# RIDGEWORTH INSIGHTS: VALUE EQUITY

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## RIDGEWORTH FUNDS

RidgeWorth Ceredex Large Cap Value Equity Fund
RidgeWorth Ceredex Mid-Cap Value Equity Fund
RidgeWorth Ceredex Small Cap Value Equity Fund

## EXECUTIVE SUMMARY


- U.S. and international markets rebounded after the Brexit shock in June
- After outperforming for the first half of the year, value stocks trailed growth in the third quarter
- Interest rate sensitive sectors gave back some of their first half gains, as cyclical sectors advanced


U.S. and global markets bounced back after the Brexit shock late in the second quarter, and investors' appetite for risk increased due to stable global economic data. The Russell 1000 Value Index returned 3.48%, compared to a 3.85% gain for the S&P 500 Index and a 4.58% return for the Russell 1000 Growth Index. Small cap value stocks also underperformed their growth-oriented peers. The Russell 2000 Value Index gained 8.87%, slightly lagging the Russell 2000 Growth Index, which returned 9.22%.

In the third quarter, investors showed a greater preference for growth stocks than they did during the first two quarters of the year. As the U.S. Federal Reserve Board (Fed) once again postponed raising the federal funds rate and the low-rate environment seemed likely to persist, investors sought yield elsewhere. Small cap stocks outperformed large caps during the period, and the first half's winners, including Utilities, Telecom and other interest rate sensitive sectors, underperformed.

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The persistently low interest rate environment kept bond yields low, but as investors began seeking out more risk, yields on the 10-year Treasury rose slightly, from 1.46% at the start of the quarter to 1.60% at its end. The Bank of Japan and the European Central Bank signaled that they will soon begin to taper their quantitative easing (QE) programs, which caused those sovereign yields to spike higher.

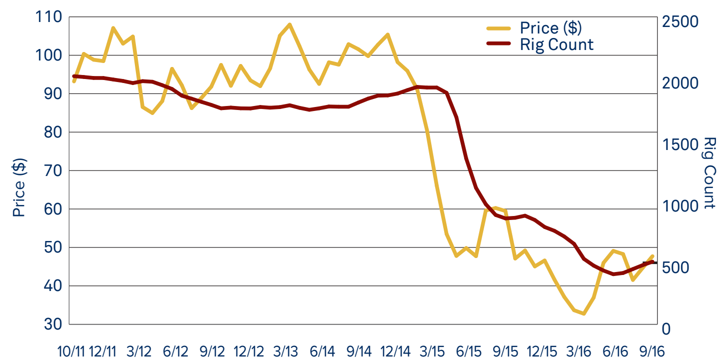
Election uncertainty was also a factor, as the U.S. endured a contentious election season, and the Eurozone's three largest economies, Germany, France and Italy, each looked toward an important election or referendum.

### A TUG OF WAR BETWEEN BULLS AND BEARS

In the third quarter, the economic backdrop remained largely the same as it had been for months: a tug of war between those with bearish and bullish outlooks. Those with a pessimistic point of view pointed to the headwinds faced by the world's five largest economies. Though Japan, for instance, continued to hold interest rates at negative levels, its economy struggled to gain traction and China continued to face concerns about excessive credit and investment. For the bearish investor, these signs pointed to slow global growth at best, or recession at worst.

Meanwhile, bullish investors pointed to the fact that many of the issues that contributed to the economic slowdown that began in 2014, and lasted through the midpoint of 2016, seemed to be reversing. Oil prices rebounded, reaching 12-month highs during the quarter, and the U.S. rig count increased in turn. Credit spreads narrowed. Job creation in the U.S. has slowed somewhat but remained strong, and average earnings were up. Global leading economic indicators were also largely positive during the period. The Purchasing Managers' Index, an indicator of the economic health of the manufacturing sector, flattened out and then began to trend upward in the U.S. as well as globally. Economic improvements in China benefited emerging economies, particularly Brazil. And despite talk of potential tapering, policymakers around the world largely remained accommodative.

Exhibit 1: Crude Oil Prices and Rig Count (10/31/11 – 9/30/16)




Source: FactSet, data pulled 10/19/16.

### A THIRD QUARTER REVERSAL

In many cases, this period marked a reversal of the first half of the year. Bond-like equity sectors such as Utilities, Real Estate Investment Trusts (REITs), Telecom and Consumer Staples underperformed during the quarter, giving back some of their gains from the first half of the year. Overall though, U.S. stocks advanced in the period, boosted by large gains in Information Technology. Investors showed an increasing appetite for risk after the volatile second quarter seemed to stabilize. They shifted away from defensive stocks and toward cyclical options such as Financials and Industrials, seeking alternatives to high-valuation dividend-payers.

The period was positive for small caps, which outperformed larger caps. As in the large cap space, the first half's winners were the third quarter's losers. The small and mid-cap spaces also benefited from a rebound in stocks that had sold off after Brexit.

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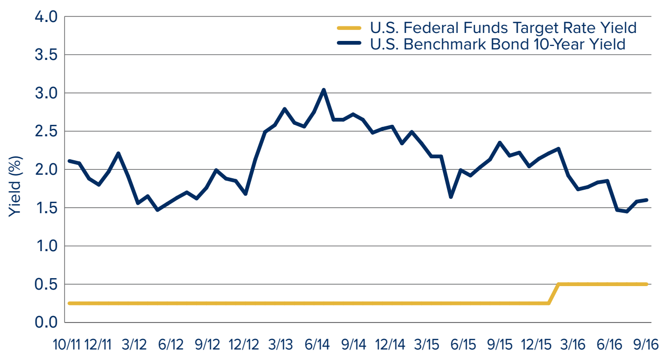
Exhibit 2: 10-Year Treasury Yield and Sector (10/31/11 – 9/30/16)




Source: FactSet, data pulled 10/19/16.

## MARKET OUTLOOK

Looking forward, there are still areas of significant uncertainty facing the markets, largely related to elections and QE tapering. The Fed has indicated that it will raise the federal funds rate before year end. The United Kingdom seems unable to avoid a hard Brexit, and upcoming elections or referendums in Europe have the potential to shake up markets. We believe it is important to build that uncertainty into our outlook.

As investors begin to cautiously move away from defensive stocks, we see selective opportunities among REITs and Utilities, though we believe that the market continues to give them valuations that their fundamentals largely cannot support.

The contentious U.S. election season is another cause for uncertainty. By the end of the third quarter the market appeared to have priced in a Clinton victory. However, plenty of questions remain, including what the possible implications will be for the pharmaceutical industry, given concerns about potential pricing controls if the Democrats control both the House and Senate after the election.

We see opportunities related to concerns about health care deflation within mid-caps. Much as corporate retirement plans moved away from defined benefit and toward defined contribution 25 years ago, the health care industry is undergoing a similar transition. As a result, we see opportunity in managed care organizations, which stand to benefit if health care costs come down. Additionally, managed care organizations are experiencing a significant amount of merger and acquisition activity, which also creates opportunity for stock-picking.

Russell 1000 Growth Index offers investors access to the large cap growth segment of the U.S. equity universe. The index measures the performance of those Russell 1000 companies with higher than average price-to-book ratios and higher than average forecasted growth values.

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.

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.

Russell 2000 Growth Index is composed of the securities found in the Russell 2000 Index with a greater-than-average growth orientation. Companies in this index tend to exhibit higher price-to-book and price-to-earnings ratios.

Standard & Poor's 500 (S&P 500) Index is an unmanaged index of 500 selected common large capitalization stocks (most of which are listed on the New York Stock Exchange) that is often used as a measure of the U.S. stock market.

Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector.

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Investors cannot invest directly in an index.

Credit spreads are the difference between the yields of sector types and/or maturity ranges.

A real estate investment trust (REIT) is a company that owns, and in most cases, operates income-producing real estate.

**Investment Risks:**

Equity securities (stocks) may be more volatile and carry more risk than other forms of investments, including investments in high grade fixed income securities. The net asset value per share of a fund will fluctuate as the value of the securities in the portfolio changes. Value-based investments are subject to the risk that the broad market may not recognize their intrinsic value. Mid- and small capitalization funds typically carry additional risks since smaller companies generally have a higher risk of failure. Dividends reflect past performance and there is no guarantee they will continue to be paid or that this strategy will be successful.

Effective 4/20/12, the RidgeWorth Ceredex Small Cap Value Equity Fund is closed to new investors.

The views expressed herein are as of the quarter-end specified. This information is general in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. It is subject to change without notice as market conditions change, and is not intended to predict the performance of any individual security, market sector, or RidgeWorth Fund. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decision.

***Before investing, investors should carefully read the prospectus or summary prospectus and consider the fund's investment objectives, risks, charges and expenses. Please call 888.784.3863 or visit ridgeworth.com to obtain a prospectus or summary prospectus, which contains this and other information about the funds.***

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## ABOUT RIDGEWORTH INVESTMENTS

RidgeWorth Investments—a global investment management firm headquartered in Atlanta, Georgia, with approximately $40.1 billion in assets under management as of September 30, 2016—offers investors access to a select group of boutique investment managers and subadvisers. RidgeWorth wholly owns three boutiques: Ceredex Value Advisors LLC, Seix Investment Advisors LLC and Silvant Capital Management LLC, and holds a minority ownership in Zevenbergen Capital Investments LLC. WCM Investment Management and Capital Innovations, LLC serve as subadvisers to the RidgeWorth Funds. Through these six investment managers, RidgeWorth offers a wide variety of fixed income and equity disciplines, providing investment management services to a growing client base that includes institutional, individual and high net worth investors.

For more information about RidgeWorth, its boutiques and its subadvisers, visit **ridgeworth.com**.

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## ABOUT CEREDEX VALUE ADVISORS LLC

As RidgeWorth's value equity boutique, Ceredex Value Advisors has managed money for institutions, endowments, foundations and high-net-worth investors since 1995. Portfolio managers and analysts collaborate to execute on bottom-up, company-by-company research, seeking to identify catalysts in undervalued, dividend-paying stocks when constructing value-oriented portfolios.

For more information about Ceredex, visit **ceredexvalue.com**.