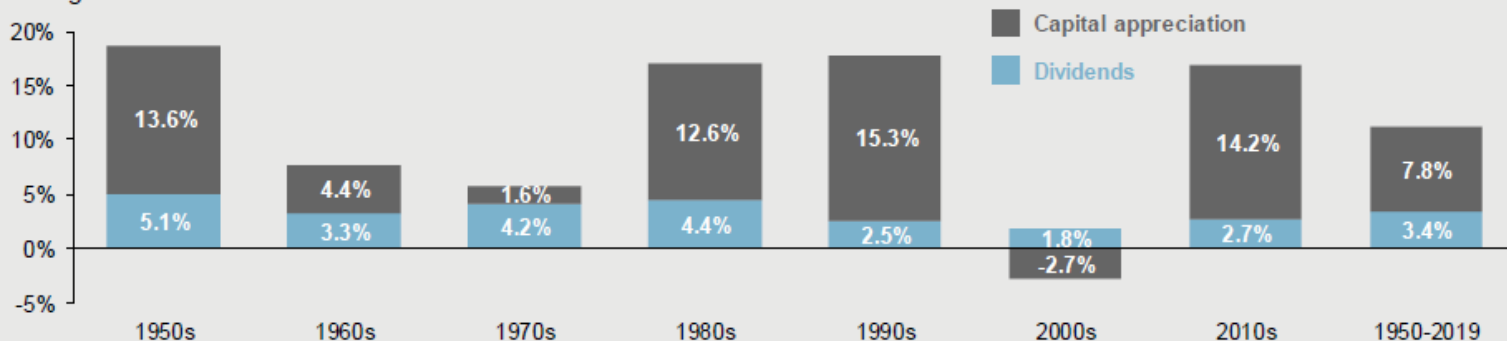




Dividends matter – that’s the simple philosophy underlying the Sterling Capital Equity Income portfolio. From 1950 through 2019, the S&P 500 appreciated (price only) at a 7.8% compound rate, while total return (including reinvested dividends) was 11.2% per year. If that 3.4% per-year difference sounds trivial, consider the beauty of compounding over those 69 years. A \$100 investment at 12.31.1950 would have grown to \$17,811 from price appreciation alone, but to \$151,786 assuming reinvestment of all cash flows. Dividends (reinvested) have provided over 30% of the stock market’s total return over time.

### S&P 500 total return: Dividends vs. capital appreciation

Average annualized returns



Source: J.P. Morgan

To maximize our perceived odds of investment success, we go two steps further in selecting companies for our portfolio. First, we consider only those stocks whose prevailing dividend yield is above that offered by the S&P 500; and second, we demand that dividends have grown for at least three consecutive years or in six of the last ten. As Ned Davis shows at right, stocks that are able to increase their payouts over time have outperformed the overall stock market and the no-dividend stocks which often garner the most attention. Once again, the difference is meaningful: dividend-growers have offered a 9.2% compound return over the last ~48 years, compared to 6.9% for the equally-weighted members of the S&P 500, and just 2.2% for no-yield constituents.

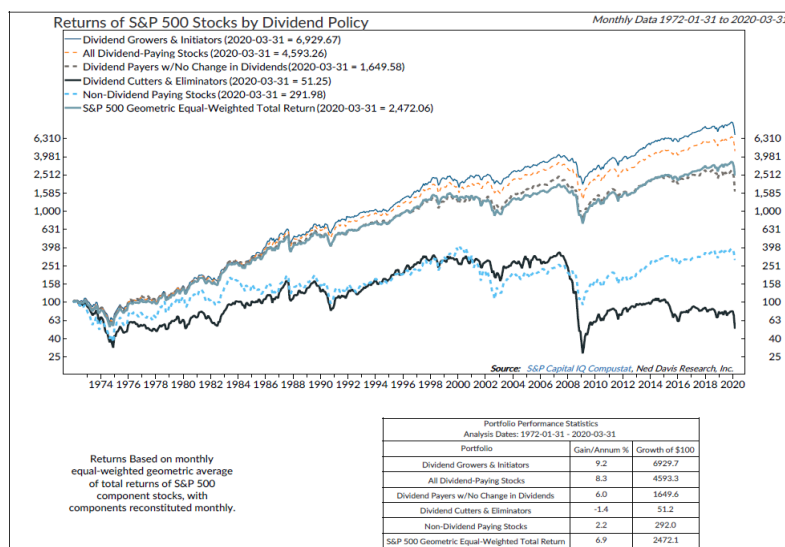
## Performance

In the first quarter of 2020, the Equity Income portfolio declined -25.4% (gross of fees) and -25.7% (net of fees), outperforming the Russell 1000 Value’s (-26.7%) while underperforming the S&P 500’s (-19.6%) return. Healthcare holdings outperformed the broader market during the quarter, while the financial sector was the biggest detractor. From mid-February into the end of the quarter, most of the market traded on sentiment related to the coronavirus disease (COVID-19). Though we believe fundamentals drive performance of stocks in the long run, clearly there is market commotion in the short-term. Therefore, we will relate many of our comments on Q1 performance to the pandemic the world is faced with right now.

## Winners and Losers

Of the 27 full-quarter holdings in the portfolio, two stocks appreciated while 25 declined. There were 20 stocks that outperformed the Russell 1000 Value, while seven underperformed. Ten stocks outperformed the Russell 1000 Value by double digits, while four underperformed by double digits.

Leading the winners, **Crown Castle** (+2%) was one of the few stocks in the market with a positive sign in front of its return in Q1.



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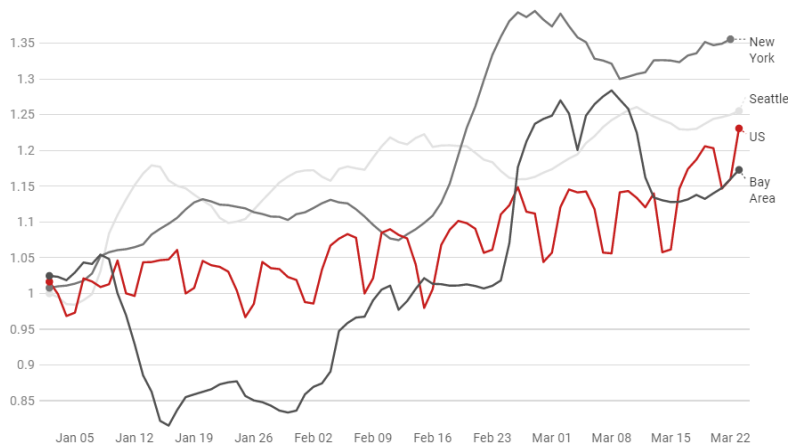
Source: Ned Davis



**Verizon** (-12%) also outperformed the market. We believe broadband and wireless as categories can be seen as relative safe havens during this “stay at home” economy. As folks are communicating more and more over the air from their residences, mobile communications and in-home broadband are seeing a massive uptick in traffic. Note the following indexed chart, which compares internet traffic in severely affected and highly populous areas, as well as the United States overall. According to Cloudflare, a popular content delivery network, from January 1 to March 22, internet traffic is up 18% domestically.

How US internet traffic has grown as people spend more time online due to coronavirus

Data indexed to 1, which equals the average speed in that location for the first week of January.



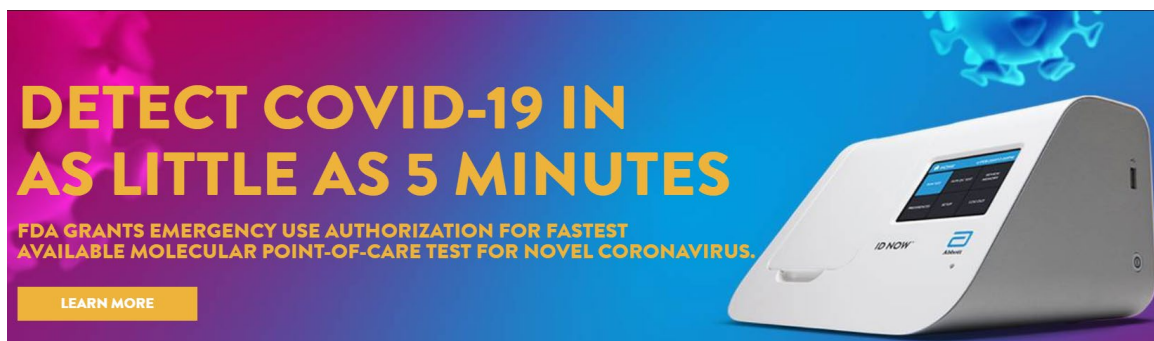
Source: Cloudflare

Crown Castle benefits from the increase in mobile broadband, but is not immune to the pandemic. The company will face supply chain issues in networking equipment, municipalities may delay decisions and enterprises may slowdown spending. But Crown Castle is a key enabler of the new 5G mobile technology as tower space, small cells and fiber will see increased demand.

Of the 30 stocks in the Dow Jones Industrial Average, one appreciated in the first quarter – **Microsoft** (+0%), which rose by one penny. Cloud adoption continues to benefit Microsoft, one of the leading providers of cloud infrastructure, software applications and services. Microsoft is a clear beneficiary of working remotely or virtually. As folks work from home or in another remote location, they need access to enterprise infrastructure and software to conduct business. Microsoft enables such operations and commerce. As well, Microsoft provides consumer applications and services, such as gaming and virtual communication.

We are not alone in suspecting that digitization as a trend will not only continue, but perhaps accelerate. As pointed out in the Harvard Business Review in late March, “as workplaces mandate that employees work from home, universities shift fully to online teaching, restaurants transition to online ordering and delivery, and automakers shut down their plants, we’re seeing the most rapid organizational transformation in the history of the modern firm.” Many business and consumer habits will not change temporarily, but rather more permanently as they see the benefits of such changes during the current forced workplace shift.

**Abbott Laboratories** (-9%) launched a second FDA-approved COVID-19 test at the end of March. The newest point-of-care test can produce results as quick as five minutes, presently the fastest testing on the market.



Source: Abbott Labs



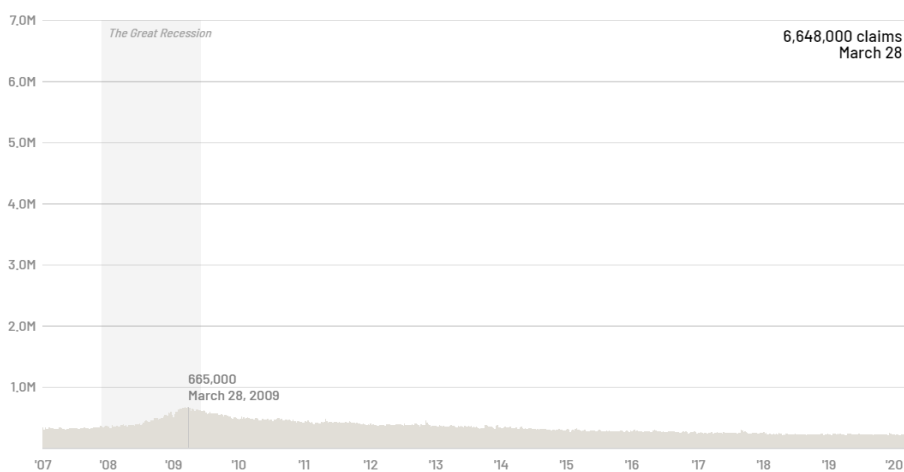
This device could help caregivers increase patient throughput to relieve the testing bottleneck in the current market. The company will produce 50,000 of these new tests per day by April 1, according to John Frels, vice president of research and development at Abbott Diagnostics. Between the two tests, Abbott should be able to generate five million tests per month, hopefully by the time you read this note.

**Johnson & Johnson** (-10%) is also on the front lines responding to the pandemic. Johnson & Johnson management announced on March 30 that the company and a U.S. military research agency would together devote up to \$1 billion to move a candidate vaccine, made by its Janssen division, across the finish line. Obviously we hope they are successful, but would temper expectations for a near-term solution, given that experts believe it will take at least a year to develop, if not more.

Turning to detractors, of the stocks held through the quarter's entirety, **Discover Financial** (-58%) was the low name on the totem pole. There is an obvious fear concerning consumer credit. In the final week of March, over 6.6 million people filed for unemployment benefits, the most in history.

### Unemployment claims continue to surge due to coronavirus

It was the highest number of initial claims filed in history, surpassing last week's 3.3 million claims.



Source: U.S. Department of Labor

Many of those individuals won't be able to pay off their credit card balances, let alone use those cards as much. More unemployment claims are sure to come. Moreover, Discover is not only a payment processor, but also a lender. These loans are also under scrutiny for collections, defaults and new volume declines. We believe the market will recover and Discover has a relatively strong credit profile. Per Jefferies, 90% of Discover's loans are prime and loss rates are only 3%. Moreover, the stock is trading around 3.5x EPS, near its historic low during the financial crisis.

**Phillips 66** (-52%) underperformed considerably as well. If the virus wasn't enough, the oil and gas industry's issues are being compounded by a price war between Saudi Arabia and Russia that started in early March. The narrative is, of course, intertwined with COVID-19. Demand estimates obviously fell and OPEC and Russia could not come to an agreement on production cuts. As a result, average retail gas fell to below \$2 per gallon at the end of the first quarter in the U.S., the lowest level in four years according to AAA. Phillips (PSX) is diversified across energy manufacturing and logistics. Per an upgrade note by RBC on March 29, "PSX's extensive logistics/marketing network has historically allowed the company to take advantage of dislocations better than anyone else. We see PSX as the only refiner likely to generate meaningful positive earnings in 2020." We share those sentiments and are also comforted by the 7% dividend yield, 6x EPS multiple and 1x price to tangible book multiple.

**General Motors** (-43%) had an accident in the first quarter as well. Most of the country and much of the world is being directed to avoid large gatherings and stay at least six feet away from each other in a practice called "social distancing." Social distancing limits manufacturing operations and limits car sales at retail dealerships. Moreover, the supply chain is also limiting what General Motors (GM) needs to make a vehicle in full. GM's production, sales and credit are all under pressure. We believe GM entered the crisis better capitalized to carry the company through the economic and healthcare turbulence and potentially emerge as the most advantaged domestic vehicle manufacturer, important to those who "Buy America." GM carries a 4x EPS multiple and 0.7x price to tangible book multiple.



**Restaurant Brands** fell (-37%). Again, social distancing is limiting folks from congregating in public places, including restaurants. Restaurant Brands (QSR) has warned of declining comp sales, while vowing no layoffs during the pandemic. In late March, management reported: "Our business model has allowed us to maintain a strong balance sheet and we ended 2019 with ~\$1.5B in cash. We have further fortified our balance sheet position by proactively drawing down our full \$1B revolving credit facility out of an abundance of caution. As a result, we now have approximately \$2.5B of cash on hand. This has provided us the flexibility to confidently support our restaurant owners and employees throughout this uncertain time and maintain our focus on supporting our brands for the long term by making the right decisions today." Though there will be substantial changes including: lowered capital expenditure obligations; advanced cash payments and rebates to restaurant owners; rent structure shifting to 100% variable; rent payment deferments and more, we believe QSR can weather the storm with its current liquidity situation supported by a capital asset light franchise model.

## Purchases and Sales

During the first quarter, the Equity Income portfolio added five positions and sold five. Below, we offer a brief summary for each. For a more detailed discussion of our buys and sells, please consult our full write-ups.

**Cabot Oil & Gas (COG)** – added in January.

**Rationale Summary** – As J.P. Morgan research states, Cabot has “the best rock” in North America. What this means to investors is that Cabot’s dominant position in northeastern Pennsylvania provides it with the lowest costs in the region to extract natural gas, translating into uniquely attractive returns on capital and cash flows relative to peers. Moreover, its position, close to population-heavy and energy-hungry regions in the northeastern United States, should translate into lower transportation costs in the future as these gateways open.

While the stock appeared inexpensive at 11x 2021 forecast earnings at purchase, growth has remained consistent over time in the mid double digits. In addition, the balance sheet remains strong with debt/capital ratios in line with the market as a whole. The company only spends on projects it can fund internally through operating cash flows, reducing risks to shareholders by keeping debt levels manageable. Over the past two years, Cabot returned over \$1 billion in cash to shareholders in the form of dividends and share repurchases due to the strong free cash flow characteristics of the business. Shares outstanding, for example, have declined by 12% over just the past three years. The recent valuation in the shares also provides a dividend yield above that of the S&P 500 and one that is growing significantly faster, averaging 36% growth per year over the past five years. Finally, we’d note that the chief executive officer and member of the board of directors purchased stock in the company above our cost basis. It was the first purchase by the CEO since 2003.

**Brookfield Property REIT (BPYU)** – added in January.

**Rationale Summary** – BPYU is one of the world’s largest commercial real estate companies, with approximately \$88 billion in total assets. The company is a subsidiary of its publicly traded parent, BPY, but is structured as a U.S. REIT and thus allows investors to avoid K-1 tax filings. BPYU enjoys exposure to iconic properties in the world’s major markets. The combined global portfolio includes office, retail, multifamily, logistics, hospitality, self-storage, triple net lease, manufactured housing and student housing. The consolidated firm has transformed itself over the past five years, and net asset value (NAV) and cash flows have compounded annually at around 10%. The core business is composed of high quality office and retail properties. The office portfolio is spread across various business districts, with primary exposures to London, mid- and downtown New York, and Canada.

At initial purchase, our shares yielded 7.2%, and we have added to the position at higher yielding levels since. Amid the current market disruption, including the concerns about office and retail REITs facing COVID-19 business pressures, we’d note that Brookfield Property maintains investment grade credit ratings, and its office portfolio is 93% leased to high-quality tenants with an average nine-year remaining lease term. We acknowledge they’ll face challenges with the retail portfolio, but simultaneously note they’ve been through challenges before – including the deep recession in 2008. We believe that the operating platform can manage through the difficult macro environment today; and when the dust settles, the market may ascribe a higher multiple to our shares.

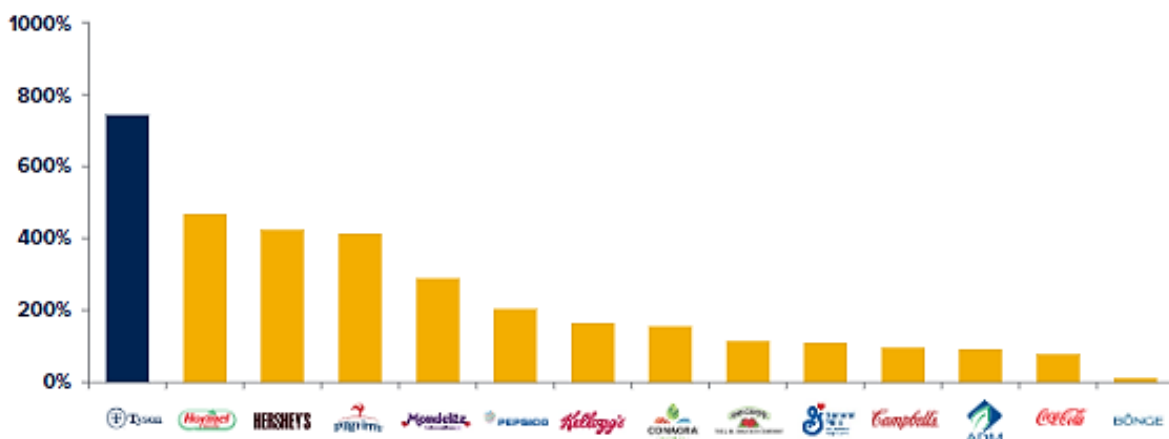


**Tyson Foods (TSN)** – added in February.

**Rationale Summary** – With over \$42 billion in 2019 sales, Tyson is one of the world’s largest food companies and the leader in protein. Founded in 1935 by John W. Tyson, Tyson’s menu is well diversified across a number of brands such as: Tyson®, Jimmy Dean®, Hillshire Farm®, Ball Park®, Wright®, Aidells®, IBP® and State Fair®. Approximately two-thirds of revenue come from chicken and beef. Recently, we have witnessed disruption in Australia from nationwide wild fires and African swine fever, which devastated pig populations in China over the last couple of years. We believe such concerns have created a near-term dislocation in the stock, lending us the ability to purchase shares at a discount.

Protein demand is being driven globally by population growth, disposable income growth, urbanization and modernization of retailing and food service. With sales in over 140 countries, Tyson Foods sees growth internationally along these trends and the company is well-positioned to meet the growing demand globally as the advantaged scale leader, with capacity, product and partnerships. In the first quarter alone, because of shortages created by swine flu, demand from China increased precipitously, with pork up nearly 600%. Moreover, Tyson’s international sales have appreciated at a 12%+ CAGR over the last five years. Tyson also screens well relative to the Equity Opportunity Group’s (EOG) pillars, namely: above average balance sheet, profitability and growth, and an absolute and relative market multiple both trading at a discount. TSN is also a strong dividend yielder (over 3%) and grower (over 15%). Tyson is not only the leader in protein, but per Nielsen, recently the fastest growing major food company at retail.

Between share buybacks, dividends and market share price appreciation, TSN has generated industry leading shareholder returns over the last decade as follows.



Source: Bloomberg

We believe the stock trades at a discount to both absolute and relative earnings multiple measures. The balance sheet is also “palatable” at less than 3x net leverage. And, returns on invested capital (ROIC) have averaged in the double digits, above its weighted average cost of capital (WACC) for at least the last seven years.

Lastly, if anyone has been to the supermarket recently, we would point you to the protein section to exemplify recent demand, as meats have been scarce. Yet, we would also be remiss to point out the suffering of restaurants and other food service industries. As a result of this fluid current dynamic in end markets, we are following the share shift of protein between retail and food service very closely.

On that note, we were pleased to see an upgrade from J.P. Morgan on March 20, 2020, in which the analyst stated, “based on our conversations yesterday with chicken processors, we now believe that outstanding retail demand for meat is more than offsetting soft demand at foodservice...one senior manager said ‘meat is flying off the shelves’ in grocery stores.” For the sake of our clients, we hope that TSN shares also fly off the market exchange due to demand for the stock.

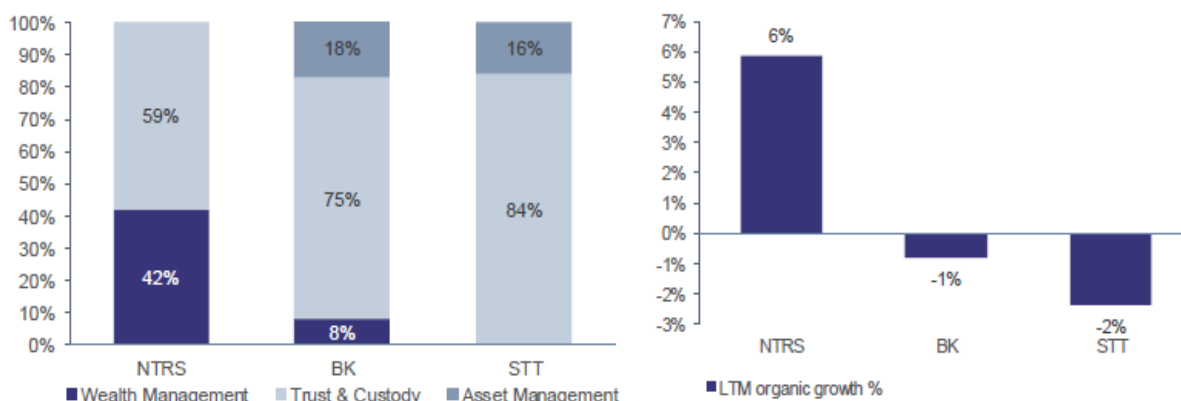
**Northern Trust (NTRS)** – added in March.

**Rationale Summary** – Northern Trust is a leading provider of wealth management, asset servicing, asset management and banking solutions to corporations, institutions, families and individuals. At our initial purchase, shares yielded 4%.





The company's Wealth segment deserves fuller focus here, since it's a key differentiator for NTRS versus other peer "custody banks," as these fee-driven models are often called. The charts below help illustrate our point. In the left chart below, we witness the LTM revenue by segment for NTRS against peers State Street (STT) and Bank of New York Mellon (BK). NTRS' Wealth component, shown in dark purple, far exceeds BK's (while STT doesn't feature one at all). Moreover, at right we find the LTM organic deposit growth. Again, NTRS' figure is larger than peers – a testament to its large high-net worth client base that grows relationships with the bank over time. These deposits provide sticky, low-cost funding capital to the NTRS balance sheet.



Source: Wolfe Research

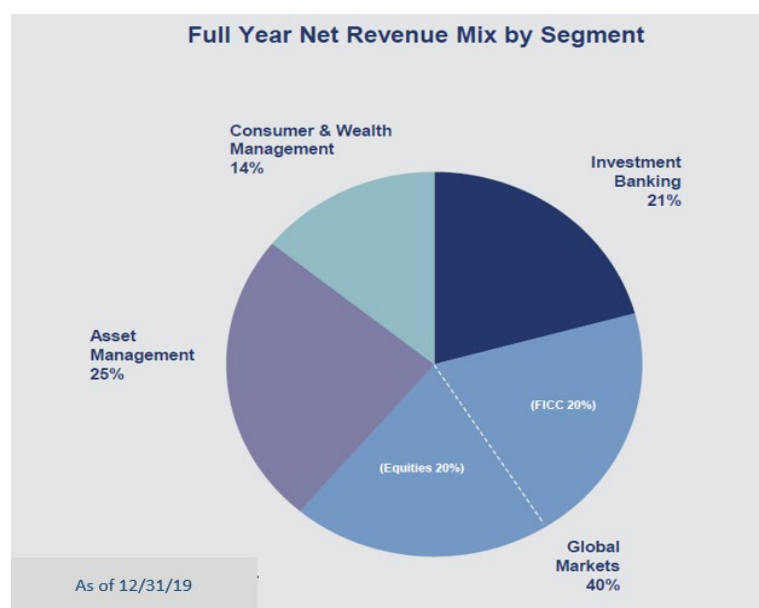
The fee-driven model (stemming from recurring services named above, like custody and asset management) gives management flexibility to drive an optimized expense profile that better matches top-line trends. As well, the company, as is typical of custody banks versus their more-traditional commercial lender counterparts, is more strongly capitalized than the industry average and well above regulatory requirements. At 4Q19, its Tier 1 capital (advanced approach) exceeded 15% – almost double the Federal Reserve's 8% minimum to be "well capitalized."

The LTM earnings multiple at purchase was 11x, modestly below recent trading averages for the firm. Finally, we expect NTRS to be able to generate mid-single digit earnings growth or better over our holding period. Combined, these factors of one, yield; two, potential multiple expansion; and three, EPS growth create a total return algorithm for our thesis that exceeds double digits. We believe that is an attractive return profile from a strong and visible business model, especially given the difficult economic backdrop.

**Goldman Sachs (GS)** – added in March.

**Rationale Summary** – Goldman Sachs has a unique franchise globally, ranking No. 1 in investment banking mergers and acquisitions. In a business where people are the greatest asset, success begets success as Goldman Sachs is the No. 1 most attractive employer for incoming 2020 business students, according to Universum. An investment in Goldman Sachs since May 1999, when it converted from a partnership to a public company through its initial public offering, has proven to be "golden," as the stock has outperformed the S&P 500 since that time. In 2020, the company is transforming itself from its investment banking and global markets securities trading roots into new avenues of growth. These exciting new avenues have the potential to enhance and grow returns on capital as we enter the new decade.

In its first ever investor day in January of this year, management presented how these growth initiatives, coupled with a demonstrated record of expense management, should generate higher returns on capital for shareholders.



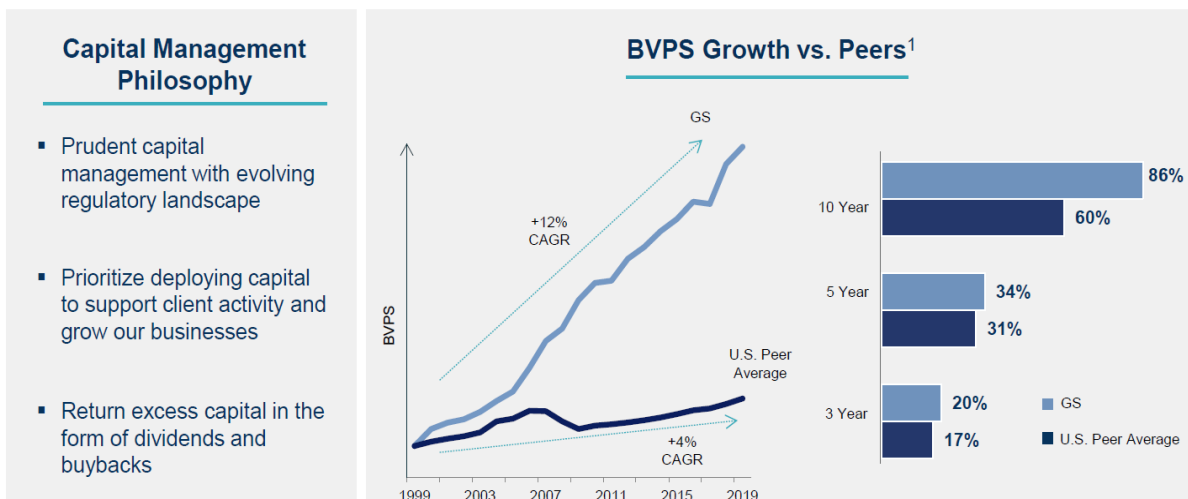
Source: Goldman Sachs



A notable differentiator for Goldman has been its strong record of value creation through book value growth over time. Perhaps it is a legacy aspect from its time as a partnership before going public, but, looking back through history, the book value per share growth has been impressive relative to peers.

## **D Proven History of Prudent Capital Management**

**In the last 5 years, Goldman Sachs returned over \$30bn of capital, 90%+ of the firm's net income and grew BVPS more than peers**



Source: Goldman Sachs

We view book value per share growth as an important metric when assessing the value creation capability for a financial service company such as Goldman. Book value per share growth was over 10% in 2019. What is particularly attractive about Goldman's valuation is its price-to-book ratio of 0.75x. Its return of capital strategy through share buybacks, where it reduced its share count by over 5% last year, enables it to enhance book value growth, as it buys back shares below their book value. This attractive dynamic simply adds to the compelling return of capital story as the dividend yield for Goldman at current levels is not only above the S&P 500, but has been growing year-over-year at an accelerating rate, up 43% in the last year.

Credit Suisse noted in a recent research report that "simply put, an evolution of the Goldman Sachs franchise, capitalizing on strengths, recognizing post-financial crisis realities, and positioned to generate competitive and sustainable shareholder returns" should drive share price outperformance. The ability to buy shares of Goldman at the bottom of its historic valuation range provides a compelling opportunity to invest in a dominant franchise poised to generate improving returns on capital through its attractive growth initiatives.

**Carnival (CCL) & Royal Caribbean (RCL) – sold in February/March.**

**Rationale Summary** – We began to swap into RCL from CCL late last year as we perceived RCL to be advantaged strategically, operationally and geographically. We exited CCL earlier and RCL later in Q1 as COVID-19 began to disrupt the industry. We are still believers in experiences over things, but the cruise experience has turned woefully negative due to the virus. The cruise industry has shut down, at least temporarily, and management teams are currently lobbying to be added to the incredible multi-trillion dollar bailout package the government is preparing to administer. We are unsure of the cruise operators' chances, as cruising (vacationing) is discretionary spend for consumers, i.e. not as critical as airlines, for example, and cruise lines don't pay tax to the U.S. government. Even if government funds were issued, we wonder what strings would be attached. Regardless, dividend growth appears unlikely.

Though we applaud the operators' steps to increase liquidity, we believe demand for cruising may be structurally changed. Dismal stories of the coronavirus on cruise liners have been highly publicized in the media. Cruise ships have been painted as the centers of outbreaks. Passengers and crew have spread the virus back on the mainland. Even when we get through the pandemic, it is unclear to us whether consumer preferences for cruising may not be impaired for an extended period of time, if not permanently.



Therefore, we question the industry's ability to survive the downturn, as well as the duration of the downturn. As active managers, we are taking decisive actions to preserve, and ultimately compound our capital. We are focused on businesses we consider durable, while still adhering to EOG's pillars to generate above average returns with below average risks.

**Delta Air Lines (DAL)** – sold in March.

**Rationale Summary** – As we have written above, we remain believers in experiences over things and we believe Delta offers a solid and consistent air travel experience. Notably, in 2019, the Wall Street Journal rated Delta the best airline for the third year in a row.

Today, we are seeing a massive reduction in flights globally. This clear thesis change is resulting in a major industry disruption, with management teams lobbying to be added to the incredible multi-trillion dollar government fiscal stimulus. This uncertainty is hard to handicap, though it seems inevitable Delta will be unable to continue growing its dividend, and we feel it prudent to step to the sidelines to preserve client capital.

**Occidental Petroleum (OXY)** – sold in March.

**Rationale Summary** – Following OXY's acquisition of Anadarko last year, we thought the company was doing a reasonable job following through on the commitments it made – divesting non-core assets, paying down debt, reducing capital expenditures, and capturing efficiencies/synergies associated with the acquisition. We were encouraged that Berkshire Hathaway, which already had facilitated the Anadarko acquisition by lending Occidental \$10 billion through a convertible preferred security, purchased millions of OXY common shares in the fourth quarter of 2019. Likewise, we were encouraged to see four OXY insiders buy shares in the fourth quarter of 2019, and two more in early March 2020. Neither they, nor we, foresaw what was about to transpire: COVID-19 and the Russia/Saudi price war.

We had been heartened by the company's decision to hedge a significant portion of its 2020 production at higher prices. But with oil prices tumbling below the \$30/barrel range, even those hedges appeared to leave OXY boxed in. As a result, we viewed a cut in the company's capital spending and/or dividend as increasingly likely – even though as recently as March 5, Raymond James said, "Occidental presented at the Raymond James conference this week...Management is extremely committed to the dividend." By March 10, fears were confirmed, with OXY announcing a 32% reduction to its 2020 capital spending and an 86% cut to the company's dividend (which heretofore had increased 17 consecutive years). It would be disingenuous to characterize those as anything other than a thesis change, especially for a dividend growth portfolio, and therefore we elected to sell our shares.

**Wells Fargo (WFC)** – sold in March.

**Rationale Summary** – We were attracted to the company's ability to gather deposits and translate those deposits into a well-diversified consumer and commercial loan portfolio. At the time of purchase, Wells ranked fourth in assets among U.S. banks and its scale helped facilitate profitability that was well above average relative to peers. Unfortunately, our thesis did not play out as expected due to the company's well-documented scandal in which employees – among other things – enhanced their personal compensation by opening millions of fake accounts, resulting in significant regulatory scrutiny. We will spare readers the blow-by-blow, but suffice it to say that indiscretions in one area cascaded to scrutiny of other areas, resulting in a cycle of additional investigations, findings, executive resignations, fines, and sanctions. Among the more draconian measures taken by regulators was the Federal Reserve's edict, that capped Wells Fargo's assets and restricted the company's ability to grow.

While we had been patient with Wells' stock, given its discounted valuation and new management's shift to capital returns (both share repurchases and dividends), the market's recent decline presented us with a number of new opportunities that arguably offer higher overall quality and attractive valuations.

## Dividend Increases

Seven positions announced dividend increases during the quarter. Headlining the increases was **Anthem**, which announced a +19% increase. Other increases include: **Analog Devices** +17%, **Home Depot** +10%, **Corning** +10%, **Enbridge** +10%, **UPS** +5%, and **Restaurant Brands** +4%.



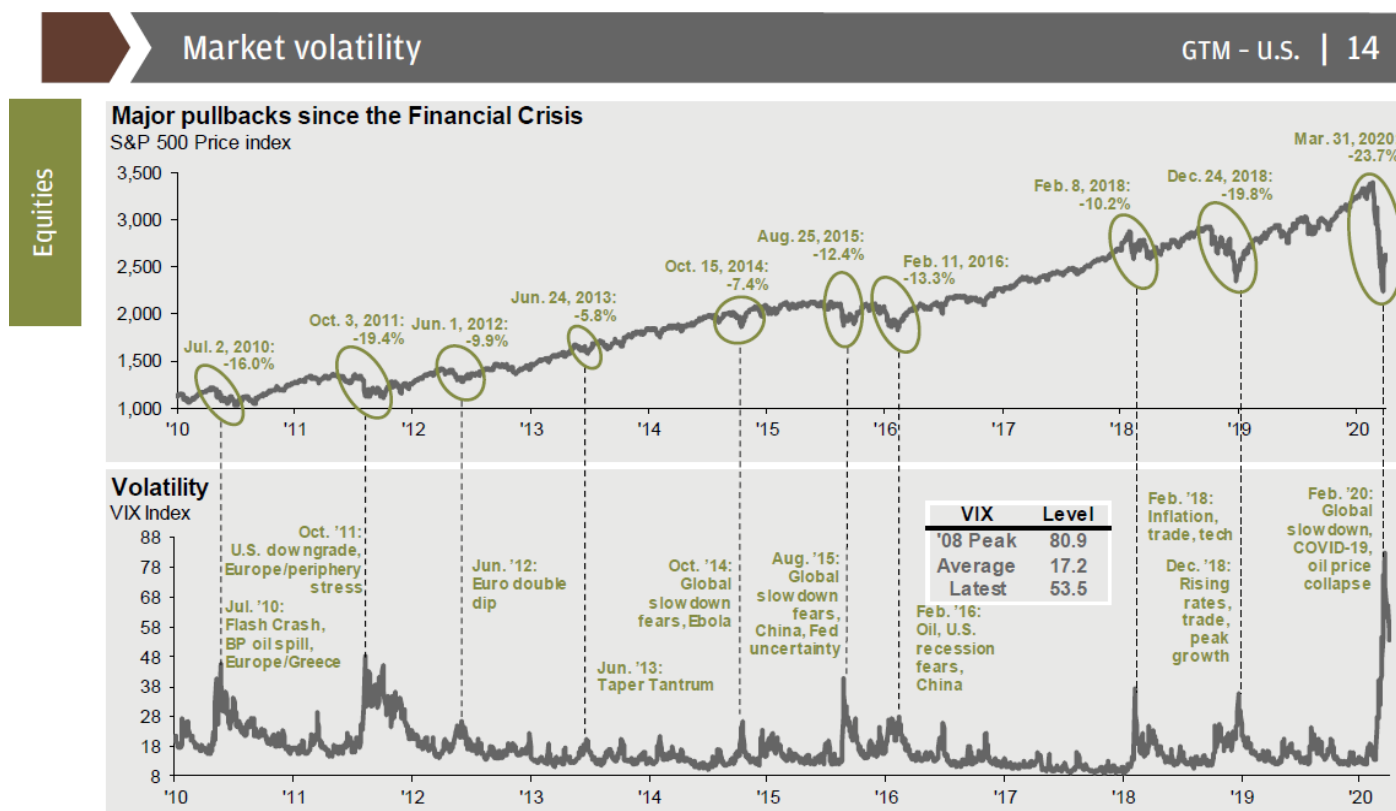


## Conclusion

At Sterling Capital, we want to express our concern for your health, in addition to your financial well-being. We want to convey our empathy for the difficulties and challenges facing you, your friends, neighbors and families. We sincerely hope you and your loved ones are safe and out of harm's way. Professionally, our team has quickly adapted to the current environment and remain productive and focused on your (and our) capital. As you know, we "eat our own cooking," so we fully participate in the portfolio's performance – in both up and down markets. Most of us are now working virtually, having shifted our workflow activities by performing day-to-day research, analysis and most trading operations at home. We are using technologies such as video conferencing, mobile phones and online collaboration tools. Our travel and face-to-face meetings have been replaced with conference calls and webcast meetings. We remain resilient and adaptive. Fortunately, our core research functions can be performed remotely.

Something we need to be cognizant of, as this crisis eventually dissipates, is the new world we may be living with and the repercussions. For instance, massive stimulus and loose monetary policy is necessary to keep the economy afloat, allowing folks to earn income, goods to be sold, services performed and, most importantly today, healthcare to function appropriately. Our service is to invest capital in the best perceived opportunities, based on present and future conditions.

In mid-March, the stock market saw record levels of volatility, as shown at right. Given such volatility and current fiscal and monetary policies, we want to reiterate our strategy and why it is designed for times like these.



Source: J.P. Morgan

As shown in the Ned Davis chart on the first page of this note, "dividend growers and initiators" outperform the broader market over time. If you look closer, you'll see that the spread in outperformance widens during down markets. Up market capture is a measure of the manager's performance when the benchmark has positive returns for the period relative to the benchmark itself. Down market capture is a measure of the manager's performance when the benchmark has negative returns for the period relative to the benchmark itself. Since inception, Equity Income has generated approximately 90% up market capture and approximately 60% down market capture. In other words, the Equity Income portfolios have "captured" considerably less downside when the market declines, while almost mirroring the upside when the market appreciates.



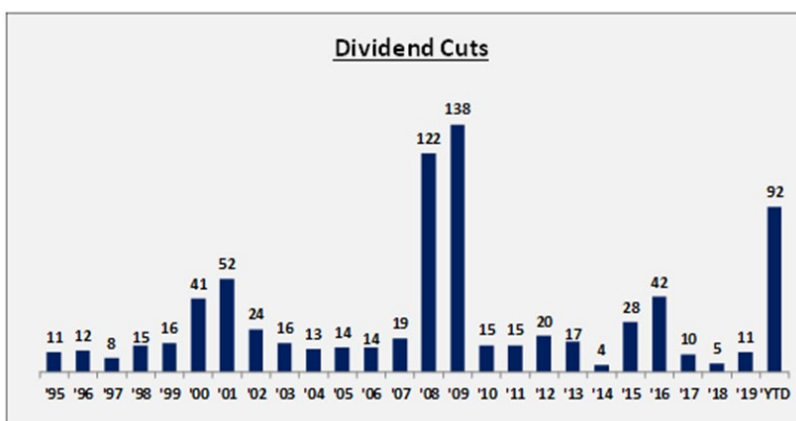
Dividends provide distributable cash flow to investors, providing certainty in income compared to stock price fluctuation. Equity Income is comprised of dividend yielding and dividend growing stocks. We would also highlight our portfolio has a second level of screening that we believe supports above average performance with below average risk – the EOG “pillars:” above market growth, returns on capital, balance sheet, dividend yield and a below market multiple. As of the end of the quarter, the data highlights an advantaged portfolio in almost each aforementioned pillar, as follows.

**Pillar Metrics: Growth, Valuation, Profitability & Balance Sheet Strength**

	19y EPS Gr	20y EPS Gr	21y EPS Gr	16-'21 EPS CAGR	20y P/E	21y P/E	ROE	Int Cov	Div Yld	5yr Div Growth
EI Median*	4%	1%	11%	9%	13.1	11.3	15.3	7.4	3.4	11.8
R1V Median	4%	(3%)	10%	7%	14.1	12.3	11.3	4.0	3.6	7.4
Above/Below Bench				33%	-7%	-8%	35%	84%	-7%	60%

\*Representative account. Source: Bloomberg

As it pertains to dividend yield, the outperformance relative to the Russell 1000 Value (RLV) has led to the yield spread narrowing over time. Furthermore, we would highlight the two charts below with respect to dividend yield and growth in times of duress.



Source: Wolfe Research

Dividend growers obviously provide more certainty in income compared to dividend cutters. Moreover, the “market,” as portrayed by the S&P 500, is currently providing better income than the 10-year treasury yield. We feel that could lend more capital infusion to high-yielding dividend growers, thus adding potential to support the stock prices as well.

**MORE THAN 75% OF S&P 500 COMPANIES HAVE DIVIDEND YIELDS GREATER THAN THE US 10-YEAR TREASURY YIELD**



Source: Strategas



And then, we apply our third level of due diligence in our investments, carefully vetting the stocks that meet our screening criteria with fundamental research and analysis. Based on our risk mitigation techniques of pillars, stock selection and analysis, we believe the strategy should continue to capture near full market performance in up markets, while mitigating the losses in down market performance. Though we are hardly patting ourselves on the back given the steep market decline, we continue to drive toward above-average returns with below-average risk, as Equity Income portfolios outperformed the Russell 1000 Value by 100 basis points in the first quarter of 2020.

As always, we thank you for your trust and investment in us.

Dan Morrall  
Executive Director

*Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the investment management fees and trading expenses. "Pure" Gross of fees performance returns do not reflect the deduction of any fees including trading costs; a client's return will be reduced by the management fees and other expenses it may incur. Investment management fees are described in Sterling's Form ADV 2A. Performance reflects the reinvestment of interest income and dividends and realized capital gains. The performance presented represents past performance and is no guarantee of future results. Performance is compared to an index, however, the volatility of an index varies greatly and investments cannot be made directly in an index. Market conditions vary from year to year and can result in a decline in market value due to material market or economic conditions. The Performance is considered Supplemental Information to the Composite Disclosure Presentation which is attached.*

*Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.*

*The opinions contained in the preceding presentation reflect those of Sterling Capital Management LLC, and not those of BB&T Corporation now Truist Financial Corporation or its executives. The stated opinions are for general information only and are not meant to be predictions or an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. Any type of investing involves risk and there are no guarantees. Sterling Capital Management LLC does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.*

*Investment advisory services are available through Sterling Capital Management LLC, a separate subsidiary of BB&T Corporation now Truist Financial Corporation. Sterling Capital Management LLC manages customized investment portfolios, provides asset allocation analysis and offers other investment-related services to affluent individuals and businesses. Securities and other investments held in investment management or investment advisory accounts at Sterling Capital Management LLC are not deposits or other obligations of BB&T Corporation now Truist Financial Corporation, Branch Banking and Trust Company now Truist Bank or any affiliate, are not guaranteed by Branch Banking and Trust Company now Truist Bank or any other bank, are not insured by the FDIC or any other federal government agency, and are subject to investment risk, including possible loss of principal invested.*

## Sterling Capital Management – Equity Income SMA Composite

December 31, 2000 – December 31, 2019

*Description: Consists of all discretionary separately managed wrap Equity Income portfolios. Sterling's Equity Income portfolios invest primarily in companies with a dividend yield greater than the S&P 500 and a history of growing the dividend, either three consecutive years or six of the prior ten years.*

Year	Total Return 'Pure' Gross of Fees	Total Return Net of Fees	No. of Portfolios	Composite Assets End of Period (\$MM)	Percent of Firm Assets	Total Firm Assets (\$MM)	Composite Dispersion (%)	Russell 1000 Value Index	Composite 3-yr StDev (%)	Benchmark 3-yr StDev (%)
2019	25.30	23.73	5	739	1.3	58,191	Not Meaningful	26.54	11.32	11.85
2018	-0.26	-1.53	5	619	1.1	56,889	Not Meaningful	-8.27	11.01	10.82
2017	20.54	18.94	4	643	1.2	55,908	Not Meaningful	13.66	9.78	10.20
2016	15.43	13.84	3	989	1.9	51,603	Not Meaningful	17.34	10.40	10.77
2015	-2.70	-4.15	3	1,100	2.2	51,155	Not Meaningful	-3.83	10.20	10.68
2014	4.61	2.98	3	1,501	3.2	47,540	Not Meaningful	13.45	8.33	9.20
2013	26.70	24.74	3	1,574	3.4	45,638	Not Meaningful	32.53	9.72	12.88
2012	12.39	10.63	3	1,272	28.8	4,422	Not Meaningful	17.51	11.83	15.73
2011	10.24	8.54	2	1,159	29.5	3,932	Not Meaningful	0.39	14.88	20.98
2010	15.64	13.87	2	992	28.0	3,548	Not Meaningful	15.51	17.82	23.51
2009	18.92	17.05	2	811	28.6	2,839	Not Meaningful	19.69	16.17	21.40
2008	-26.17	-27.26	2	620	32.5	1,907	Not Meaningful	-36.85	13.18	15.58
2007	9.20	7.66	1	668	32.4	2,059	Not Meaningful	-0.17	6.52	8.17
2006	23.09	21.35	1	442	33.6	1,314	Not Meaningful	22.25	6.00	6.78
2005	10.19	8.63	1	263	29.1	904	Not Meaningful	7.05	9.51	9.59
2004	23.23	21.39	1	128	24.5	522	Not Meaningful	16.49	12.76	14.97
2003	31.36	29.24	1	31	19.6	158	Not Meaningful	30.03	12.94	16.22
2002	-12.34	-13.78	1	15	29.4	51	Not Meaningful	-15.52		
2001	5.76	4.46	1	4	16.7	24	Not Meaningful	-5.59		
Annualized Since Inception	10.14	8.54						7.04		

Sterling Capital Management LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sterling Capital Management LLC has been independently verified for the periods 01/01/01 to 12/31/18. The verification report(s) is/are 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 the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

### Notes:

1. Sterling Capital Management LLC (SCM) is a registered investment advisor with the SEC. Registration does not imply a certain level of skill or training. Sterling manages a variety of equity, fixed income and balanced assets. Prior to January 2001, Sterling was a wholly owned subsidiary of United Asset Management (UAM). In January 2001, Sterling Capital Management LLC purchased all the assets and business of Sterling Capital Management Company from UAM to become an employee owned firm. In April 2005, BB&T Corporation purchased a majority equity ownership stake in Sterling Capital Management LLC. In October 2010, the management group of Sterling Capital entered into an agreement with BB&T Corporation that reduced and restructured management's interest in Sterling Capital Management. Additionally, BB&T Asset Management merged into Sterling Capital Management. In January 2013, CHOICE Asset Management firm merged into Sterling Capital Management. "Percent of Firm Assets" and "Total Firm Assets" prior to 2013 are for CHOICE Asset Management. In August 2015, eight new employees joined Sterling Capital Management via Stratton Management Company following the close of BB&T's purchase of Susquehanna Bancshares. In December 2019, BB&T Corporation and SunTrust Banks, Inc. Holding Company merged as equals to form Truist Financial Corporation. Sterling Capital Management LLC is a wholly owned subsidiary of Truist Financial Corporation.
2. George F. Shipp, CFA, has managed the portfolio since inception. No alterations of composites, as presented herein, have occurred due to changes in personnel or other reasons at any time.
3. Inception date of composite: December 31, 2000. Creation date: December 31, 2000. The appropriate benchmark for this composite is the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The index is reconstituted annually. Total return includes price appreciation/depreciation and income as a percent of original investment. A complete list of all of SCM's composites and their descriptions is available upon request. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.
4. Performance reflects reinvested interest income and dividends and realized and unrealized capital gains and losses. Portfolios utilize trade-date accounting. Valuations and performance are reported in US dollars. Composite returns are calculated monthly by weighting the aggregate SMA/ Wrap sponsor returns using beginning of period market values. Periodic time weighted returns are geometrically linked. Returns are not calculated net of non-reclaimable withholding taxes due to immaterial dollar amounts.
5. The net of fee return reflects the actual SMA fee of the individual portfolios in each platform except for one platform where the maximum fee is deducted from the gross return. The SMA fee includes all charges for trading costs, portfolio management, custody and other administrative fees. The actual fee may vary by size and type of portfolio. Sterling's actual management fees are 50 basis points annually or less.
6. The annual composite dispersion presented is measured by an asset-weighted standard deviation calculation method of all portfolios in the composite for the entire year. The dispersion is not meaningful because less than six portfolios are in the composite. The three year annualized standard deviation measures the variability of the composite and benchmark returns over the preceding 36 month period. It is not required to be presented for annual periods prior to 2011 or when a full three years of composite performance is not yet available.
7. The performance presented represents past performance and is no guarantee of future results. Stock market conditions vary from year to year and can result in a decline in market value due to material market or economic conditions.