STERLING CAPITAL

SMID Opportunities SMA Commentary | 2nd Quarter 2021

The Sterling Capital SMID Opportunities portfolio seeks long-term capital appreciation by investing in a blend of under-appreciated value stocks and emerging growth stocks. The portfolio primarily invests in companies whose market capitalization falls within the range of constituents of the Russell 2500™ Index at the time of purchase.

We pursue attractive opportunities within small and medium-sized companies, without limiting ourselves by sector or investing style. From a universe of 3,000+ publicly-traded companies, including ADRs, we build a concentrated portfolio that normally holds between 25 and 35 securities – blending relatively young growth stocks, characterized by above-average revenue and earnings growth, with more-established value stocks that are out of favor for reasons we believe to be only temporary. This balanced approach enables us to act upon our investment team's very best ideas and build a portfolio marked by diversification and high returns on capital and growth, with below-average valuation and risk characteristics.

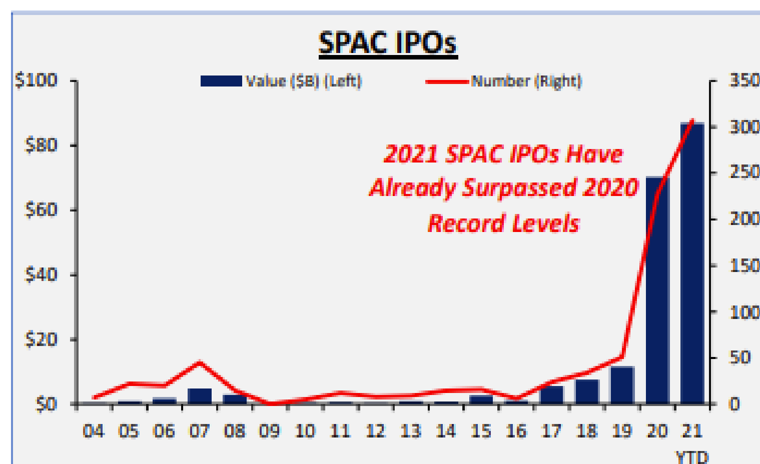
Performance Summary and Review

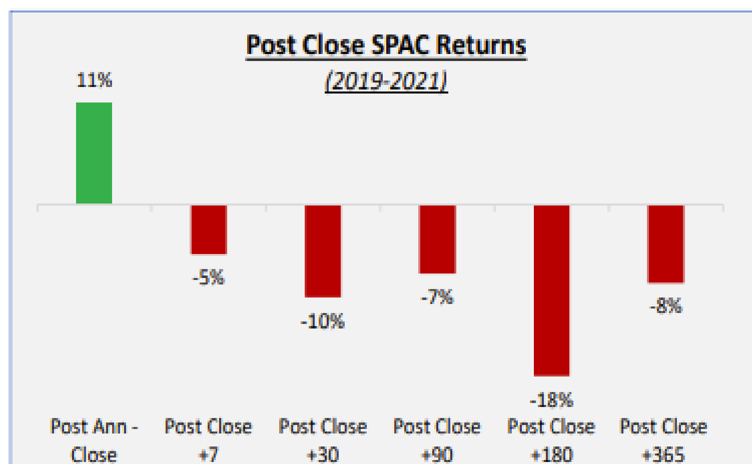
The SMID Opportunities portfolio increased 4.5% (gross of fees) and 4.2% (net of fees) in the second quarter, trailing the Russell 2500™ Index's 5.4% return and the Russell Midcap® Index's 7.5% advance. In the first half of the year, the SMID Opportunities portfolio rose 13.1% (gross of fees) and 12.5% (net of fees), compared to the Russell 2500™ Index's 17.0% gain and the Russell Midcap® Index's 16.3% increase.

All Russell 2500 sectors rose during the quarter, led by Energy (+14.7%) and Technology (+9.1%). Defensive sectors, Utilities (+0.7%) and Staples (+1.0%), lagged. Style continued to correlate with the direction of interest rates, with the ten-year Treasury yield falling and Growth (Russell 2500™ Growth Index +6.0%) beating Value (Russell 2500™ Value Index +5.0%).

Record monetary and fiscal policy, totaling ~$6 trillion, and M2 money supply up by nearly a third since year-end 2019, contributed to one of the swiftest economic recoveries in history, along with some unintended consequences. The rollout of vaccinations, pent-up demand and another round of stimulus drove multiple upward revisions to 2021 GDP forecasts, inflation expectations and corporate earnings estimates. Retail investors plowed $28 billion into stocks and ETFs in June, according to Vanda Research, the most since at least 2014. Equities responded favorably.

As you might expect, this resulted in a few areas of froth where speculative fervor has become worrisome, including meme stocks and special-purpose acquisition companies (SPACs). Last quarter, twice as many unprofitable U.S. companies raised money through secondary offerings than did profitable firms, including meme stocks GameStop and AMC. Money-losing businesses' desire for more capital shouldn't come as a surprise, but typically, a discounted equity price is required to close a deal. Not in the current environment. Counterintuitively, many companies announcing secondary offerings saw their stock prices rise on the news, despite shareholder dilution. In the first half of 2021, the value of SPAC IPOs surpassed 2020's full-year value, which itself was a record by a wide margin (left chart below). Investors' appetite for "blank check" vehicles is surprising for many reasons, not the least of which is the lackluster returns for shareholders post closing (chart on the right).





Source: Wolfe Research

2Q21 Contributors and Detractors

Top Contributors	GICS Sector	Contrib. to Return
TransUnion	Industrials	0.81
SLM	Financials	0.68
Evoqua Water Technologies	Industrials	0.64
Centene	Health Care	0.52
Waste Connections	Industrials	0.51

Top Detractors	GICS Sector	Contrib. to Return
Rackspace Technology	Info. Technology	-0.55
Fiserv	Info. Technology	-0.46
F5 Networks	Info. Technology	-0.39
Hologic	Health Care	-0.35
Global Payments	Info. Technology	-0.33

Source: FactSet, Sterling Capital

Top contributors:

- **TransUnion** management said, “We have seen improvement in most of our end markets and we are well positioned to see an outsized benefit from this recovery...we experienced a rapid recovery in many markets throughout February and March.” As such, full-year revenue growth guidance was raised to 9-10%, doubling consensus expectations, including 8% organic growth. Earnings per share (EPS) is forecast to increase 15-19%.

- **SLM** delivered another beat-and-raise quarter and completed a $3.2 billion private education loan sale, generating a $400 million gain. We continue to believe the value of assets recorded on the balance sheet is well below current market value, and are encouraged by loan sales at higher prices with proceeds used to repurchase stock at discounted prices. Since January 2020, shares outstanding were reduced by 26%, and nearly $500 million remains authorized.

- New addition **Evoqua Water Technologies** raised the upper end of its full-year guidance. Easier comparisons in the second half should result in faster year-over-year growth. Also, odds of an infrastructure bill passing increased, with the most recent proposal including more than $100 billion for the water sector and ~$10 billion for per- and polyfluoroalkyl substances (PFAS) remediation, where Evoqua has leading market share.

- **Centene** shares got a shot in the arm from the appointment of Drew Asher as CFO and the United States Supreme Court ruling that the Affordable Care Act (ACA) remains constitutional, even without the individual tax penalty. In mid-June, management raised its long-term margin target at its virtual investor day.

- **Waste Connections** is benefiting from a strong pricing environment, recovering volumes and a robust M&A pipeline that’s partially tax-motivated.

Top detractors:

- **Rackspace** slipped, as decelerating bookings growth (+6%) surprised Wall Street. CFO Amar Maletira joined the company last November, and began shaping the company’s approach towards more profitable growth, which contributed to the slower quarterly bookings. Amar’s tag line is, “revenue is vanity, profit is sanity, cash is reality.”

- **Fiserv’s** first quarter results were slightly ahead of consensus, but not enough to alter negative sentiment, and full-year guidance was only raised by the amount of the first quarter beat. Over time, we believe 18% 1Q EPS growth and expected 21-24% EPS growth for the full year could help re-rate the stock. Misconstrued as a legacy, stodgy merchant acquirer, Fiserv’s modern acquiring platform, Clover, grew payment volumes 36% to a $141 billion annualized rate. Management announced a new solution with PayPal to enable Clover and Carat (enterprise e-commerce) to accept payments via PayPal and Venmo through QR codes at the point of sale – such technology is on display at many local restaurants in our hometown. We had a chance to catch up with CEO Frank Bisignano, who highlighted the recent purchase of Ondot, which integrates card and banking applications on mobile devices.

- **F5 Networks** software sales grew 20%, below Street expectations. Fiscal 2021 software growth of 35% was reiterated, implying a steeper acceleration in the second half of the year. Whether or not that bogey is met, F5’s increasing mix of software and subscription revenues tied to the secular growth in modern application delivery and security provides more confidence in the long-term outlook. As such, we believe the stock’s discounted valuation versus the market and peers is short-sighted.

- **Hologic** lowered its COVID-19 testing revenue outlook – second quarter related revenues are expected to be $200-$250 million, down from more than $700 million in the first quarter. We anticipated a decline in testing volumes, but the timeline was accelerated a bit by the rapid deployment of vaccines. Still, we believe investors are missing the forest for the trees. There were more than 700 Panther diagnostic testing equipment placements over the past year, compared to the pre-COVID-19 run-rate of 225. Recurring revenues from the larger installed base provide greater visibility into future revenue and earnings. Plus, CEO Stephen MacMillan redeployed more than $1 billion of COVID-19 testing cash flows into adjacent businesses to broaden and strengthen product and service offerings. As a result, Hologic's organic growth rate is expected to be north of 5% exiting the pandemic, up from 3-4% in prior years. Despite greater visibility and faster growth, the stock ended the quarter trading at 13.3x forward earnings estimates, well below its 17.2x five-year average.

- **Global Payments** fell, despite all three business segments returning to growth in the first quarter (against pre-pandemic results), +15% EPS and raising full-year revenue and EPS guidance to +12-13% and +23-26%, respectively. As a result, valuation fell near parity with the broader market, the cheapest in six years, despite more rapid and consistent growth. That likely contributed to Director Joia Johnson's decision to purchase $100,000 of Global Payments' stock. During the quarter, the company announced the acquisition of Zego, a provider of digital commerce solutions for property managers and residents. Zego processes $30 billion in transactions per year in a $1 trillion addressable market, offers double-digit organic growth and the business is highly recurring – digitally processing monthly rent payments seems like an nice uptick for landlords.

Portfolio Changes

We purchased two new holdings and didn't exit any positions, adding exposure to secular growth in high-speed broadband and water treatment.

We added **Cable One**, which provides data, video and voice services primarily in non-metropolitan, secondary and tertiary markets across 21 western, midwestern and southern states. The company spun off from Graham Holdings in 2015, but has an operating history dating back to the mid-1980s. In 2013, Cable One pioneered the industry's strategic shift to higher-margin broadband services and away from video. Since then, cord-cutting across the industry accelerated amid the proliferation of streaming services. At the same time, programming costs continue to rise, pressuring video margins. The company's forward strategic thinking led to industry-leading EBITDA margins, faster growth and the lowest mix of video revenues. Yet Cable One's broadband penetration of homes passed* remains far lower than that of its peers, resulting in an attractive organic growth opportunity, while peer low leverage should enable meaningful inorganic contributions as well.

Cable One at a Glance

Business Description

- Integrated provider of high-speed data (HSD), video & voice services
- Presence in 21 Western, Midwestern and Southern states
  - 78%(1) of customers located in 7 states: AZ, ID, IL, MS, MO, OK & TX
- Consistent track record of long-term financial and operating success
- Differentiated operating philosophy

Differentiated Strategy

- Pioneer of HSD-centric model
- Rural footprint with favorable competitive dynamics
- Continuous operational improvement mindset

Key Statistics

$1,347mm Illustrative LQA Q4 2020 Revenue	**$716mm** Illustrative LQA Q4 2020 Adj. EBITDA	**53.1%** Illustrative LQA Q4 2020 Adj. EBITDA Margin
$415mm Illustrative LQA Q4 2020 Adj. EBITDA - Capex	**73.0%** % Non-Video customers (1)	**69.8%** Residential HSD and Business Services Revenue as a Percentage of Total Revenue (2)

Q4 2020 Revenue Distribution (2)

Track record of focus on profitable customers – we count cash flow, not subscribers

Note: See the Disclaimer for further information on information presented as of December 31, 2020 and on an Illustrative LQA Q4 2020 basis. Results shown exclude the impact from the pending Hargray Acquisition.
(1) As of December 31, 2020. (2) Revenue for the quarter ended December 31, 2020. Percentages may not sum to 100% due to rounding.

Source: Cable One

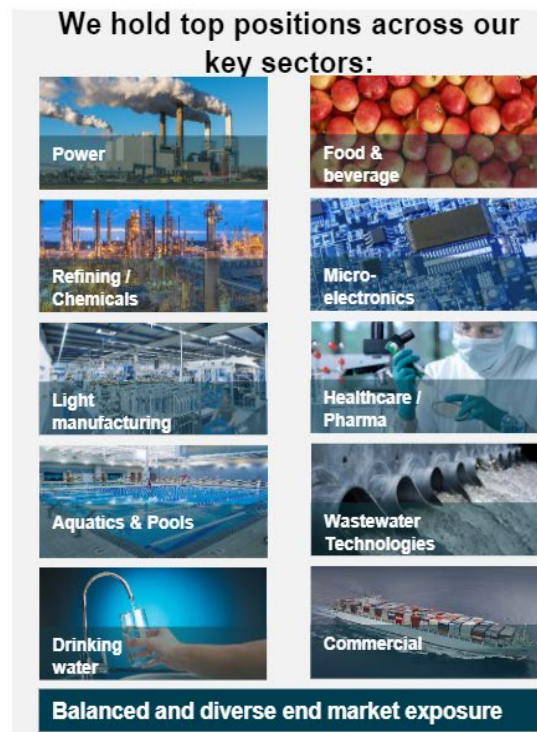
*"Homes Passed" is the potential number of premises which a service provider has capability to connect to a fiber to the home (FTTH)/fiber to the building (FTTB) network in a service area.

We're attracted to Cable One for two primary reasons: one, its focus on rural markets; and two, the strategic shift to broadband. The combination of these two factors contribute to industry-leading margins, faster growth, higher average revenue per user (APRU), and higher returns on equity (ROE). In addition, strategic M&A provided incremental growth, and we expect strategic tuck-ins to continue. In early May, the acquisition of Hargray was completed, adding nearly 300,000 homes passed, or 13% to Cable One's existing footprint. The 45% investment in Mega Broadband Investments (MBI) in late 2020 came with a call option to buy the other 55% in 2023, which would add another 644,000 homes passed, or 23%.

We see Cable One rapidly growing its top line and expanding margins, leading to double-digit EPS and free cash flow (FCF) growth. Combining actual results with consensus estimates, Cable One's five-year EPS and FCF compound annual growth rates (CAGRs) through 2022 are both expected to be 19%. The company's 25% ROE is more than 5x the median Russell 2500 constituent, and its 2.1x leverage is below the median. Cable One shares were down 24% year-to-date at our purchase. As a result, despite its attractive profile, Cable One traded at just a 7% premium to the Russell 2500 on an EV/EBITDA basis, down from a premium of more than 60% in early 2020. Cable One's 13.5x EV/EBITDA multiple also appears attractive relative to an estimated 14% EBITDA CAGR from 2020 to 2023, according to Wells Fargo estimates. CFO Steven Cochran appears to share our enthusiasm, purchasing $500,000 of stock in mid-May, adding to his $4 million stake.

We added **Evoqua**, a leading provider of mission-critical water and wastewater treatment solutions that doesn't utilize chemicals to treat and remove contaminants. Secular demand drivers include water scarcity (less than 1% of the total water on earth is fresh water and demand is doubling every 20 years), population growth, urbanization, increased regulation (e.g., PFAS), aging infrastructure and rising international penetration. Evoqua operates in highly fragmented markets where it's typically the leader. However, with less than 25% market share, it leaves plenty of opportunity for further share gains and consolidation. A high and increasing mix of recurring revenues, 60% as of last quarter, enhances the steadiness and resiliency of the business. The transition to Outsourced Water, where Evoqua owns and manages assets for customers, not only extends visibility and doubles the long-term income stream, but benefits margins as well. Evoqua's leading position and $3 billion market value look attractive against a large and growing $16 billion served addressable market.

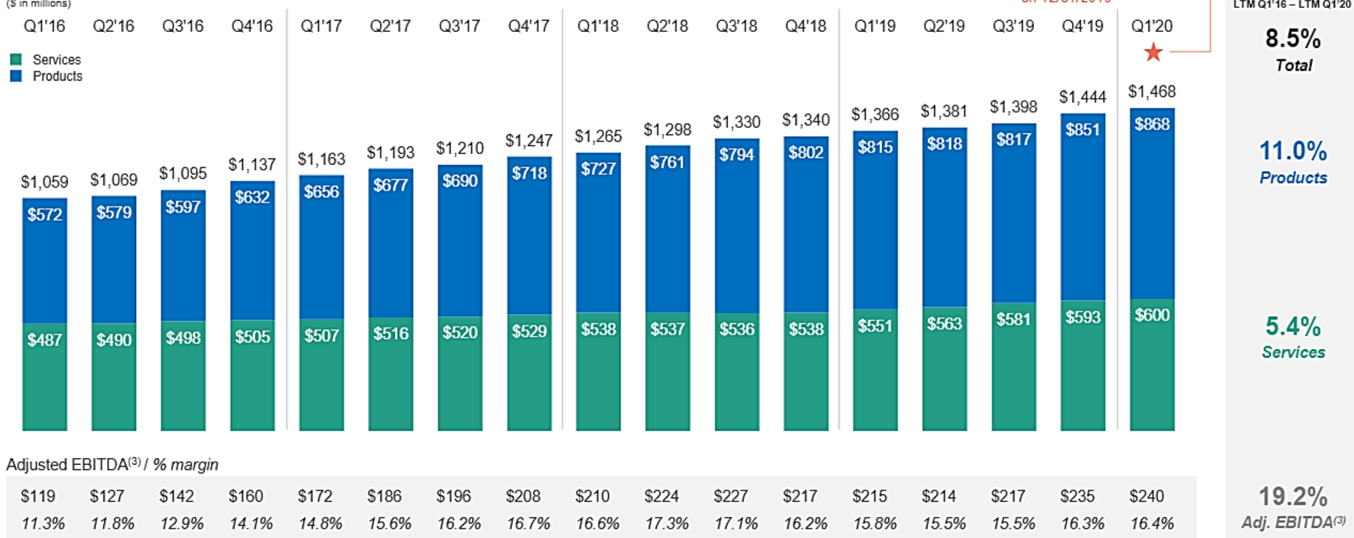
Serving a large, growing and fragmented market



(1) Management Estimates. Source: Evoqua

EBITDA margins and FCF conversion continue to rise toward management's 3-5 year target levels of 20% and 100%, respectively. A growing top line, increasing margins, greater FCF conversion and more modest leverage should enable more strategic M&A to bolt-on solutions, broadening the product set and accelerating growth. If management can deliver a revenue CAGR in the 6-7% range, and achieve its 20% EBITDA margin target in five years, we see the opportunity for the stock to double, with little multiple expansion required. At our purchase, AQUA traded at a 5% discount to the Russell 2500 on EV/EBITDA, despite strong secular tailwinds, resilient demand and above-benchmark ROE. The further into the future you look, the greater the discount to the index due to Evoqua's faster growth.

Delivering top-Line and bottom-line growth



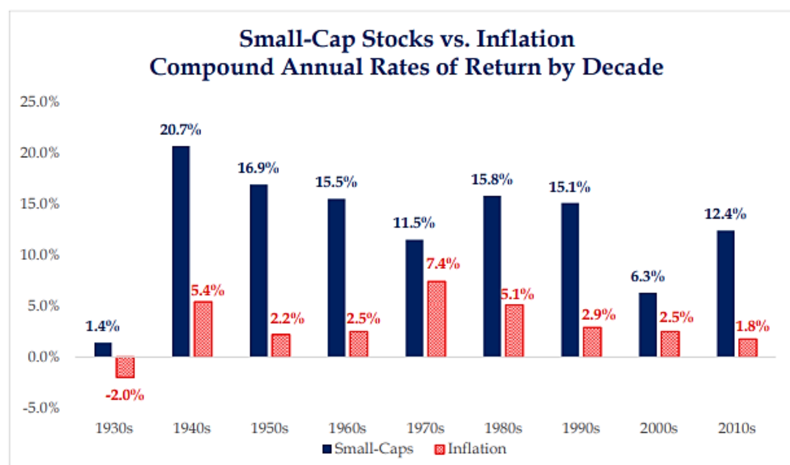
(1) Prior period amounts have been recast to conform to current period presentation by category.
(2) Historical results include Memcor.
(3) For the definition of Adjusted EBITDA and a reconciliation to net income (loss), its most directly comparable financial measure presented in accordance with GAAP, see the Appendix hereto.

Source: Evoqua

Conclusion

We believe small- and mid-cap companies offer attractive valuations and growth opportunities, particularly relative to other asset classes. Against inflation, which has become top of mind for investors, small caps have outperfomed every decade since the 1930s, including the hyper-inflationary environment in the 1970s.

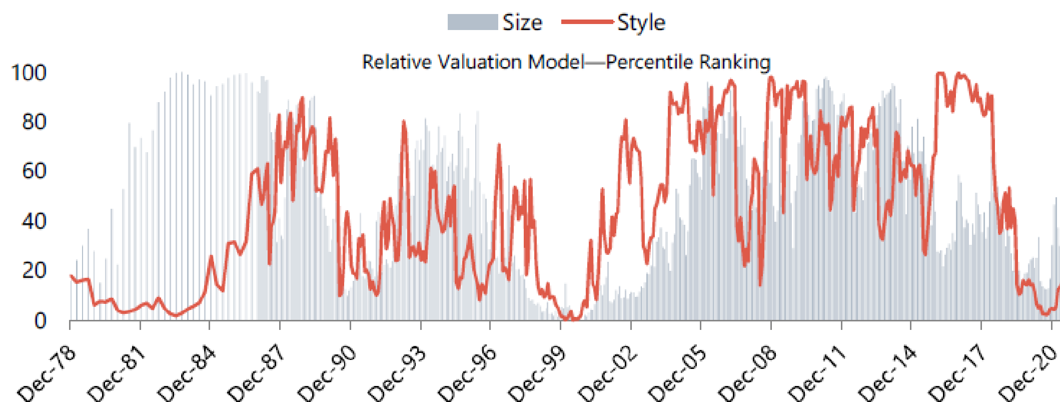
SMALL-CAPS HAVE OUTPERFORMED INFLATION EVERY DECADE SINCE THE 1930s



Source: Strategas

Large caps outperformed in the second quarter, prompting investor questions about whether small cap outperformance had run its course. A Jefferies' equity strategist looked back to 1926 and found seven cycles of small cap outperformance. He found that the average cycle lasted more than five years, and the average annual excess return was 17.6%. We're only a little more than a year into this cycle. In addition, despite the outperformance since the market low, Jefferies' valuation model continues to show small caps as relatively cheap, in the 30th percentile of historical data.

Chart 11 - After the rebalancing, we see our relative valuation model in the 30th percentile for Small vs. Large, 12th for Value vs. Growth



Source: FactSet, FTSE Russell, Jefferies

Our companies are consistently growing faster, trade at a discount, are more profitable, and operate with more conservative balance sheets than the median Russell 2500 constituent. The median portfolio holding grew earnings in 2020 at a high-single-digit rate, versus a double-digit decline for the median Russell 2500 constituent, and is expected to grow mid- to high-teens in 2021 and 2022. This illustrates the resiliency and consistency of our businesses and informs our higher confidence in our companies, irrespective of the economic environment.

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

	Growth/Stablity					Valuation			Profitability		Balance Sheet	
	20y EPS Growth	21y EPS Growth	22y EPS Growth	'17-'22 EPS CAGR	'22 EPS vs '19	22y P/E	22y EV/ EBITDA	22y EV FCF Yld	ROE	EBITDA Mgn	Interest Coverage	Leverage
SMID Median*	8%	19%	14%	15%	42%	19.9	13.6	4.3%	16.5	23.0	5.6	2.4
R2500 Median	-13%	13%	8%	7%	15%	22.9	14.3	3.5%	6.5	11.6	1.0	2.2
vs Benchmark	21%	6%	5%	9%	27%	-13%	-5%	23%	155%	98%	472%	11%

*Representative account. Source: Bloomberg

As always, we thank you for your interest in the Sterling portfolios.

Josh Haggerty, CFA®
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 2500™ Index measures the performance of the small to midcap segment of the U.S. equity universe, commonly referred to as "SMID" cap. The Russell 2500™ Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500™ Index is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.

The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap® Index represents approximately 31% of the total market capitalization of the Russell 1000® companies. The Russell Midcap® Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set.

The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500™ companies that are considered more value oriented relative to the overall market as defined by Russell’s leading style methodology. The Russell 2500™ Value Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect value characteristics.

The Russell 2500™ Growth Index measures the performance of the small to mid-cap growth segment of the US equity universe. It includes those Russell 2500™ companies with higher growth earning potential as defined by FTSE Russell's leading style methodology. The Russell 2500™ Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect growth characteristics

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. **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. **Enterprise Value (EV)**: the measure of a company’s total value. It looks at the entire market value rather than just the equity value, so all ownership interests and asset claims from both debt and equity are included. **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.)

The Chartered Financial Analyst® (CFA) charter is a graduate-level investment credential awarded by the CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

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Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees.

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Sterling Capital does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.

Sterling Capital Management - SMID Opportunities SMA Composite
June 30, 2011 – December 31, 2020

Description: Consists of all discretionary separately managed wrap SMID Opportunities portfolios. Sterling's SMID Opportunities equity portfolios invest primarily in companies similar to the market capitalization of the Russell 2500 index.

Year	Total Return "Pure" Gross of Fees	Total Return Net of Fees	No. of Portfolios	Composite Assets End of Period ($MM)	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 2500	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2020	7.35	6.11	19	7	70,108	0.86	19.99	21.37	24.21
2019	36.12	34.46	27	8	58,191	1.01	27.77	12.28	14.58
2018	-9.34	-10.41	28	6	56,889	0.35	-10.00	11.46	14.10
2017	13.93	12.62	30	8	55,908	0.41	16.81	9.14	12.13
2016	16.08	14.64	67	14	51,603	1.20	17.59	10.67	13.67
2015	-0.39	-1.64	31	8	51,155	0.73	-2.90	10.53	12.42
2014	13.30	11.94	32	6	47,540	0.40	7.07	10.58	11.67
2013	25.34	23.89	20	4	45,638	0.25	36.80		
2012	17.47	16.08	13	2	4,422	0.16	17.88		
2011 (Inception 6/30/11)	-10.17	-10.72	3	0	3,932		-9.78		

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. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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. 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. Joshua L. Haggerty, 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: June 30, 2011. Creation date: June 30, 2011. The appropriate index is the Russell 2500 Index which measures the performance of the smallest 2,500 companies in the Russell 3000. It represents the universe of stocks from which small- and mid-cap managers typically select. 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 SCM's broad distribution pooled funds and their descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Composite Reports are available upon request.
4. Performance reflects reinvested interest income and dividends and realized and unrealized capital gains and losses. All portfolios utilize trade-date and accrued income accounting. Valuations and performance are reported in U.S. dollars. Periodic time weighted returns are geometrically linked. Returns are not calculated net of non-reclaimable withholding taxes due to immaterial dollar amounts. Beginning July 1, 2020, portfolio performance is calculated daily including cash flows. Daily calculations are geometrically linked to create time weighted returns. Composite returns are asset weighted using the beginning market value and time weighted return of the portfolios. Prior to July 1, 2020, portfolio returns were calculated using the Modified Dietz Method and 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.
5. "Pure" gross of fees returns are presented as supplemental information and do not reflect the deduction of any fees including trading costs. "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, administrative fees, and foreign withholding taxes. The maximum SMA or bundled external platform fee is 2.57% annually and includes Sterling's actual management fee of 0.32%. Sterling's actual management fees are 32 basis points annually. Since inception, the composite is comprised 100% of wrap fee portfolios.
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, and is calculated using gross of fee returns. It is not meaningful when there have been less than six portfolios in composite for entire calendar year. The three year annualized standard deviation measures the variability of the composite and benchmark returns over the preceding 36 month period. The composite 3-year standard deviation is calculated using gross of fee returns. 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.