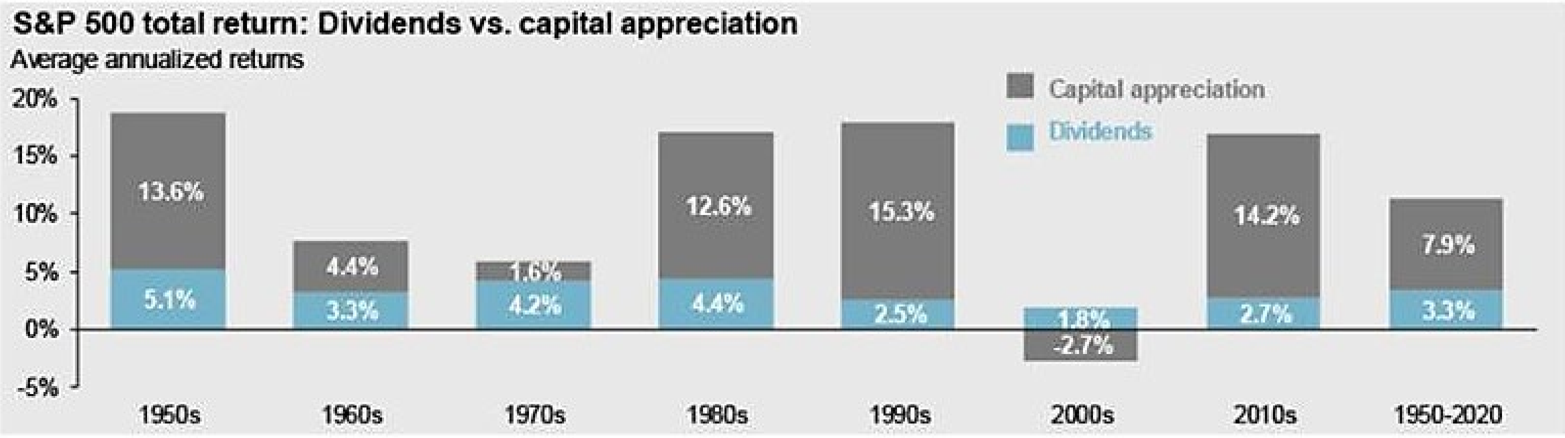
STERLING CAPITAL

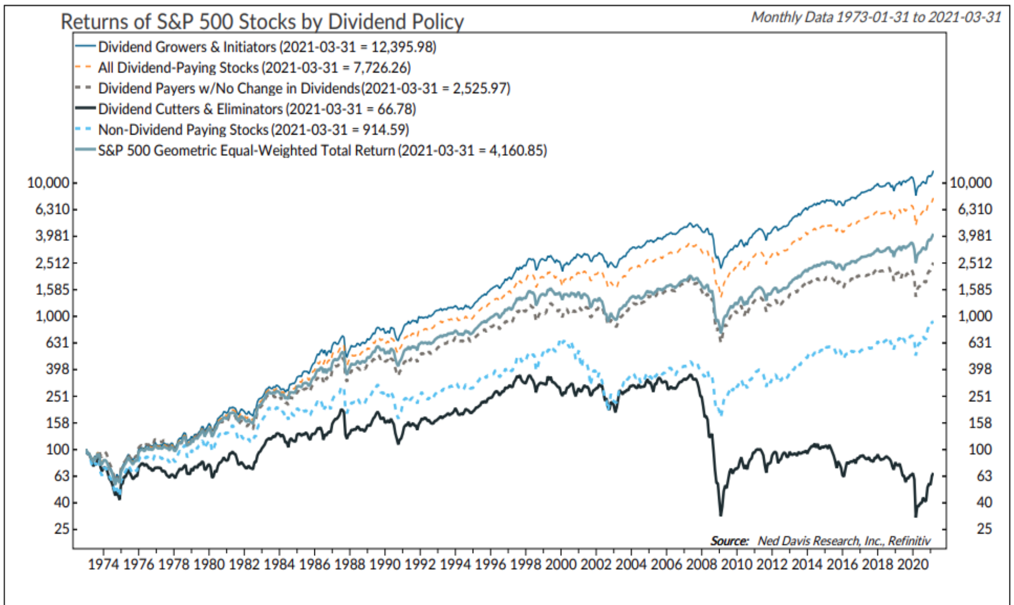
COMMENTARY
Equity Income SMA | 1st Quarter 2021

Dividends matter – that's the simple philosophy underlying the Sterling Capital Equity Income portfolio. From 1950-2020, the S&P 500® Index appreciated (price only) at a 7.9% compound rate, while total return (including reinvested dividends) was 11.2% per year. If that 3.3% per-year difference sounds trivial, consider the beauty of compounding over those 70 years. A $100 investment at 12.31.1950 would have grown to $20,488 from price appreciation alone, but to $168,785 assuming reinvestment of all cash flows. Reinvested dividends provided over 30% of the stock market's total return over time.



Source: J.P. Morgan Asset Management

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 years. As Ned Davis Research shows below, stocks that are able to increase payouts over time outperform the overall stock market as well as the no-dividend stocks which often garner the most attention. Once again, the difference is meaningful: dividend growers offered a 10.5% compound return over the last ~48 years, compared to 8.0% for equally-weighted members of the S&P 500 and just 4.7% for no-yield constituents.



Returns Based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly.

Portfolio Performance Statistics
Analysis Dates: 1973-01-31 - 2021-03-31

Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	10.5	12396.0
All Dividend-Paying Stocks	9.4	7726.3
Dividend Payers w/No Change in Dividends	6.9	2526.0
Dividend Cutters & Eliminators	-0.8	66.8
Non-Dividend Paying Stocks	4.7	914.6
S&P 500 Geometric Equal-Weighted Total Return	8.0	4160.8

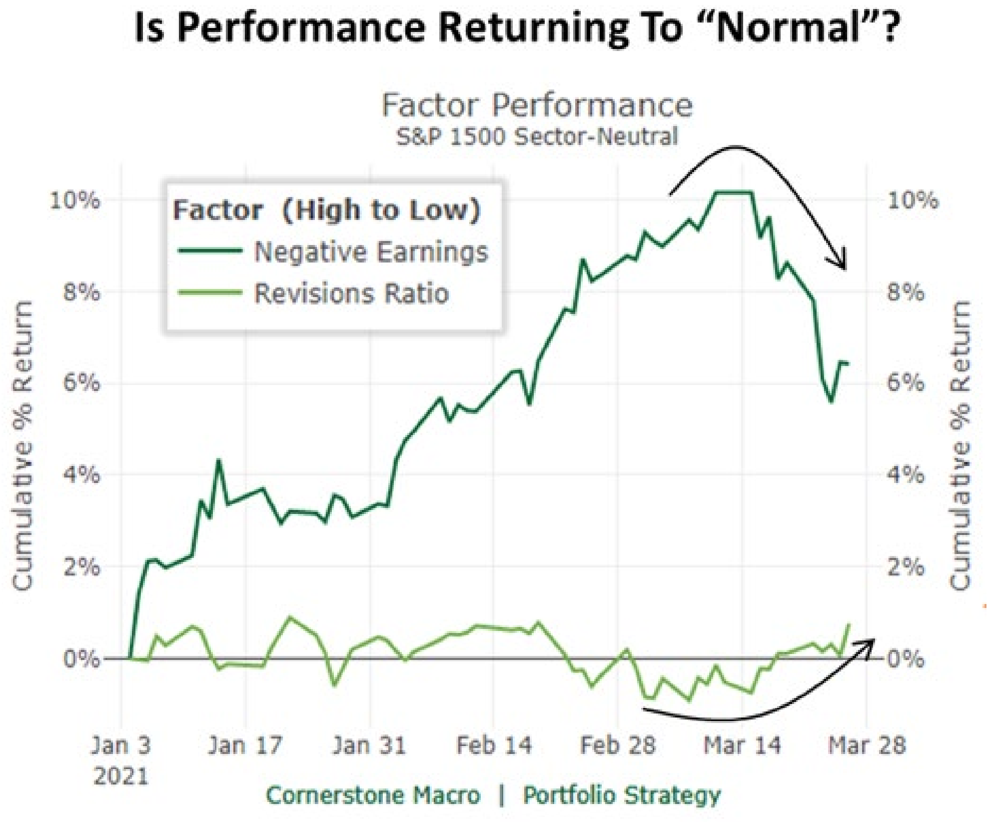
S09

NDR

Source: Ned Davis Research

Performance

If it feels like we've lived through several market cycles in the past 15 months, we agree! During that time, stocks went from "in vogue" to toxic, and now back to all-time highs at a breakneck pace. Moreover, we've seen quite a style rotation, with "concept" stocks leading the way for most of 2020 and into early 2021, while more-established, sensibly-priced stocks are pacing the leaderboard thus far in 2021. The accompanying chart shows that investor enthusiasm for companies with negative earnings is waning and companies with improving earnings are capturing more investor attention. A recent (03.05.2021) Bloomberg headline declared: "Valuation now becomes a factor determining winners and losers."



Source: Cornerstone Macro

For the first quarter, Equity Income delivered an 8.4% total return (gross of fees) and 8.1% total return (net of fees), compared to 11.3% for the Russell 1000® Value Index. Three sectors realized double-digit percentage returns for the quarter: Energy, Financials, and Industrials. While our portfolio has some exposure to those sectors, it wasn't enough to keep pace relative to the Russell 1000 Value Index for the 90-day interval.

S&P 500 Sector Performance – 1Q21

	Energy	Materials	Financials	Industrials	Cons. Discr.	Technology	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index	
S&P weight	2.8%	2.7%	11.3%	8.9%	12.4%	26.6%	10.9%	2.5%	13.0%	6.1%	2.7%	100.0%	Weight
Russell Growth weight	0.1%	0.8%	1.9%	4.7%	16.5%	44.2%	11.9%	1.7%	13.7%	4.5%	0.0%	100.0%	
Russell Value weight	5.1%	4.8%	20.6%	13.9%	7.8%	9.5%	9.2%	4.3%	12.6%	7.1%	5.0%	100.0%	
QTD	30.9	9.1	16.0	11.4	3.1	2.0	8.1	9.0	3.2	1.1	2.8	6.2	

Source: J.P. Morgan Asset Management

Best and Worst Performers

Fully 32 of our portfolio's holdings increased in value while only five declined. Among the gainers, 14 advanced by a double-digit percentage, while none of the decliners fell significantly.

Top contributors for the quarter included **Goldman Sachs** (+24%), which benefited from strong capital markets, as well as higher interest rates, a steeper yield curve, and a benign credit environment.

Corning advanced (+22%) amid a strong environment for its display, environmental, and life sciences technologies. In February, the company raised its dividend 9%, growing cash payments to shareholders for the tenth straight year.

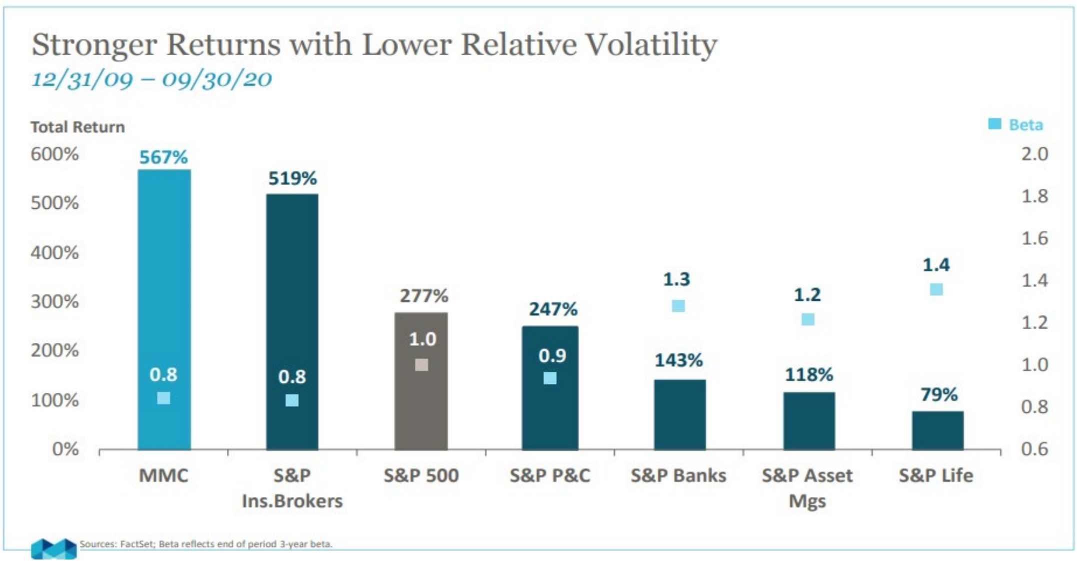
Energy exploration and production company **EOG** (+46%) led the pack for the quarter in terms of absolute gain, benefitting from a 22% gain in crude oil prices during the 90-day period. The company also published its 2021 budget, which calls for no increase in production until greater balance is restored to global oil markets. EOG also raised its dividend 10% year-over-year, setting it apart from many Energy peers who reined in their shareholder remuneration over the past year.

A common thread among our detractors was their relatively-limited macroeconomic sensitivity. **Merck** declined (-5%), perhaps reflecting some trepidation ahead of a planned CEO retirement; current chief Ken Frazier, who has served at the helm for a decade, announced his retirement effective mid-2021. The 66-year-old Mr. Frazier said he plans to pursue public service after his retirement, and we view this as a well-telegraphed transition. The company's most-recent quarterly sales and earnings grew 5% and 16%, respectively, and the planned spin-off of Merck's Organon businesses remains on track for the second quarter of 2021.

Pepsi (-4%) and **Coca-Cola** (-3%) each edged lower, amid a stop-and-start reopening of the global economy. While at-home consumption of those companies' products remains strong, off-premise consumption remains subject to local COVID-19 flare-ups and related restrictions around gatherings. With wider vaccine availability, we suspect it's only a matter of time before demand patterns normalize. In fact, Coca-Cola's CFO told us in late March that the company is working diligently to meet the high quality "problem" of demand surges in certain locales as travel, mask, social distancing, and indoor gathering restrictions are lifted.

Portfolio Changes

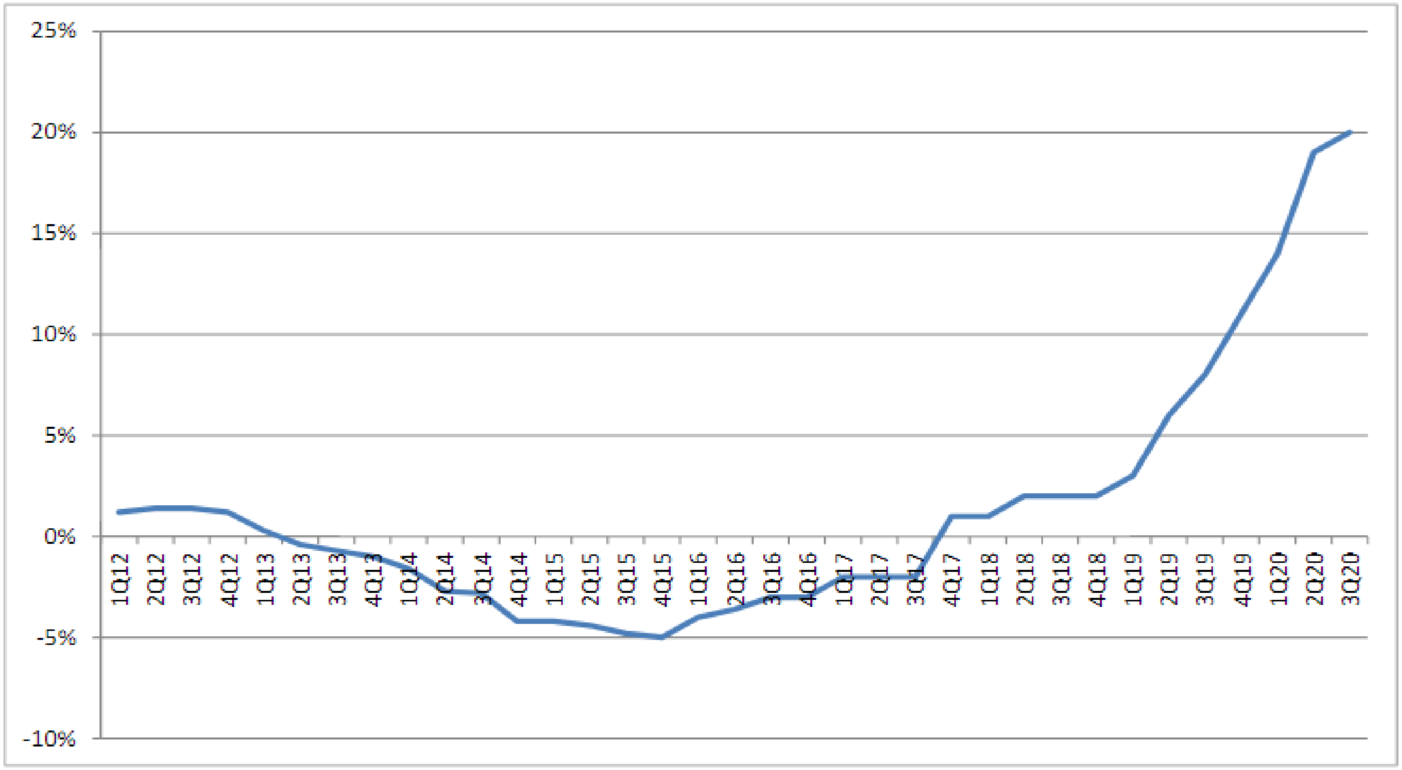
During the quarter, we made only one change to the portfolio, adding leading insurance broker **Marsh & McLennan.** Founded in 1905, Marsh is a professional services company with industry-leading positions in risk management and HR consulting, along with its primary line of business – connecting buyers and sellers of insurance on a global basis. We like the capital-light nature of the business, the lack of underwriting risk, and the recurring nature of most Marsh offerings, largely facilitated by high client retention rates for insurance that, in many cases, is required by law. As a result, insurance brokers, including Marsh, generally deliver strong returns with below-average volatility – a desirable combination, in our view.



Source: Marsh & McLennan

We see two proximate drivers that could boost Marsh's results to the high end of their historical range for the foreseeable future. First, insurance pricing overall is quite robust, fueled by a large number of global events (e.g., hurricanes, tornadoes, wildfires, casualty claims, social inflation). Second, the industry is in the midst of a proposed merger that would further concentrate the number of large global players. We believe that could drive further price discipline, thus improving profitability over time.

Figure 11: MMC Global Commercial P&C Pricing Index, YoY Change



Source: Evercore ISI

Marsh is solidly profitable (25% return on equity in a pandemic-impacted year) and shareholder-friendly. It grew its dividend every year for the past decade (at an 8% compound annual rate), most recently in July 2020 (when the pandemic was raging). At the time of our purchase, shares supplied a 1.7% yield (a modest premium to the S&P 500). From a valuation perspective, shares traded at a slight valuation discount to the S&P (versus a historic premium), highlighting what we believe to be an above-average company at a below-average price.

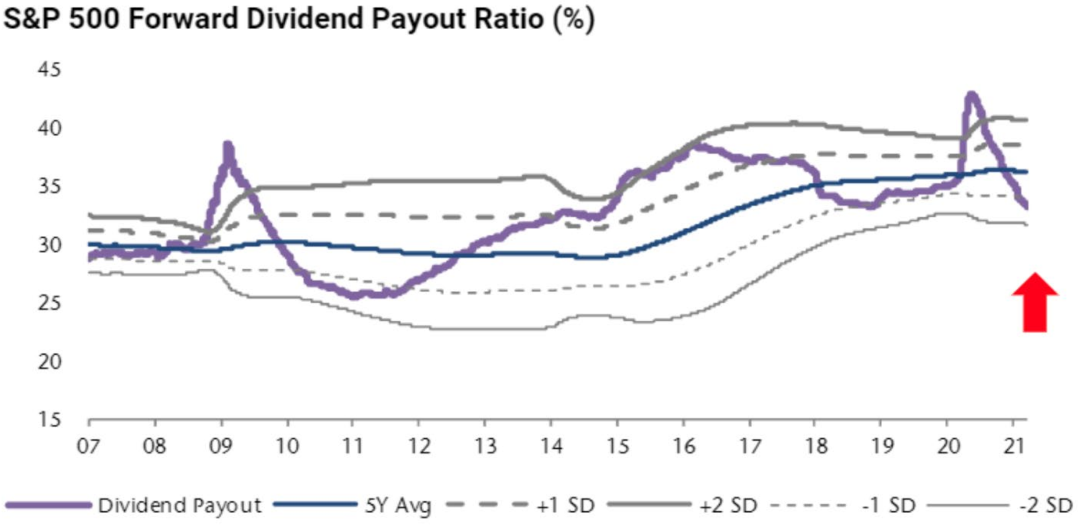
Company Updates

Equity Income constituents were busy during the quarter. **Abbvie's** *Skyrizi* succeeded in a Phase 3 clinical trial for psoriatic arthritis, while **Johnson & Johnson** received FDA approval for its *Velys* robot for digital knee surgeries, as well as emergency use authorization for its one-dose COVID-19 vaccine. **Anthem** acquired a Medicare Advantage plan in Puerto Rico, expanding its exposure to the largest growth segment within health insurance. **UPS** announced it is selling its freight business as part of new CEO Carol Tome's "better, not bigger" philosophy. **Chubb** added $1 billion to its share repurchase program, and then sought to engage in merger discussions with competitor Hartford, which rebuffed Chubb's overture. Finally, we certainly don't mind the vote of confidence by Berkshire Hathaway, which took stakes in Abbvie, **Verizon**, and Marsh & McLennan.

Dividends

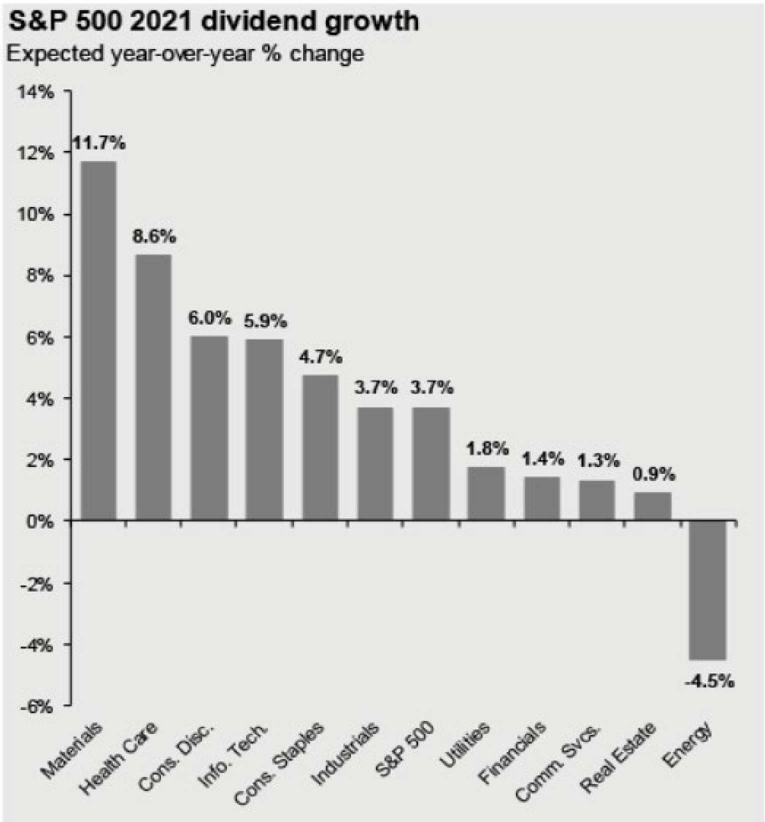
Fully a dozen of our holdings raised their dividends in the first quarter this year, led by **L3Harris** (+20% YoY), **Anthem** (+19%), and **Dick's Sporting Goods** (+16%). Also worthy of mention, **Coca-Cola** raised its dividend for a whopping 59th-consecutive year, while rival **Pepsi** lifted its streak to 49-straight years.

Meanwhile, the Federal Reserve recently indicated its intentions to loosen dividend and share buyback restrictions on systemically important banks around mid-year, once those banks complete their annual stress tests. The chart below shows that S&P 500 companies have ample room to raise their dividend payouts, which today sit approximately one standard deviation below their long-term average.



Source: Jefferies, Bloomberg

The average company in our portfolio has raised its dividend 7% year-over-year, well above the S&P 500, where dividend growth is closer to zero. As banks and other companies get the green light to enhance their payouts later this year, we see room for that 7% to increase. Based on consensus forecasts, the Healthcare and Technology sectors are expected to supply above-average dividend growth in 2021, so our portfolio's overweight to those sectors should help keep the dividend growth for our portfolio well ahead of that of the S&P 500's.



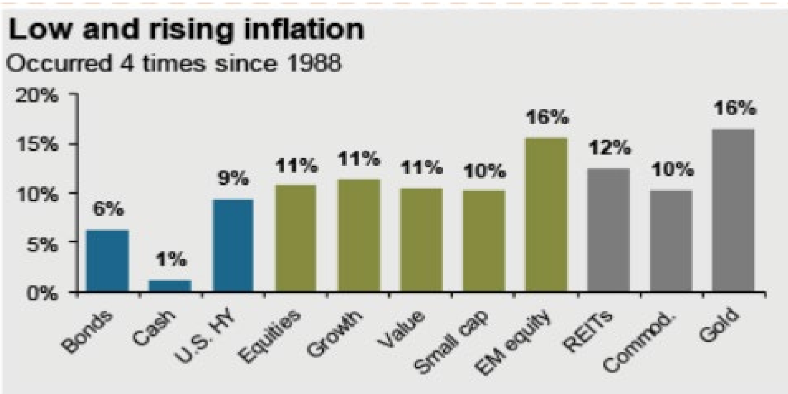
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management

Grant's Interest Rate Observer recently (03.05.2021) opined: "Income, like leafy green vegetables, is what people say they want, but what they actually like is Tesla and chocolate cake. Or they like it for now. Income, along with the allied concept of capital preservation, is the old-time doctrine that the point of investing is to earn a stream of income. [One advantage of owning dividend growers] is that companies returning 45% or 90% of free cash flow to the stockholders each year can make only so many value-wrecking acquisitions." We agree whole-heartedly.

Conclusion

We are often asked how dividend-paying stocks and the Equity Income portfolio might perform in a rising interest rate environment. It's a more than reasonable question, and one we'll attempt to answer in just a moment. But in some ways, it misses the point: rising rates impact fixed income instruments (bonds) much more than stocks. In the first quarter of 2021, for example, stock market indices posted gains, in spite of rising interest rates, while Treasury bonds fell in value by a double-digit percentage: the Barclays 20+ year Treasury ETF (ticker TLT) lost -14% in the quarter.

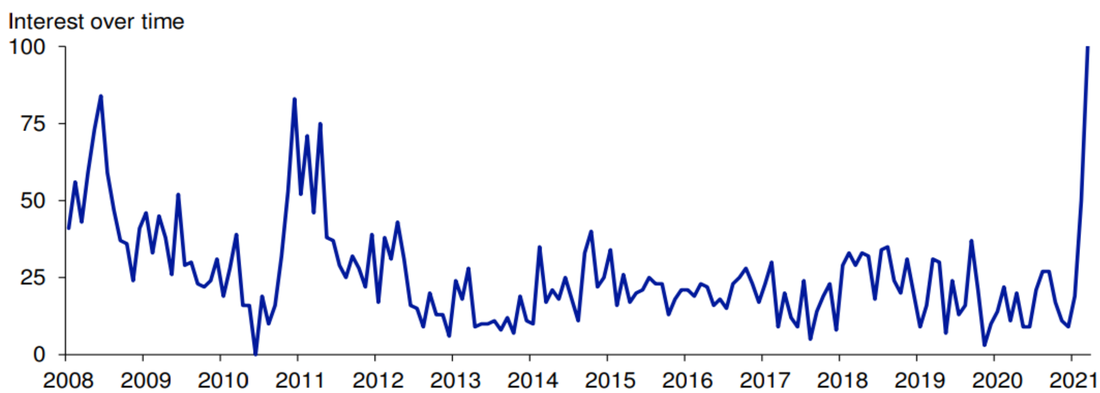
Let's revisit the question at hand. From 1954-2018, investors faced 15 rising interest rate intervals, and the S&P 500 rose on 13 of those occasions. Since last August, ten-year Treasury rates rose (sharply, on a percentage basis), and once again, the S&P 500 obliged with a gain. The accompanying table shows that stocks historically serve as a good inflation hedge, tending to rise in periods with low, but rising, interest rate levels.



Source: J.P. Morgan Asset Management

Therefore, while market participants seem more concerned than usual about inflation (and therefore rising interest rates), history suggests our concerns might be better placed elsewhere. It's been our experience that *unforeseen* risks (like a pandemic, flash crash, or the 9/11 terror attacks) tend to be more problematic. By contrast, in instances where investors are bitten by risks that market participants are already focused on, inflation is relatively rare.

Figure 1: Google trends: Inflation Topic in United States : News Search



Note:Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term.
Source :Google trends, Deutsche Bank

Source: Deutsche Bank

The robust pricing power possessed by many of our companies speaks to their ability to weather an inflationary environment, in our view. Wireless tower operator Crown Castle’s contracts generally contain annual inflation escalators, Home Depot passes through commodity inflation in categories such as lumber and copper pipes, and Microsoft’s mission-critical office productivity software can gradually command higher prices – especially as additional features and functionality (i.e., security) get added to the bundle. Similarly, many of our Financial holdings should benefit from higher interest rates and a steeper yield curve. In a rising interest rate environment, banks tend to raise loan rates faster than deposit rates. Meanwhile, insurance broker Marsh & McLennan earns commissions for placing insurance – so when insurance costs are on the rise, so are its commissions. In short, while we’re cognizant of inflationary pressures, we’re generally pleased with the pricing power of our companies, and their potential to navigate such an environment.

By contrast, what are we concerned about? We consider it healthy to worry on behalf of clients about any number of things that could derail our investments. Those range from company-specific issues to overall market valuation, as well as (possibly unrealistic) expectations that the central banks will constantly race to the rescue every time there’s a skittish moment for investors. And then there’s heady retail (Reddit, Robinhood) investing in low-quality (unprofitable) companies. The latter item, however, may represent an opportunity as much as a risk.

Stocks rated single-B or lower in the S&P’s quality rankings outperformed their higher-quality counterparts by 48 percentage points over the past year. As a result, high-quality stocks trade at a 10% discount to the market, while the lower-quality stocks trade at a 20% premium. In other words, it’s a rare environment in which high quality costs less than low quality. Who wouldn’t prefer a $15,000 Lexus to an $18,000 Yugo? “High quality stocks remain neglected,” BofA Securities strategist Savita Subramanian said in a recent research report. “Valuation, positioning, and history lessons suggest that quality may be one of the better investment strategies for the next month, year, and decade.”

The accompanying table shows that our portfolio continues to exhibit above-average quality, as measured by profitability and balance sheet strength. The companies we own also have above-average growth characteristics – both retrospectively and prospectively – while trading at a below-average valuation.

Equity Income SMA Portfolio Characteristics (01.31.2021)

	Growth/Stablity					Valuation			Profitability		Balance Sheet		Dividends	
	20y EPS Growth	21y EPS Growth	22y EPS Growth	'17-'22 EPS CAGR	22/'19 EPS Gr	22y P/E	22y EV/ EBITDA	22y EV FCF Yld	ROE	EBITDA Mgn	Interest Coverage	Leverage	Div Yield	5Yr Div CAGR
EI Median *	-1%	13%	10%	9%	27%	16.4	12.5	5.0%	15.0	23.7	7.8	2.2	2.2%	10.3%
R1V Median	-9%	13%	10%	8%	15%	17.9	12.1	4.4%	9.4	18.9	4.1	2.8	1.3%	6.5%
vs Benchmark	7%	0%	0%	1%	12%	-9%	3%	13%	59%	25%	89%	-21%	68%	59%

**Representative account. Source: Bloomberg*

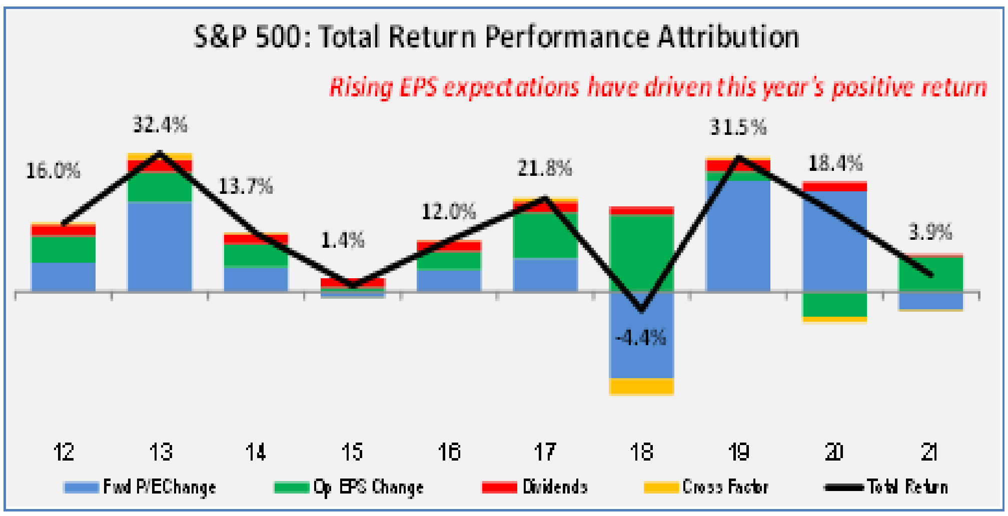
We agree with Larry Sarbit’s view in the *Financial Post* that “the split between growth and value is totally arbitrary and quite frankly makes no sense whatsoever. It’s like taking a car, removing the engine and offering the chassis and engine for sale separately. If you have only one, you’re going nowhere. We look for companies able to produce increasing amounts of cash flow in the future, while at the same, paying a reasonable or value price for that asset. As Warren Buffett said in a 1992 letter to Berkshire Hathaway shareholders: ‘We think the very term *value investing* is redundant. What is *investing* if it is not the act of seeking value at least sufficient to justify the amount paid?’”

Yet even after a solid first quarter performance, so-called “value” stocks remain inexpensive relative to their “growth” counterparts. This means, there may still be solid opportunity in this less-expensive, high-quality cohort that mostly overlaps with the dividend-paying universe eligible for our portfolio.

Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management

While the first quarter's gains (for both our portfolio and the overall market) exceed a historically sustainable level (typically around 10%, annualized), we're nevertheless encouraged that stocks were driven more by earnings growth than by other factors – a relatively healthy dynamic, in our view.

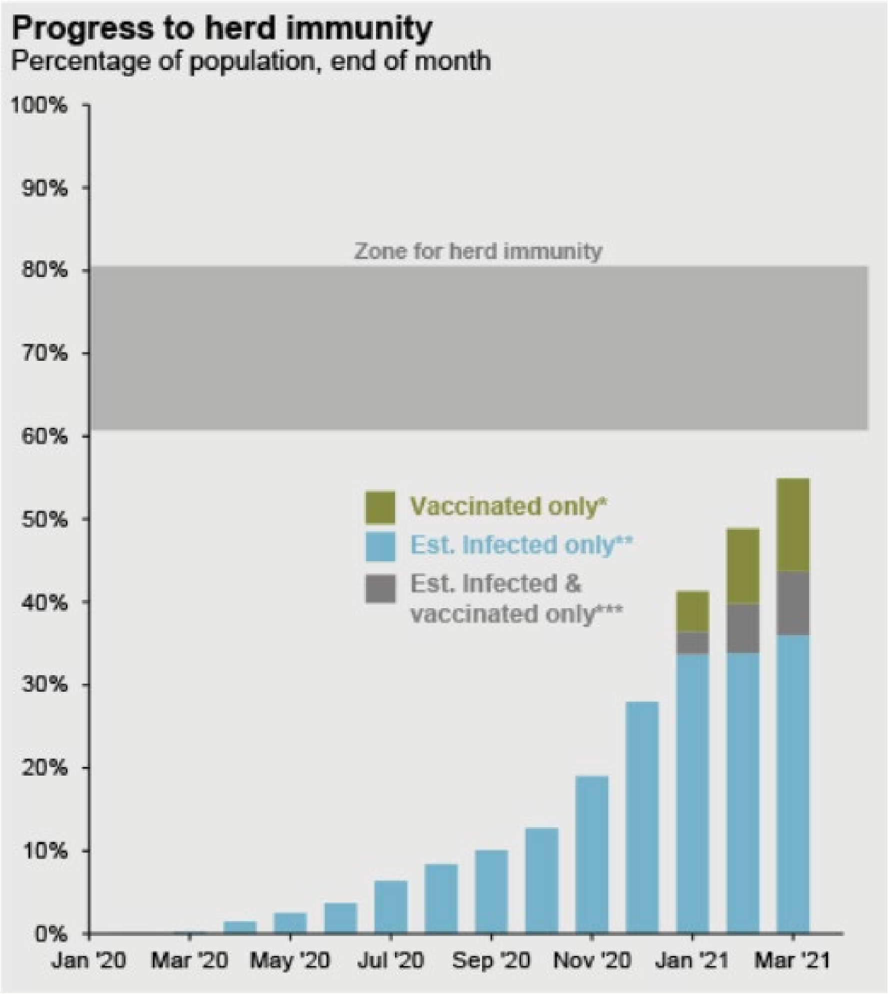
This year's returns have been driven by rising EPS expectations into even more fiscal stimulus & reopening hopes...



...however, valuations have been under pressure into inflation concerns, rising rates, and uncertainty around future Fed actions

Source: Wolfe Research

As always, we greatly appreciate your interest in our thoughts. We extend our best wishes for continued health, a wish that seems within greater reach as COVID-19 vaccines are distributed more broadly. Indeed, as of this writing, the United States appears to be well on its way toward "herd immunity."



Source: J.P. Morgan Asset Management

Stay well, and we look forward to talking with you soon – hopefully in person!

Adam Bergman, CFA®
Associate Portfolio Manager

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 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 GIPS Composite Report which is attached.*

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 Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.*

The Russell 1000® Growth Index *measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.*

The S&P 500® Index *is a readily available, 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 and covers approximately 80% of available market capitalization.*

The Bloomberg Barclays U.S. Treasury 20+ Year Index *measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 20+ years to maturity.*

Technical Terms: ***Earnings Per Share (EPS)****: a key metric used to determine the common shareholder's portion of the company's profit. EPS measures each common share's profit allocation in relation to the company's total profit.* ***Price Earnings Ratio (P/E)****: the relationship between a company's stock price and earnings per share (EPS). The P/E ratio shows the expectations of the market and is the price you must pay per unit of current earnings (or future earnings, as the case may be).* ***Free Cash Flow (FCF):*** *measures a company's financial performance. It shows the cash that a company can produce after deducting the purchase of assets such as property, equipment, and other major investments from its operating cash flow.* ***Return on Equity (ROE)****: the measure of a company's annual return (net income) divided by the value of its total shareholders' equity, expressed as a percentage.* ***Compound Annual Growth Rate (CAGR):*** *the measure of an investment's annual growth rate over time, with the effect of compounding taken into account. It is often used to measure and compare the past performance of investments, or to project their expected future returns.* ***EBITDA:*** *Earnings Before Interest, Taxes, Depreciation, and Amortization is a metric used to evaluate a company's operating performance. It can be seen as a proxy for cash flow from the entire company's operations. (Technical definitions are sourced from Corporate Finance Institute.)*

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Sterling Capital Management – Equity Income SMA Composite

December 31, 2000 – December 31, 2019

<u>Description:</u> *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 St Dev (%)	Benchmark 3-yr St Dev (%)
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 12/31/19. 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.

<u>Notes:</u>

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. In August 2020, new employees joined Sterling Capital Management via the Investment Advisory Group of SunTrust Advisory Services. This reorganization aligns all of the discretionary fixed income asset management activities within Truist under Sterling.
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 <u>Russell 1000 Value Index</u>. 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.