The philosophy behind the Sterling Capital 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."

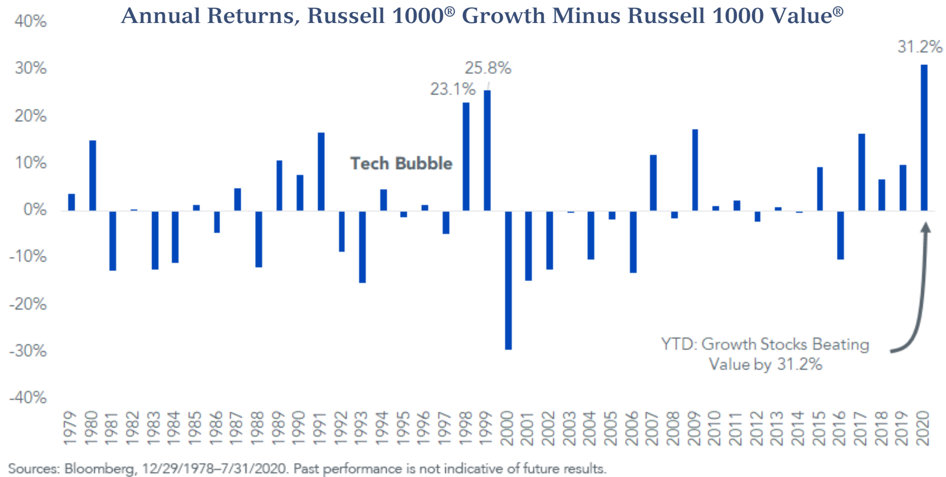
The majority of the Insight portfolio is invested in companies in which there has been recent insider buying activity; we also retain the flexibility to own companies in which insiders own a substantial (5%+) stake of the company, whereby their incentives already are well-aligned with ours as shareholders, 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 third quarter, the Insight portfolio gained 7.2% (gross of fees) and 6.9% (net of fees), which was bracketed by the Russell 1000® Index (+9.5%) and the S&P Midcap 400 (+4.8%), while the S&P 500® (+8.9%) mirrored the Russell. For the first nine months of 2020, Insight was -4.7% (gross of fees) and -5.6% (net of fees), which also was bracketed by the Russell 1000's 6.4% gain and the S&P Midcap 400's -8.6% decline, with the S&P 500 (+5.6%) again mirroring the Russell.*

Most of the difference versus the Russell benchmark owes to Insight's underweight in the Technology and Consumer Discretionary sectors, which were two of the top three performing sectors for the 90-day interval. By contrast, Insight is overweight Healthcare and Financials, which underperformed the market for the quarter. These sector weights are driven by individual company-level assessments, as opposed to a desire to tilt our sector exposure in a given direction.

That said, our sector allocation is a reflection of where corporate insiders are buying. In July and August, Financials ranked as the #1 sector for insider buying while Technology ranked last. Perhaps that's a reflection of the opportunities the market is presenting, with "growth" stocks (many of which reside in the Technology sector) outperforming "value" (many of which are in the Financial sector) by the widest margin on record.



Source: Seeking Alpha

While recency bias points toward growth's superiority, over the past 40+ years, it's been close to a coin-flip probability as to whether growth or value outperforms in any given year. To be certain, we prefer companies that generate above-average growth yet trade at below-average valuations. In other words, we like both growth and value, and do not view them as mutually exclusive. In fact, as we discuss in greater detail in the conclusion of this commentary, at quarter end, our portfolio was less expensive than the Russell 1000 Index, with faster expected growth.

**Past performance is not indicative of future results. Please refer to the Performance Disclosure found on page 9 for additional information.*

Best and Worst Performers

For the quarter, Insight owned 27 stocks that increased in value (nine by a double-digit percentage), five that decreased in value (one by a double-digit percentage), and one that was unchanged.

The leaders were paced by real estate services provider **FirstService** (+31%), followed by animal health company **Elanco** (+30%), Warren Buffett's **Berkshire Hathaway** (+19%), new purchase **Cooper** (+19%), and **Comcast** (+19%). To the extent there was a commonality among those varied leaders, it might be that they each snapped back from the prior quarter.

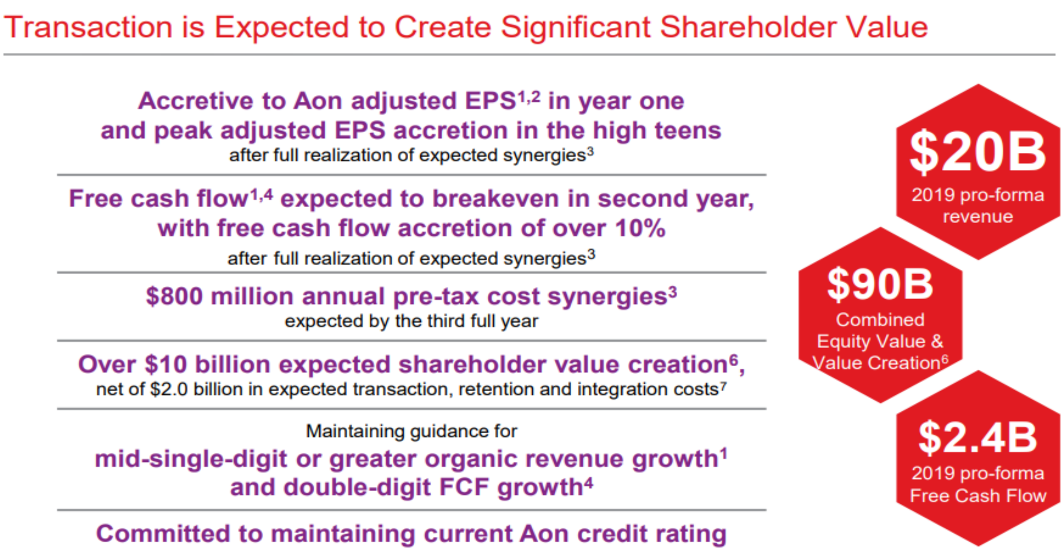
Laggards for the third quarter were ship builder **Huntington Ingalls** (-19%), pharmaceutical titan **Eli Lilly** (-9%), global insurer **Chubb** (-8%), defense contractor **General Dynamics** (-7%), and new purchase **UGI** (-3%). With respect to Chubb, questions remain around insurers' exposure to business interruption policies and whether COVID-19-related claims are legitimate. Most business-interruption policies require physical damage to a facility in order to pay out, and many policies also contain pandemic/virus exclusions, but the issue is sure to face political and judicial tests in the future. As for defense stocks, such as General Dynamics and Huntington Ingalls, while we appreciate that federal dollars being deployed to support COVID-19-impacted households and businesses may restrain spending elsewhere in the budget, the threat environment from hostile state actors (North Korea, China, and Russia, among others) doesn't appear to be diminishing. "In the years ahead, we're going to need to get back on the trajectory of 3-5% real growth annually," Secretary of Defense Mark Esper said earlier this year. Meanwhile, valuations for defense contractors sit near prior cycle lows, suggesting the market is already discounting something close to a worst-case scenario in terms of future defense spending. In other words, the risk/reward tradeoff from here seems attractive, in our view.

Purchases and Sales

During the quarter, we sold two holdings and made four new investments. Our sales were agricultural intermediary **Archer Daniels Midland** and video game maker **Activision Blizzard**. Both were profitable investments and achieved our respective price objectives.

In terms of our purchases, we returned two prior holdings to the portfolio, those being insurance broker **Aon** and diversified utility **UGI**. We also added to our exposure in health insurance via **CIGNA** and property/casualty insurance through **Hartford**.

Our long-standing enthusiasm for the insurance brokerage business owes to its steadiness. Brokers connect buyers of insurance with underwriters. Over the past several years, the industry has consolidated significantly, with **Aon** seeking to leap into the pole position with its proposed acquisition of Willis Towers Watson, which is projected to close in the first half of 2021.

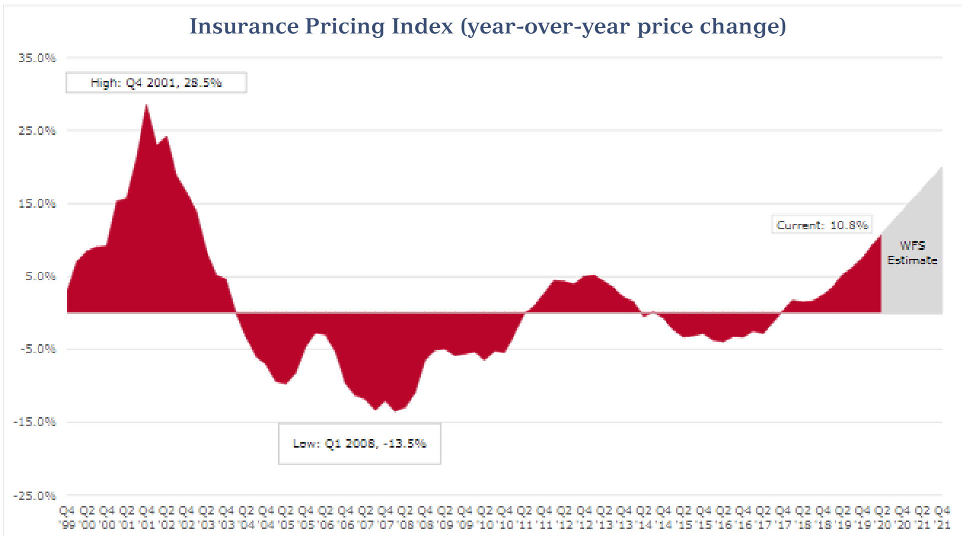


Source: Seeking Alpha

The combination should provide significant cost savings. Aon has quantified that opportunity at $800 million, which would be considerably less than comparable industry acquisitions. According to Wells Fargo, “Aon has consistently revised up every one of the savings programs they have had on multiple occasions under Greg Case’s tenure as CEO,” so we wouldn’t be surprised to see more of the same this time.

Meanwhile, the stock trades at a discount to the market and to its nearest competitor (fellow Insight holding Marsh & McLennan). Highlighting the stock’s merits, Aon Chairman Lester Knight purchased $13.7 million of Aon shares, marking his seventh (and largest) purchase since 2010. InsiderScore observed that Aon’s stock averaged a 16% gain in the 12 months following Knight’s previous purchases.

Both insurance brokers (like Aon) and underwriters (such as **Hartford**) should benefit from a robust pricing environment. Insurance pricing is rising at a double-digit percentage pace, the highest level since 2003. Over time that should translate into improved profit margins, with Hartford President Douglas Eliot pointing to pricing exceeding loss trends “across the board.”



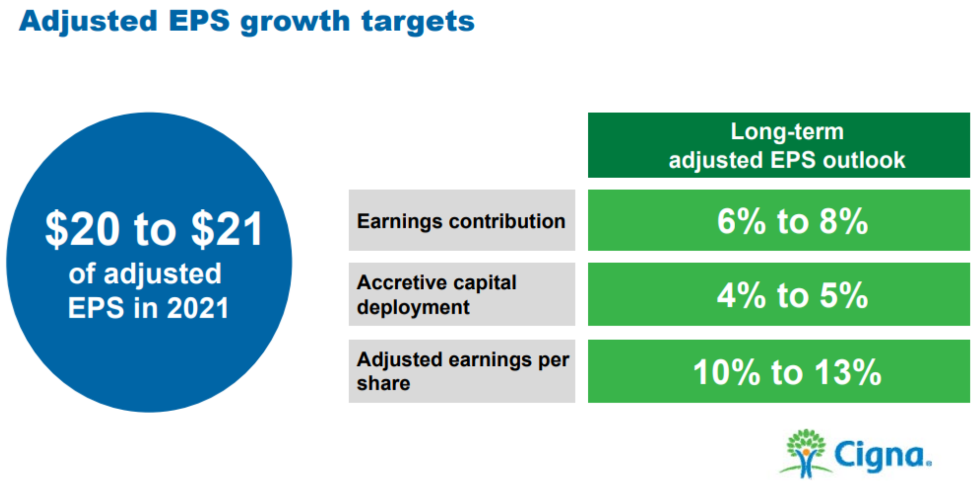
Note: Q1 2000 - Q1 2003 data uses the weighted average by account size.
Source: Council of Insurance Agents & Brokers (CIAB) and Wells Fargo Securities, LLC estimates

Source: Wells Fargo

Hartford recently unveiled Hartford Next, a $500 million cost-saving program, with management forecasting the majority of those savings to accrue to shareholders (with the remainder passed on to customers to facilitate policy retention and growth). At the time of our purchase, shares traded at a discount to book value and near their widest discount to the S&P 500 since the Global Financial Crisis, which we believe reflects investor questions around COVID-19-related claims. But Hartford CEO Christopher Swift said that while “nearly all of our property policies include coverage for business interruption, 99% of them contain a clear requirement that a direct physical loss or damage to property must occur to trigger coverage. In addition, 99% of our property policies’ bodily injury coverage also contain standard exclusions that we believe preclude coverage for COVID-19 related claims. And finally, we also have a specific virus exclusion on the vast majority of these policies.”

CEO Swift put his money where his mouth is, buying $251,000 of Hartford stock during the last week of September. InsiderScore observed that “Swift was previously a buyer on weakness in 1Q19, so his return as a buyer during the current pullback stands out. It reinforces the compelling, undervalued message that was already in place due to a cessation of selling since March 2. The positive sentiment and lack of sales continues to show that the insiders view the stock as undervalued.”

Sticking with insurance, we added health and group benefits insurer **CIGNA** to the portfolio, and we see an imminent near-term catalyst, as the company expects to close the sale of its Group Life and Disability business to New York Life in the December quarter. CIGNA has earmarked the “meaningful majority” of $5.3 billion in after-tax proceeds for share repurchase, which is sizable relative to the company’s $62 billion market value. Such repurchases should add considerable value for shareholders, with CIGNA’s stock trading at a single-digit multiple of earnings. Meanwhile, the company continues to target steady growth, with Medicare Advantage offering a long runway of opportunity in a segment that’s not particularly economically sensitive.



Source: Cigna

Chief Financial Officer Eric Palmer made a late-quarter purchase of CIGNA stock and already owned $11 million, so seems to be sending a clear signal about the company's investment prospects. InsiderScore said Palmer had "success with his only other buy at the end of July 2018 … [he] was likely being opportunistic [then], and it seems he is again."

Rounding out our purchases was Pennsylvania-based utility **UGI**. We owned the stock previously, and sold it earlier this year when oil prices probed sub-$0 prices. At that time, we worried about counterparty risk relative to UGI's pipeline customers. While the stock is unchanged since then, oil prices have rebounded, the company reported strong quarterly results, it raised its dividend for the 33rd year in a row, and six more UGI insiders have purchased shares, including the CEO and CFO. Additionally, InsiderScore observed "notable buying [across] the Utility sector," citing a half dozen similar companies where insiders also were taking advantage of price weakness to scoop up shares. While Utilities are generally viewed as "value" stocks (and we tend to agree), UGI delivered 10.7% compound growth in earnings per share over the past two decades, which represents a very reasonable rate of "growth" from our perspective – especially in a stock trading at nearly a 50% discount to the S&P 500 (versus a 20-year average closer to 7%).

Source: UGI

Company Developments

It was a busy quarter, with a number of notable announcements, including:

- **Berkshire Hathaway** purchased midstream assets from Dominion, and also repurchased more of its own stock in a single quarter ($5 billion) than it ever has.
- Activist investor Trian took a stake in **Comcast.**
- **Cooper** inked a partnership to begin selling RayBan branded contact lenses.
- **Elanco** closed its acquisition of Bayer Animal Health.
- **Genpact** signed an alliance with Deloitte.
- **Google** added $28 billion to its share buyback program.
- Both **Eli Lilly** and **Johnson & Johnson** advanced their respective COVID-19 vaccine candidates to Phase 3 clinical trials
- **Microsoft** is acquiring video game publisher ZeniMax Media (Bethesda Software) for $7.5 billion.
- **Verizon** announced the acquisition of TracFone.
- Three of our companies raised their dividends: **Marsh and McLennan** (+2%), **Microsoft** (+10%), and **Verizon** (+2%).

Insider Activity

When stocks swooned back in March, insiders acted in their typical contrarian fashion by buying aggressively. When insiders buy at such an aggressive clip, stocks tend to perform well in the ensuing months, and indeed they have since March.

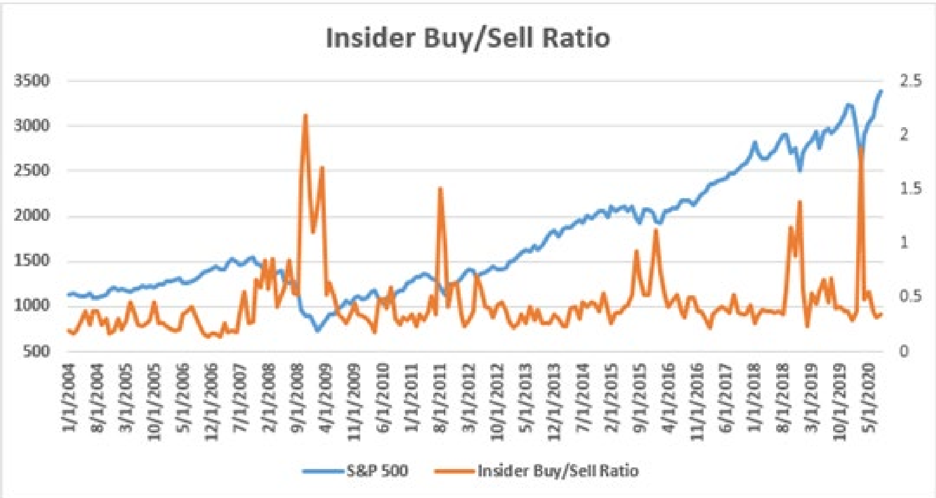


Chart 1. Monthly insider buy/sell ratio.

Time After Buy/Sell Reaches Above 1	S&P 500 Return
6-Month	**13.54%**
1-Year	**25.33%**
3-Year	**54.09%**

Table 1. S&P 500 performance after the Insider Buy/Sell Ratio reaches above 1.

Source: Cumberland Advisors

That surge in insider buying subsided almost as quickly as the stock market's swoon. Recently, insider activity has returned to more "normal" levels, with insiders at many companies selling amid a rebound in stock prices. As *Barron's* columnist Randall Forsyth observed: "U.S. executives took advantage of the market's rally to sell $6.7 billion of their own companies' shares in August, the biggest dollar amount since November 2015. There are many reasons to sell a stock; expecting it to rise isn't one of them."

We continue to steer our portfolio toward companies where insiders are buying. During the quarter, we saw additional insider buying at vision care company **Cooper**, seed and crop protection manufacturer **Corteva**, animal care supplier **Elanco**, and data producer **IHSMarkit**.

The Election

Questions about the upcoming presidential election have been outnumbered perhaps only by opinions about the election. For our part, we'll stick to the facts, which show that the S&P 500 has averaged a double-digit percentage gain under all but two presidents since the end of World War II.

Stock Market Returns by President

President	Party	Initial Election Date	Annualized S&P 500 Return (%)
Donald Trump	Republican	November 8th, 2016	15.21%
Barack Obama	Democrat	November 4th, 2008	12.24%
George W. Bush	Republican	November 7th, 2000	-3.11%
Bill Clinton	Democrat	November 3rd, 1992	18.94%
George H.W. Bush	Republican	November 8th, 1988	15.10%
Ronald Reagan	Republican	November 4th, 1980	14.46%
Jimmy Carter	Democrat	November 2nd, 1976	11.71%
Gerald Ford	Republican	August 9th, 1974	16.45%
Richard Nixon*	Republican	November 5th, 1968	-0.87%
Lyndon Johnson	Democrat	November 22nd, 1963	11.77%
John F. Kennedy**	Democrat	November 8th, 1960	11.50%
Dwight Eisenhower	Republican	November 4th, 1952	15.30%
Harry Truman	Democrat	April 12th, 1945	14.94%
Franklin Roosevelt**	Democrat	November 8th, 1932	9.90%
Herbert Hoover	Republican	November 6th, 1928	-24.65%

*Through Resignation
**Through Death

Source: Seeking Alpha

Both stocks and the economy have performed well under Republican, Democratic, and split control of the federal government.

Source: FactSet, Office of the President, J.P. Morgan Asset Management; (Top) Standard & Poor's; (Bottom) Bureau of Economic Analysis. Top chart shows S&P 500 price returns.
Guide to the Markets – U.S. Data are as of September 30, 2020.

Source: J.P. Morgan Asset Management

We understand the parlor intrigue, but given that there's no apparent correlation between politics and subsequent stock returns, we intend to stick to our investment process. In other words, our purchase and sale decisions emphasize company fundamentals over political considerations.

Conclusion

At quarter end, the Insight portfolio traded at a significant discount to the Russell 1000 (19x earnings for our portfolio vs. 27x for the index), with a significantly higher return on equity (17.5% vs. 12.6%), a higher estimated earnings growth rate (9.6% vs. 8.0%), and slightly less debt (2.0x net debt/EBITDA vs. 2.1x). The top decile of companies for each of those factors achieved above-market returns over the past 40 years. Aligning the portfolio with companies exhibiting those criteria should raise our odds of success, as should alignment with companies where insiders are expressing optimism about their company's stock through open market purchases.

As always, we greatly appreciate your interest in our thoughts and for your support. Stay safe and healthy.

Adam Bergman, 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 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 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 Russell 1000® Index *measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000® represents approximately 92% of the U.S. market. The Russell 1000® Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are included.*

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 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 S&P Midcap 400 Index *provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.*

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

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

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

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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 – Insight SMA Composite

August 31, 2011 – December 31, 2019

<u>Description:</u> *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.

<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.
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 <u>Russell 1000 Index</u> 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.