Our Enhanced Equity portfolio is designed as a product for investors who seek the long-term capital growth of equity markets and who are comfortable with the trade-offs inherent in selling call options against underlying common stock positions. To implement our strategy, we carefully construct a diversified portfolio of perceived high-quality stocks that we believe will appreciate over time. Then, we give others the right to buy those same stocks from us (we sell a call option), at a pre-determined price (the strike), at a pre-determined point in time (the expiration date). We forego upside in our stocks beyond the strike price, while the buyer of the call option gives us cash (the premium) for that right to participate in any share price appreciation beyond our chosen target. We write "out-of-the-money" options (meaning the strike is above the stock's prevailing market price) that provide us both cash income up front (via the premium) and some defined appreciation potential to the strike price.

In essence, our call-writing strategy involves a calculated series of low-return but high-probability bets (a cash return up front is assured, while we "lose" versus a non-hedged portfolio only if our stocks advance beyond the strike price). The call buyer(s) on the other side of our transactions are making a series of low-probability, but potentially high-return, bets on each of our stocks. Over time, we believe the option premiums we are able to generate will "enhance" our underlying equity performance, while reducing overall volatility. We benchmark our portfolio against the CBOE BuyWrite Index, or "BXM." BXM tracks the performance of an unmanaged strategy based upon writing at-the-money, one-month calls against the S&P 500® Index. We seek to add value with our stock selection disciplines, and via active tactical management of our options exposures.

Performance

The Sterling Enhanced Equity portfolio returned 3.26% (gross of fees) and 2.83% (net of fees) for the quarter versus the 6.52% gain for the CBOE BuyWrite℠ (BXM) Index and the S&P 500® Index's (SPX) total return of 8.93%. On a year-to-date basis, the strategy lost a -13.06% (gross of fees) and -14.16% (net of fees) versus the BXM's -9.58% and SPX's 5.57%.*

Winners & Losers

The portfolio featured several large movers in the third quarter of 2020. The largest five contributors and detractors to attribution are presented below.

Lennar (+1.2%) quarterly results were well ahead of guidance as the housing market continued to benefit from low interest rates, low supply and a pandemic-led demand shift toward larger footprints with home offices in the suburbs. Lennar is executing its multi-year transition to a just-in-time inventory land model, with 35% of home sites now controlled via options, up from 30% a year ago, and owned land supply down to 3.8 years. Management said community counts will grow 10% in fiscal 2021, which should enable Lennar to accelerate its pace of deliveries during a period of elevated demand, while also maintaining pricing discipline and its focus on margins and returns on invested capital (ROIC).

Ball Corporation (+0.95%) saw EPS rise 12% in the first half of 2020, illustrating the resilience of its aluminum cans. Sustainability trends are leading to increased demand for aluminum cans, resulting in a rapidly rising mix of new beverage launches in specialty aluminum cans. Impressively, can volumes in alcoholic beverages have outperformed the category in every 4-week period since 3Q16! Over the last 4-week interval, categories with outsized can volume growth included 58% in flavored malt beverages (think spiked seltzers such as White Claw and Truly), 78% growth in canned wine and spirits, and 33% growth in sparkling water.

Comcast (+0.87%) reported solid results, with strength in Cable offset by C-19-related weakness in NBC, Parks, Film and Sky. Cable net customer relationships rose 217,000, the best ever for a second quarter. High speed internet customer additions totaled 322,000, the best 2Q in 13 years. At a conference in mid-September, CEO Brian Roberts said 3Q high speed internet adds would "greatly exceed 500,000," representing the best quarter on record, and that full year 2020 net additions would "greatly exceed" last year's 1.4 million. That strength is expected to lead to Cable EBITDA growth "substantially better" than 1Q's 6.1% and 2Q's 5.5%.

HCA Healthcare (+0.69%) stock recovered during the quarter even as its hospitals experienced peak COVID-19 cases in July – recall that its hospitals are located in the Sun Belt. Still, the company executed well, and elective procedures have rebounded. In the short-term, higher acuity and favorable mix are offsetting lower volumes, and inpatient revenues per admission rose 10% last quarter. The stock's 3Q performance could have been even stronger but for a late quarter swoon after Justice Ginsburg's passing raised concerns that the Supreme Court might strike down ACA. The stock ended the quarter trading at a 10-year low valuation.

**Past performance is not indicative of future results.*

Hologic (+0.45%), a leader in women's health including breast cancer diagnostics, pre-announced positive third quarter results. And not by a little: revenues are expected to be 24-29% higher than consensus, up 54-60% year-over-year, and EPS is now expected to be "significantly" above guidance. COVID-19 testing is largely responsible, with Hologic providing nearly 2 million tests per week, or around 40% of all tests in the U.S.

CVS Health Corp (-0.43%) handily exceeded analyst expectations, grew earnings 40% year-over-year and raised guidance. While investors may take a wait-and-see approach to its integration efforts from its Aetna merger, at less than 8x earnings, the stock appears poised to rerate.

Centene Corporation (-0.35%) is a Managed Care Organization (MCO) that underperformed in the second quarter as it reported earnings below analyst's expectations. COVID-19 is driving higher costs for Centene for testing, waivers (areas where there may have been review stipulations in place), and the cost of the care for infected patients. Centene also cited there was a delay in synergistic benefits from the WellCare deal, but this was offset by management's commitment to repurchase shares. It's worth noting that the company raised revenue guidance as it likely benefits from the spike in unemployment and the length of the recession driving membership growth in the intermediate term.

Town Bank (-0.32%), the regional bank underperformed in the second quarter after the company booked a $26.9M provision expense due to the COVID-19 uncertainty. Despite the elevated provision expense Town's Q2 results benefited from a strong quarter in fee income associated with mortgage and real estate brokerage business. The company appears to be taking the right steps during the COVID-19 crisis, and should benefit from overall economic recovery over the next several years.

Chubb Limited (-0.22%), a leading global provider of insurance and reinsurance, was likely negatively impacted by an active hurricane season, wildfires, the Midwest derecho and other events. Catastrophe losses may decline in 2021, which could significantly increase EPS growth over the next few years, and the stock may re-rate higher due to its attractive valuation.

Premier (-0.16%) underperformed during the quarter after outperforming in the first quarter. As the second-largest health system Group Purchasing Organization, it's likely a beneficiary of the increasing demand for protective equipment for hospitals related to COVID-19, but it is likely negatively impacted by the delay of higher margin elective surgeries.

Purchases and Sales

During the third quarter, **F5 Networks, Citigroup, Flir Systems, Hologic, EOG Resources, Encompass Health,** and **NXP Semiconductors** were purchased. Additionally, **HCA Healthcare, PTC Inc., Cisco Systems,** and **NXP Semiconductors** were called away in the third quarter.

Conclusion

According to the CBOE Volatility Index (VIX), volatility remains elevated as concerns related to the COVID-19 crisis and the economic impact continue to drive investor uncertainty, yet volatility tends to highlight covered call strategies like Enhanced Equity. In one sense, the strategy can lower risk by writing out-of-the-money call options, collecting cash from the premium upfront. In another, volatility may boost the price for the premiums we receive. Moreover, we participate in the upside of the stocks we buy and see evidence that stock picking adds value. As we consider our current and future investment prospects for the Enhanced Equity portfolio, we seek to generate above-average returns for our clients and hope to incur below-average risk.

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

Sincerely,

Whitney Stewart, CFA®
Executive Director

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.*

The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

CBOE BuyWrite℠*: The CBOE S&P 500 BuyWrite Index (BXM℠) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index.*

S&P 500®*: 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.*

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 Management – Enhanced Equity SMA Composite

December 31, 2003 – December 31, 2019

Description: *Consists of all discretionary separately managed wrap Enhanced Equity portfolios. Sterling's Enhanced Equity portfolios invest primarily in companies held in other Equity Opportunities Group portfolios where call options are written opportunistically to enhance the portfolio's cash flow.*

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 (%)	BXM Index	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2019	28.08	26.20	5	2	0.0	58,191	0.97	15.68	11.18	7.84
2018	-9.23	-10.46	12	6	0.0	56,889	0.75	-4.77	9.96	7.38
2017	12.93	11.30	15	9	0.0	55,908	0.58	13.00	8.50	5.74
2016	13.20	11.17	13	9	0.0	51,603	0.50	7.07	8.79	6.59
2015	-1.90	-3.72	16	9	0.0	51,155	0.49	5.24	8.21	6.43
2014	9.39	7.27	19	11	0.0	47,540	0.30	5.64	8.23	5.90
2013	22.13	19.74	20	11	0.0	45,638	0.50	13.26	11.35	9.44
2012	10.49	8.26	23	10	0.2	4,422	0.69	5.20	13.68	11.60
2011	2.26	0.21	29	12	0.3	3,932	0.77	5.72	15.62	13.69
2010	12.42	10.23	31	15	0.4	3,548	0.60	5.86	20.29	17.22
2009	30.73	28.20	35	21	0.7	2,839	1.03	25.91	18.99	15.88
2008	-32.00	-33.44	48	21	1.1	1,907	1.84	-28.65	16.45	13.42
2007	11.71	9.30	44	22	1.1	2,059	0.75	6.59	6.98	4.69
2006	16.50	13.80	44	22	1.7	1,314	0.63	13.33	6.20	4.11
2005	9.96	7.54	34	14	1.5	904	0.45	4.25		
2004	13.91	11.30	18	7	1.3	522	0.00	8.30		
Annualized Since Inception	8.31	6.22						5.68		

Sterling Capital Management LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sterling Capital Management LLC has been independently verified for the periods 01/01/01 to 12/31/18. The verification report(s) is/are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Notes:

1. Sterling Capital Management LLC (SCM) is a registered investment advisor with the SEC. Registration does not imply a certain level of skill or training. Sterling manages a variety of equity, fixed income and balanced assets. Prior to January 2001, Sterling was a wholly owned subsidiary of United Asset Management (UAM). In January 2001, Sterling Capital Management LLC purchased all the assets and business of Sterling Capital Management Company from UAM to become an employee owned firm. In April 2005, BB&T Corporation purchased a majority equity ownership stake in Sterling Capital Management LLC. In October 2010, the management group of Sterling Capital entered into an agreement with BB&T Corporation that reduced and restructured management's interest in Sterling Capital Management. Additionally, BB&T Asset Management merged into Sterling Capital Management. In January 2013, CHOICE Asset Management firm merged into Sterling Capital Management. "Percent of Firm Assets" and "Total Firm Assets" prior to 2013 are for CHOICE Asset Management. In August 2015, eight new employees joined Sterling Capital management via Stratton Management Company following the close of BB&T's purchase of Susquehanna Bancshares. In December 2019, BB&T Corporation and SunTrust Banks, Inc. Holding Company merged as equals to form Truist Financial Corporation. Sterling Capital Management LLC is a wholly owned subsidiary of Truist Financial Corporation.
2. George F. Shipp, CFA, has managed the portfolio since inception. No alterations of composites, as presented herein, have occurred due to changes in personnel or other reasons at any time.
3. Inception date of composite: December 31, 2003. Creation date: December 31, 2003. The appropriate index is the CBOE Buy/Write Index (ticker symbol BXM) that is designed to show the performance of a basket of S&P 500 stocks with calls written monthly at the money. It represents the universe of stocks from which covered call managers typically select. 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.