52
Financials	25.03	26.59	0.17	0.88	1.05
Healthcare	8.38	6.89	0.19	-1.52	-1.33
Industrials	18.89	16.83	0.09	2.03	2.13
Information Technology	18.09	6.00	-0.31	0.20	-0.11
Materials	8.77	5.62	0.18	-1.00	-0.81
Real Estate	14.14	9.86	-0.18	0.79	0.62
Utilities	0.38	4.99	0.30	-0.02	0.28
Total			-0.85	0.83	-0.02

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
Small Cap Value Equity Composite (Gross)	2.44	-19.69	-17.59	-3.22	4.12	7.89
Small Cap Value Equity Composite (Net)	2.18	-20.30	-18.42	-4.19	3.09	6.82
Russell 2000® Value Index	2.56	-21.54	-14.88	-5.13	4.11	7.09
eVestment Alliance Small Cap Value Median*	2.58	-19.76	-13.20	-3.72	4.40	8.46
# of Portfolios in Median Calculation	240	240	240	234	228	203

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 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 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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SMALL CAP VALUE EQUITY COMPOSITE 1/1/98 – 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	-19.69	-20.30	-21.54	14	0.18	22.79	23.23	1,187	6,959
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® 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.