STERLING CAPITAL

COMMENTARY
Insight SMA | 1st Quarter 2020

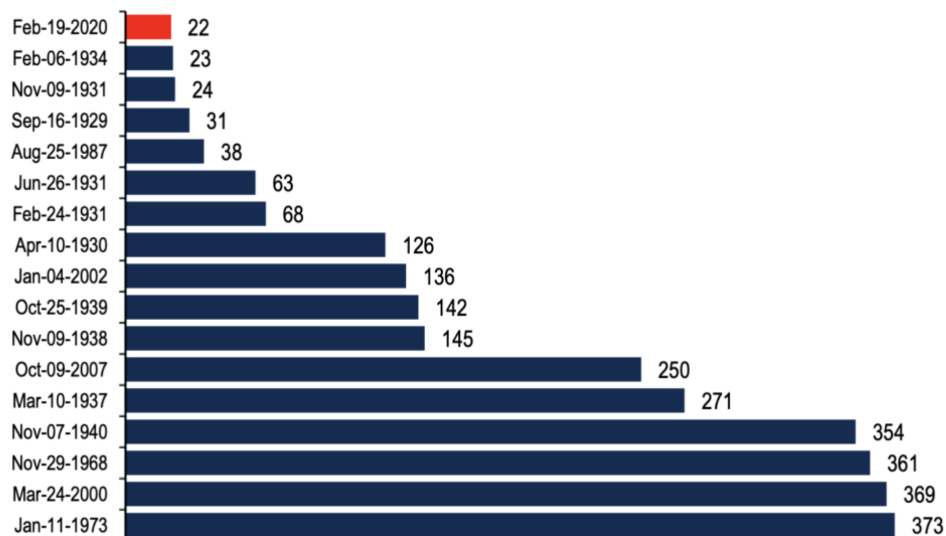
The philosophy behind the Insight portfolio is that few investors should possess better insight into the future prospects of a company than its executives and Board members. Just as lower valuations generally tilt the odds of investing success in investors' favor, so too does insider buying. That thesis has been validated by academic studies from researchers at Harvard, Yale, Stanford, and the University of Michigan, which independently found that corporate insiders have achieved superior risk-adjusted returns. A peer-reviewed article published in the November 2011 edition of the International Review of Economics and Finance further validated those findings, concluding that "Insider actions have positive predictive power for future returns. Managers know more about their companies than any outsider, including Wall Street analysts, and as such investors could benefit from observing the behavior of insiders. Results are statistically significant."

The majority of the Insight portfolio is invested in companies in which there has been recent insider buying activity; we also retain the flexibility to own companies in which insiders own a substantial (5%+) stake of the company, whereby their incentives already are well-aligned with ours as shareholders, but where it would be less likely to expect insiders to take a further stake via additional purchases. Such flexibility also enables the portfolio to invest in overseas companies that trade on U.S. exchanges, where insider buying is not reported in real time.

Performance

For the quarter ended March 31, 2020, our all-cap Insight portfolio generated a total return of -22.2% (gross of fees) and -22.4% (net of fees), below the large-cap Russell 1000 index's -20.2% and the S&P 500's -19.6%, while better than the S&P Midcap 400's -29.7%.

Quarter-end account values reflect the fastest 30%+ stock market decline ever (22 days), followed by the largest 3-day gain (20%+ for the Dow Industrials) since October 1931.

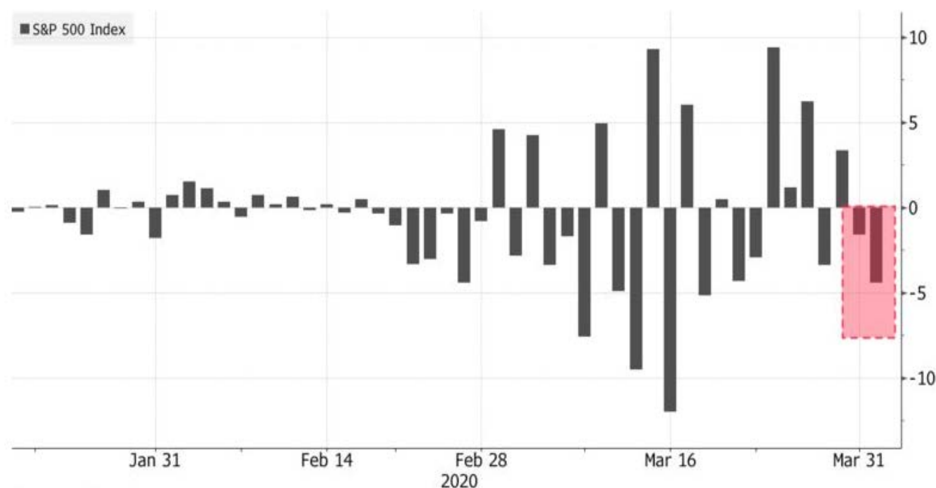


It was the worst quarter for the Dow Industrials since 1987, and the worst first quarter on record. For some context, by the close of business on March 31, the S&P 500 was roughly back to January 2019 levels, having retraced virtually all of last year's 30%+ gain. Perhaps we should have seen it coming, after *Barron's* ran an article entitled: "Ready or Not, Here Comes Dow 30,000" near the peak on January 20, 2020. Alas, the Dow *didn't* reach 30,000, and closed the quarter closer to 22,000 – missed it by *that* much. *Barron's* opined in that article that "the S&P 500 index is a perfectly rational place to park your money," a statement that columnist Ben Levisohn surely would like to retract.

The first quarter could truly be thought of as two distinct periods: one prior to COVID-19 becoming a global pandemic, and a very different one thereafter. It's a distant memory, but less than two months ago, S&P 500 profits were at an all-time high and unemployment was at a generational low. From New Year's Day to roughly Valentine's Day, stocks had meandered their way toward all-time *highs*, and a mid-single-digit year-to-date *gain*. Then the bottom fell out, with unemployment soaring by three million in a single week, as business ground to a halt and entire industries found their very survival in jeopardy.

Inter-sector correlations, which were running near 50% in January, eclipsed 90% in the first week of March, according to Jefferies. Said another way, in March, not only were the proverbial babies being thrown out with the bath water, but we think we saw several bath tubs get flung out the window too! All 11 sectors declined by double-digit percentages for the quarter. Another example of the monolithic market action: 29 of the 30 Dow Jones Industrial constituents declined for the quarter, while **Microsoft** bucked the trend, rising by *one penny* over the 3-month interval. While we would have expected Insight to be somewhat more resilient, the high correlation among stocks and sectors resulted in virtually everything plunging simultaneously.

Market volatility reached levels not seen since the Global Financial Crisis more than a decade ago. And, as the chart below shows on a day-by-day basis, the month of March saw the greatest average daily percentage change (4.8% per *day*) in market history. The month included the biggest daily percentage gain since 1933 and the second-biggest daily percentage loss since 1940. If it felt like a roller coaster, that's because it was.



*Source: Bloomberg**

For those who let politics intersect with their investing, the composition of Congress and the White House was exactly the same in 2019 (when stocks returned 30%+) as it was in the fourth quarter of 2018 (when the S&P 500 endured a -13.5% decline). Arguably, the biggest change between 2018 and 2019 was the direction of Fed monetary policy. According to Deutsche Bank, "Since the Fed started buying T-bills in October [2019], a 1% increase in the Fed balance sheet has been associated with a 0.9% increase in the S&P 500." Don't fight the Fed?

Winners and Losers

As we describe in the next section of this report, we sold each of our four largest percentage losers (**Aramark** -67%, **Occidental Petroleum** -62%, **Darden Restaurants** -52%, and **Zimmer Biomet** -50%), having concluded that our investment thesis in each had changed.

Our biggest winners for the quarter were new purchases **Humana** (+25%) and **Home Depot** (+24%), along with railroad **Kansas City Southern** (+14% through the date of our sale in February), and pharmaceutical titan **Eli Lilly** (+6%).

**Past performance is not indicative of future results. The volatility of an index varies greatly; investments cannot be made directly in an index. The S&P 500© Index is a readily availably, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957 it consisted of 90 of the largest stocks.*

Purchases and Sales

As facts and circumstances changed, we took decisive action, selling seven holdings in the last five weeks of the quarter. Several of our holdings that we owned for their economic resilience, proved anything but resilient because of the specific cause of the market's slump (a pandemic). For example, healthcare device manufacturer **Zimmer Biomet** finds itself navigating a world in which virtually all elective surgeries have been postponed or canceled. Given that we believe such conditions could persist for several quarters, and given Zimmer's portfolio mix skews almost exclusively toward elective procedures, we opted to move on.

Contract caterer **Aramark** provided an even more surprising example – what could be more defensive than supplying meals to prison inmates and students? Aramark's business, which held up remarkably well during the Global Financial Crisis of 2008-2009, found itself at the epicenter of the COVID-19 crisis, as K-12 schools, colleges and universities, and the entire sports world canceled their respective semesters and seasons. Even some prisons are releasing non-violent offenders early, to reduce the spread of COVID-19. Amid these changing circumstances, we likewise sold Aramark.

We had purchased **UGI** as a perceived low-volatility utility that offered an attractive combination of dividend yield with growth. But its midstream businesses, which act as toll roads for the transportation of energy commodities, suddenly faced questions around whether customers would be able to pay the tolls. Crude oil endured its worst quarter ever, plummeting -66%, and in late March, the toll charges to transport a barrel of oil from western Canada exceeded the value of that barrel of oil.

We sold several other holdings during the quarter, also due to thesis changes: **Occidental Petroleum** (we managed to get out before the company cut its dividend), and **Darden Restaurants.** As European nations mandated pub and restaurant closures, we took evasive action ahead of Darden having to do the same with its U.S. restaurant chains, and before it too was forced to cut its dividend. Even when restaurants are allowed to re-open, we suspect consumer behavior around frequenting crowded spaces may change at the margin. It's not our intention to reverse course on a company we added earlier in the quarter, but given the radical change in the environment – restaurants literally shuttered for dining-in – we couldn't consider that anything other than a thesis change, and acted accordingly.

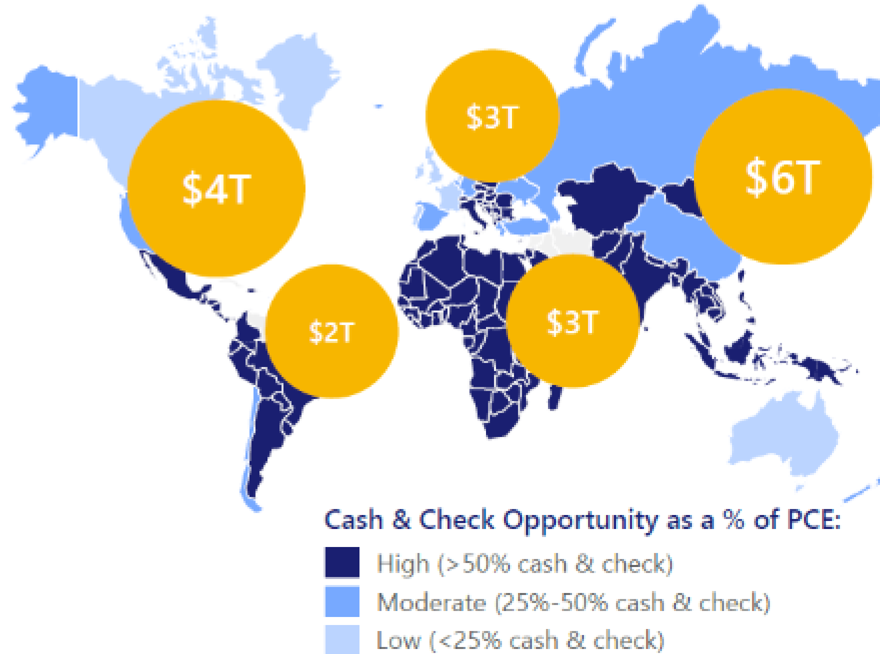
While we could lament the bad fortune of owning several perceived defensive companies that fared poorly, to be fair and balanced, we also benefited from owning several companies that found themselves to be the fortunate beneficiaries of a quarantine/stay-at-home regime. **Activision Blizzard**, the country's largest gaming company, has been one such beneficiary. According to Jefferies, T-Mobile reported a 45% increase in video game traffic since the pandemic started, and Verizon reported a 75% increase of gaming on its network. As Jefferies went on to say, "We can't think of another sector in which multiples have compressed while actual [revenue and earnings] numbers may come in higher given increased [user] engagement."

Elsewhere in our portfolio, agricultural processor **Archer-Daniels Midland** should benefit from strong profit margins, which significantly exceed five-year averages. Baird Research observes that "China has restarted agricultural purchases, and Brazilian [currency] weakness … tends to encourage farmer selling … [and] can be supportive of profitability, as revenue tends to be tied to USD, while costs are denominated in local currency."

Perhaps **Microsoft** is a bit more of an obvious beneficiary of sheltering in place, leveraging its leadership in cloud computing, as well as collaboration tools such as Skype and Teams. Microsoft said it saw a 775% increase (not a typo!) in Teams monthly users in Italy this past month. The company's decision to add Teams to its Office 365 platform strikes us as a savvy way to upgrade more users to higher tiers of 365. We believe the post-COVID-19 world will see the transition to cloud computing accelerate.

In a similar way, we already are seeing evidence that the transition to electronic payments is accelerating. **Visa** and **Fidelity National Information** aren't immune from the consumer slowdown, but we found an Associated Press article noteworthy for calling out "banknote avoidance" on a global basis, due to fears that the virus can live on paper currency. South Korea, Hungary, and Poland's central banks, along with the Federal Reserve, are quarantining paper banknotes. Britain has increased its contactless payment limit for debit and credit cards that possess tap-to-pay capabilities (coming soon, if not already, to cards and merchants near you). Meanwhile, toll authorities at bridges and tunnels in at least five U.S. states are no longer accepting cash. So much for being "legal tender for all debts, public or private." Cash is no longer king? Remarkable, indeed.

There remain *trillions* of dollars of global commerce still being conducted by cash and check. Meanwhile, as quarantined consumers incrementally shop via e-commerce, that should benefit companies like Visa, whose share of online transactions is 2.5x greater than its offline share, because consumers can't pay with cash online. Once consumers get comfortable making purchases online and save their debit/credit information with e-commerce merchants, we presume their behavior changes on a semi-permanent basis, so COVID-19 home confinements likely accelerate Visa's market share gains.

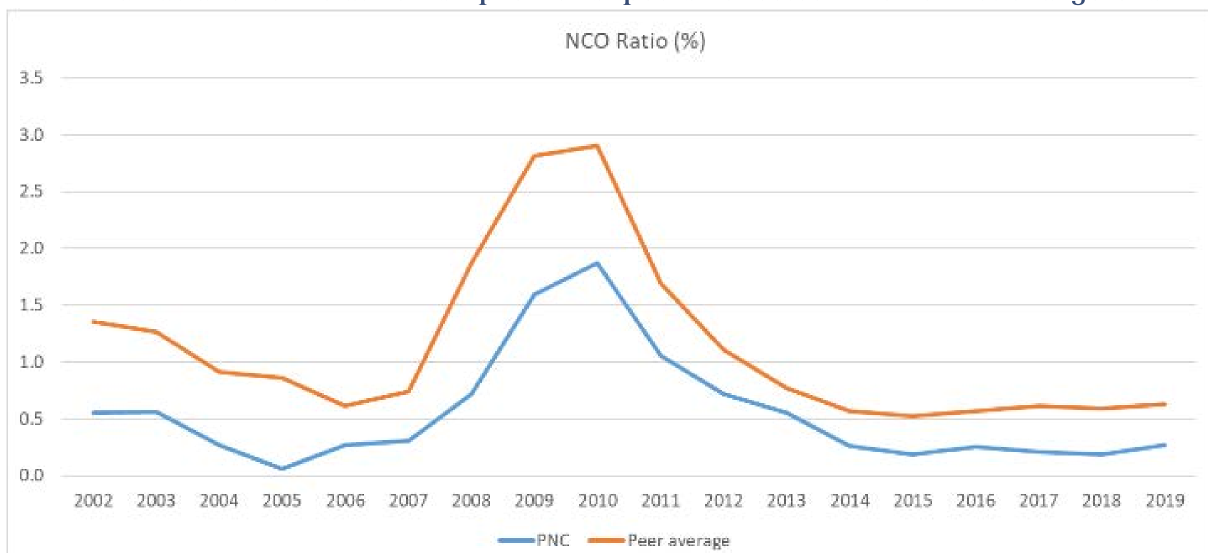


Source: Wolfe Research

Several transactions we made during the quarter can be characterized as "swapping" one company for a similar one in the same line of business. We continue to like the home-improvement retail space (essentially a duopoly, and a category that the government has declared an "essential service," i.e., not subject to quarantine closures). According to Credit Suisse, the average home age has risen 25% since 2006, while the average home size has increased 11%. That should translate into more home maintenance, and such maintenance represents about two thirds of industry sales. That "should remain steady," in Credit Suisse's view. We took the opportunity to swap out of **Lowe's** and into **Home Depot**, based on our view that HD possesses better technology, enabling it to serve customers whether they choose to shop online, in store, or both. The swap enabled us to book a loss in Lowe's for taxable investors, while aligning ourselves with the industry leader that pays a richer dividend. Home Depot's Chief Information Officer purchased shares in early March following a Board member's purchase in late February.

We also swapped out of **M&T Bank**, and added to our position in **PNC**. According to Wells Fargo Securities, PNC has "relatively less exposure to credit cards than bank peers, helping explain loan losses that are a fraction of the industry," where a picture tells the story at least as well as words.

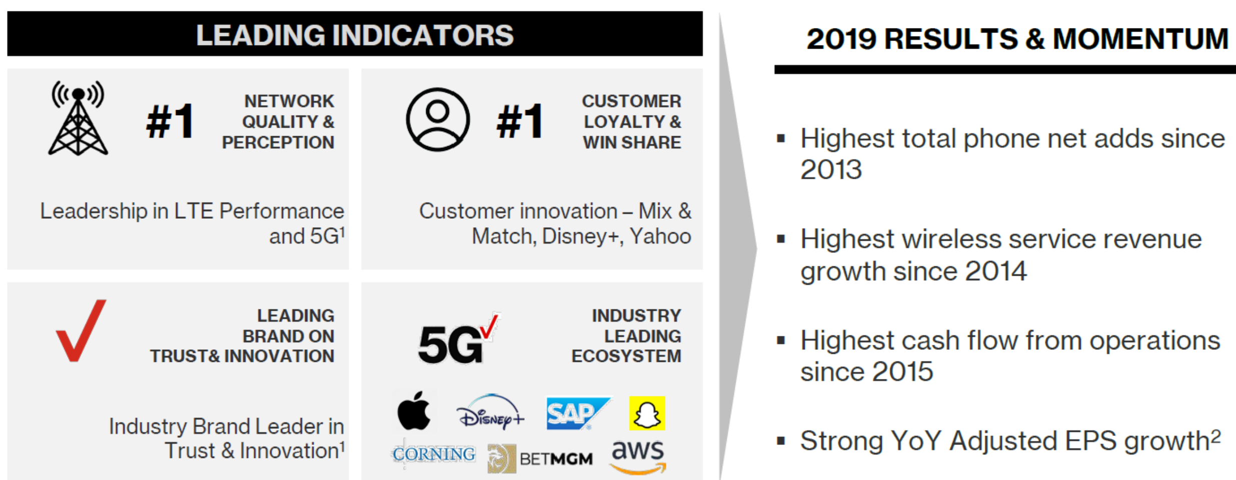
PNC has a lower relative risk profile vs. peers reflected in lower net charge-offs



Note: Peer group average consists of BAC, COF, FITB, JPM, KEY, MTB, RF, USB and WFC
Source: SNL Financial, Wells Fargo Securities, LLC

PNC also has low exposure to the hard-hit energy sector (1% of funded loans), while spending a greater percentage of its technology budget for growth vs. maintenance. Yet the stock's "current valuation is below the average level from the global financial crisis." Two Board members purchased more than $5 million of the company's stock between March 9 and March 12, so we added to PNC, while booking a short-term loss in M&T.

On the purchase side of the ledger, we rubbed our proverbial last two nickels together in early March, when we added **Verizon** to the portfolio, following a rare insider buy at the nation's leading wireless communications company. If the current environment has proved anything, it's that humans place great value on communication – with their friends, family, and colleagues. Data and video consumed over Verizon's broadband (FioS) and wireless networks continue to grow rapidly – at an estimated 30% CAGR from 2016-2021. And we believe metrics such as churn and profitability could improve as the industry consolidates (T-Mobile and Sprint's merger is in process). Furthermore, according to Citi Research, "Business wireless activity has been helped by demand for additional devices and remote business connectivity … larger businesses are opportunistically adding capacity for virtual private networks and bandwidth for remote work." In our view, Verizon enters 2020 on strong footing.

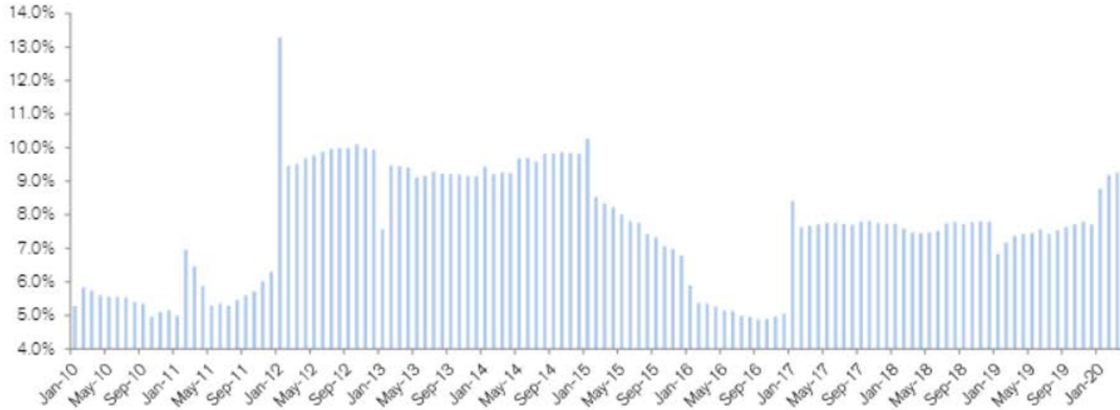


Source: Verizon

The company is back within its targeted leverage range, providing more financial flexibility for share repurchases (a feature that may stand out in 2020, when many other companies are reining in discretionary spending), while the stock's 4%+ dividend yield gives us a head start on a satisfactory total return in a yield-starved investment landscape. InsiderScore says a "$1 million purchase by the CEO of the company's Consumer Group sends a compelling undervalued message." His transaction is the largest at Verizon since at least 2003, "and the first of any significance in nearly a decade. The deviation in behavior – [he has] never bought before – is what makes the transaction so compelling."

Later in the quarter, we added managed care provider **Humana**, complementing existing holding **UnitedHealth.** While the latter is more diversified, Humana is more concentrated in Medicare Advantage. Seniors increasingly have chosen Medicare Advantage (vs. government-managed Medicare plans), and within that growth market, Humana has been growing its market share. In fact, industry growth *accelerated* in the first quarter of 2020, and we believe Humana continues to grow its membership faster than the overall market.

MA Market Enrollment Growth Rate Y/Y – 2010 to Present

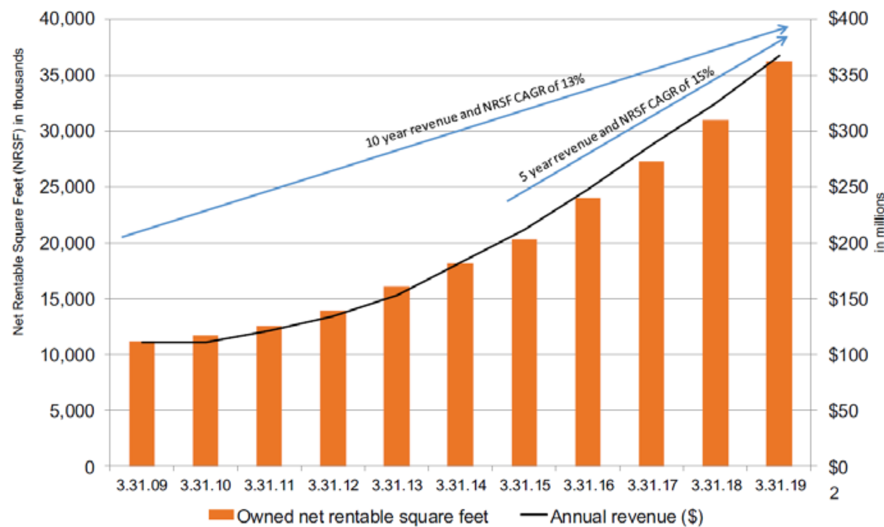


Source: CMS, Credit Suisse

Meanwhile, Morgan Stanley estimates that managed care insurers will be net beneficiaries of COVID-19. The curtailment of elective procedures and non-essential physician visits more than offsets the costs of treating virus-infected patients. Due to the market's extreme volatility, we were able to buy shares more than 20% cheaper than President Susan Diamond. InsiderScore observes this is Diamond's first purchase at the company, and follows a similar six-figure purchase by Humana's Chief Digital Health & Analytics Officer. "Prior to that, there hadn't been a buy at HUM since 2012. Both buys are the largest [at Humana] since 2008," which proved to be an opportune time to buy.

Finally, while it seems like a lifetime ago, we purchased **Amerco**, the parent company of U-Haul. Our thesis is that the company is reaching an inflection point; after several years of adding significantly to its fleet and self-storage capacity, absorption of that supply should start to add nicely to revenue, cash flow, and earnings for the foreseeable future.

Self-Storage



Source: Amerco

Barron's describes U-Haul as "one of the original network-effect businesses," with trucks, trailers, towing devices, and self-storage units in all 50 states and 10 Canadian provinces. While it wasn't part of our investment thesis, the rapid shutdown of college campuses nationwide created incremental demand for U-Haul, the self-storage component of which could persist for some time. Insiders own 43% of the company, and recent insider buying confirmed what we could determine objectively – that the stock's relative valuation was approaching multi-year lows, presenting our perceived opportunity.

Company Developments

Activision launched *Warzone,* a new game in its Call of Duty franchise, and its timing arguably couldn't have been better, with at least 29 states having issued "stay-at-home" orders to their citizens, while students from kindergarten to college find themselves house-bound, and seeking inexpensive forms of entertainment. "The timing is ideal, with no major competitive releases and the potential to take advantage of increased stay-at-home activity," according to Jefferies. In the first two weeks since launching *Warzone*, more than 30 million people played the game. "The early traction here helps to de-risk the numbers for the year at a time when we can't cut estimates fast enough for other companies," according to J.P. Morgan.

It's hard to know in advance whether it will be a notable development, but we sure hope it is: **Johnson & Johnson** announced the advancement of its lead COVID-19 vaccine candidate into clinical trials. **Corteva** received early approval for its Enlist E3 seed trait, which should accelerate the company's market share gains in soybeans. **Medtronic's** renal denervation therapy achieved its primary endpoint of lowering blood pressure, which in turn reduces the risks of stroke mortality and ischemic heart disease mortality. As a result, the FDA granted its breakthrough designation, paving the path to expedited approval – perhaps as soon as early 2022. As Medtronic is a first-mover with this treatment, the revenue opportunity could be large, potentially exceeding $1 billion (by 2026, according to the company). **Eli Lilly** announced it is acquiring Dermira, while **Visa** is acquiring Plaid, as those companies extend the runway for their respective franchises.

Six of our companies increased their dividends during the quarter, those being: **Activision** (+11%), **Archer-Daniels Midland** (+3%), **Comcast** (+10%), **FirstService** (+10%), **General Dynamics** (+8%), and **Genpact** (+15%).

Among our companies, we saw fresh insider buying at **Archer-Daniels, Chubb**, **Corteva**, **IHSMarkit**, **Medtronic**, **PNC**, and **Amerco**. InsiderScore flagged Board member Theodore Shasta's purchase at Chubb as notable, "because it is a change in behavior. Shasta hasn't reported a meaningful buy elsewhere and is buying for the first time since joining the Chubb board in 2010." We added to our position on weakness. The same held true for **IHSMarkit**, where Board member William Ford purchased $1.2 million, his first purchase since joining the company's Board in 2016. Mr. Ford is CEO of private equity firm General Atlantic Partners, and "has been a smart buyer elsewhere," according to InsiderScore.

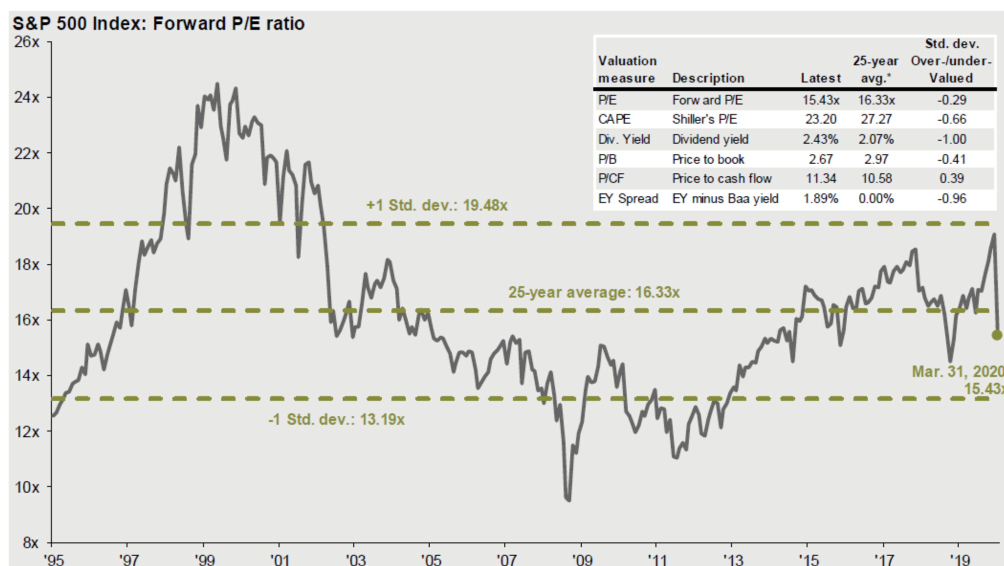
Conclusion

At this point, investors are well aware of the incremental risks the world is facing. We doubt it's a coincidence that stocks reached their quarterly nadir within moments of *The Economist* running this image on its cover.

Source: Economist.com

While many COVID-19 variables remain difficult to predict, it seems reasonable to expect the virus eventually will run its course, and the world will re-open for business. Yes, we'd like to know when, just as much as everyone else. In the meantime, insiders' collective behavior may provide some *insight*.

As investors vomited stocks in mid-March, company insiders took the *opposite* view. In fact, amid the carnage during the week ended March 17, we saw the highest level of insider *buying* in the history of InsiderScore's 16-year database, surpassing even the 2008-2009 market lows. And a *Wall Street Journal* article indicated that 2,800 corporate insiders bought a total of $1.2 billion of their respective companies' stock from March 1-25, the third-highest level since 1988, according to the Washington Service. While economic data (generally a lagging indicator) likely worsens in the near term, we view the insider buying evidence as encouraging; those who know their companies best consider their stocks attractively valued. Another piece of encouraging news is that many valuations now sit below their long-term average.



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	15.43x	16.33x	-0.29
CAPE	Shiller's P/E	23.20	27.27	-0.66
Div. Yield	Dividend yield	2.43%	2.07%	-1.00
P/B	Price to book	2.67	2.97	-0.41
P/CF	Price to cash flow	11.34	10.58	0.39
EY Spread	EY minus Baa yield	1.89%	0.00%	-0.96

*Sources: FactSet, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management**

As appealing as it might be to think we've seen the last surprise that the economy or markets will send our way this year, we highly doubt that's the case. While the 2010's represented the first decade in US history without a recession, 2020 has taken that on as a personal challenge. But just as we suspected 2019's sizzling gains were unlikely to be the "new normal," we also doubt 2020's first quarter woes are likely to persist as a permanent feature on the investment landscape. Count on us to continue aligning our capital – and yours – with strong companies trading at reasonable valuations, where insiders are expressing their enthusiasm through open-market purchases.

Amid a nearly complete shutdown of the global economy for an extended period of time, we suspect consumers and corporations alike will incrementally value balance sheet strength – one of the criteria we emphasize in our due diligence. It's not merely a coincidence that the Insight portfolio owns the only two remaining triple-A rated credits left in the United States (**Johnson & Johnson** and **Microsoft**). In the years ahead, we suspect the COVID-19 crisis will cause more companies to prioritize holding onto cash for a proverbial "rainy day" (or rainy month, quarter, or year, as the case may be), versus letting it burn a hole in their pocket.

Above all else, we hope and trust our clients are healthy and safe. Rest assured, the Equity Opportunities Group, while working remotely, is fully operational. We stand ready and able to support your investment needs – and hope you will reach out to us via phone or e-mail if we can answer questions or otherwise be of service.

Adam Bergman, CFA®
Portfolio Manager

**Past performance is not indicative of future results. The volatility of an index varies greatly; investments cannot be made directly in an index. The S&P 500© Index is a readily availably, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957 it consisted of 90 of the largest stocks.*

Performance disclosure: *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 reflect the deduction of 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.*

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Sterling Capital Management – Insight SMA Composite

August 31, 2011 – December 31, 2019

Description: *Consists of all discretionary separately managed wrap Insight portfolios. Sterling's Insight equity portfolios invest primarily in companies where there has been recent insider buying activity; we also retain the flexibility to own companies in which insiders own a substantial stake.*

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 Index	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2019	34.77	33.19	49	21	0.0	58,191	0.71	31.43	11.28	12.05
2018	-4.10	-5.26	51	16	0.0	56,889	0.38	-4.78	10.79	10.95
2017	25.37	23.78	57	18	0.0	55,908	0.35	21.69	9.18	9.97
2016	10.39	8.88	146	33	0.1	51,603	0.30	12.05	9.92	10.69
2015	5.14	3.69	116	29	0.1	51,155	0.25	0.92	9.35	10.48
2014	7.41	5.88	134	29	0.1	47,540	0.24	13.24	9.42	9.12
2013	28.48	26.64	121	27	0.1	45,638	0.24	33.11		
2012	17.74	16.17	74	14	0.3	4,422	0.08	16.42		
2011 (Inception 8/31/11)	4.86	4.62	2	0	0.0	3,932		3.50		
Annualized Since Inception	15.00	13.50						14.66		

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. Adam B. Bergman, 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: August 31, 2011. Creation date: August 31, 2011. The appropriate index is the Russell 1000 Index which measures the performance of the largest 1,000 US companies, representing over 90% of the investable US market. The index is reconstituted annually. Total return includes price appreciation/depreciation and income as a percent of the 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. All portfolios are valued monthly as of calendar month-end and utilize trade-date and accrued income accounting. Valuations and performance are reported in US dollars. Portfolio returns are calculated monthly using the Modified Dietz method. Portfolios are revalued for cash flows greater than 10%. Composite returns are calculated by weighting the individual portfolio returns using beginning of period market value plus weighted cash flows. Periodic time weighted returns are geometrically linked. Returns are not calculated net of non-reclaimable withholding taxes due to immaterial dollar amounts.
5. "Pure" gross of fees returns do not reflect the deduction of any fees including trading costs. The net of fee return reflects the actual SMA fee of the individual account. The SMA fee includes all charges for trading costs, portfolio management, custody and other administrative fees. Sterling's actual management fees are 32 basis points annually.
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. It is not meaningful when there are less than six portfolios in the composite for the entire year. 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.