Insight SMA Commentary

3rd Quarter 2021

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 is validated by academic studies from researchers at Harvard, Yale, Stanford, and the University of Michigan, which independently found that, over time, corporate insiders achieve 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 with recent insider buying activity. We also retain the flexibility to own companies in which insiders own a substantial (at least 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

Volatility reasserted itself, as investors grappled with the COVID-19 Delta variant, supply chain bottlenecks, uncertainty around the debt ceiling and infrastructure bill in Congress, inflation, and a variety of other clear-and-present concerns. By quarter's end, 81 of the S&P 500® Index constituents declined 10%+ since June 30, while 22% of the NASDAQ-100 Index were in a bear market (20%+ off their respective highs). The S&P's decline in September marked its first monthly drop since January.

For the quarter, the Insight portfolio's -1.0% (gross of fees) and -1.3% (net of fees) total return bracketed that of its benchmarks, as the Russell 1000® Index inched forward by 0.2%, while the S&P Midcap 400® Index dropped -1.8%. Year-to-date, Insight's 15.7% (gross of fees) and 14.7% (net of fees) total return compares to 15.2% for the Russell 1000 and 15.5% for the S&P Midcap 400.

Winners and Losers

Leading the way for the quarter was insurance broker **Aon** (+20%), as investors cheered the dissolution of its proposed merger with Willis-Towers Watson (which was blocked by anti-trust authorities). Aon put up 11% organic revenue growth in the quarter (its strongest in more than a decade), grew free cash flow (FCF) 13%, repurchased $240 million of its stock, and increased its dividend 11%. The company benefits from rising insurance prices and rising exposure growth (more insurance in place amid a re-opening of global economies), both of which could persist for the foreseeable future. Share repurchases are likely to accelerate from here. Contact lens manufacturer **Cooper** (+13%) *fit* well in our portfolio. As optometrist offices reopened from last year's COVID-19-related closures, demand for contact lenses rebounded nicely. Uniquely, Cooper benefited from regulatory approval in China for its pediatric myopia treatment. With valuation for the stock elevating significantly, we sold the stock in August. Finally, legal and accounting software provider **Thomson-Reuters** (+12%) turned in another beat-and-raise performance, with confidence growing that the company can achieve its mid-term targets for accelerating growth and generating substantially greater FCF.

Please refer to the Performance Disclosure found on page 8.

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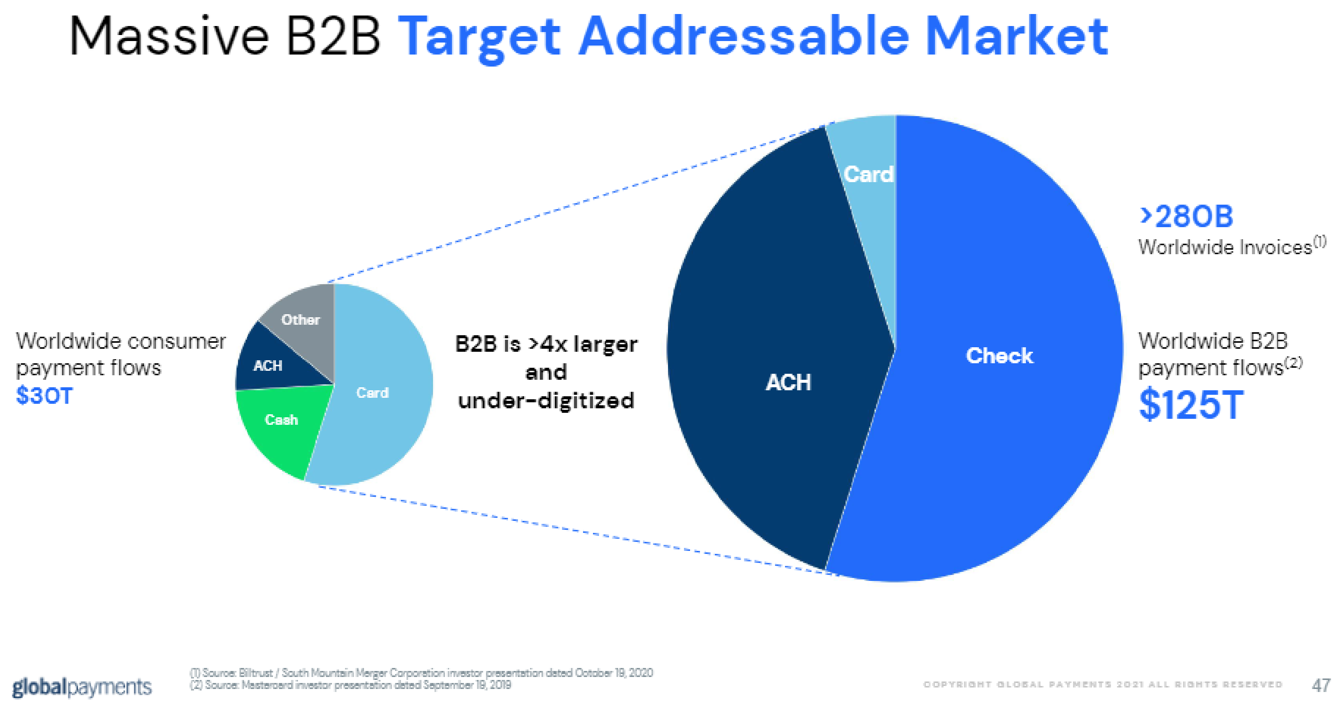
On the negative side of the ledger, **Global Payments** (-16%) was the worst performer (and peer holding **Fidelity National** wasn't far behind with a -14% slump). We view the Street's narrative that these companies aren't keeping pace with nascent up-and-comers as missing the forest for the trees. Yes, smaller payments companies like Square, Marqeta, Magenta, Stripe, and others are growing rapidly. However, few of them possess the global scale and capabilities that our larger holdings do. It would be difficult for us to find flaws in Global Payment's quarterly results, showing 28% revenue growth, 56% earnings per share (EPS) growth, a 28% dividend increase, and a $1.5 billion increase to its share repurchase program. The company is also growing partnerships with Amazon and Google to support payment processing for small- and mid-sized e-commerce merchants. Additionally, the company is increasingly targeting the much-larger B2B market, which is in the earliest innings of digital payments adoption. In September, Global Payments acquired MineralTree, a leader in B2B payment solutions.



Source: Global Payments

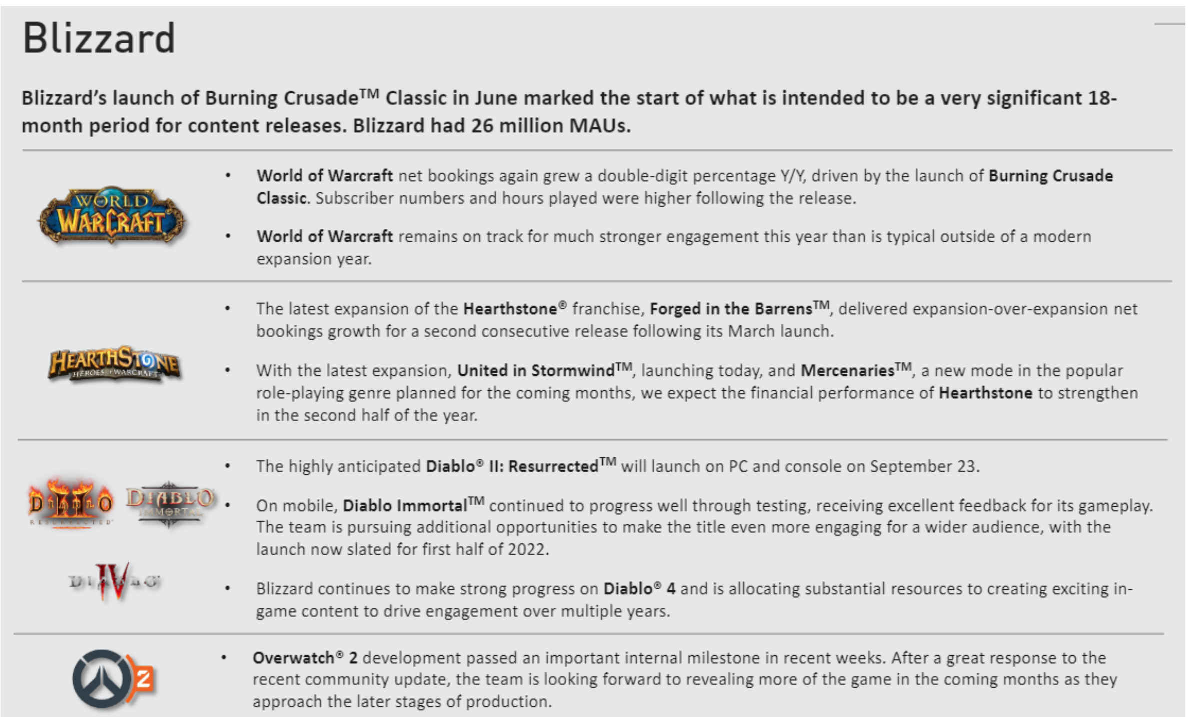
Another encouraging signal: in August, three separate insiders, including CEO Jeff Sloan, purchased a combined $800,000 of the company's stock. (The story at Fidelity is similar, with 17% revenue growth, 40% EPS growth, an increase to full-year guidance, and an insider there purchasing $300,000 in August.) Both of these stocks trade at substantial discounts to their own history, as well as the S&P 500.

Other laggards included health insurer **CIGNA** (-15%) amid concern that the Delta variant will cause greater healthcare utilization in the near-term. We take comfort in the ability of health insurers to reprice their business annually, i.e., they possess the ability to quickly respond to unexpected cost increases. The company responded to the downturn in its stock price by executing a $2 billion accelerated share repurchase program. And similar to Global Payments and Fidelity, a CIGNA board member purchased more than $210,000 of the company's stock in August.

Agricultural chemicals manufacturer **FMC** continued to drift lower (-15%), as investors await back-half weighted annual results, following a first half that was crimped by supply chain, commodity, and foreign-exchange pressures. High crop prices are driving farmer incomes upward, which in turn should drive robust demand for FMC products. “Typically in a high crop price environment, farmers will look to chase yields with greater spending in higher value seeds and crop protection products,” RBC research noted. FMC’s new-product pipeline appears robust, and recent pricing and cost actions should start to manifest themselves in the company’s results soon. Meanwhile, three company insiders, including the CEO and CFO, purchased a combined $865,000 of FMC stock in August and September. (Does this seem like a pattern developing?) We added to our position on weakness.

Purchases and Sales

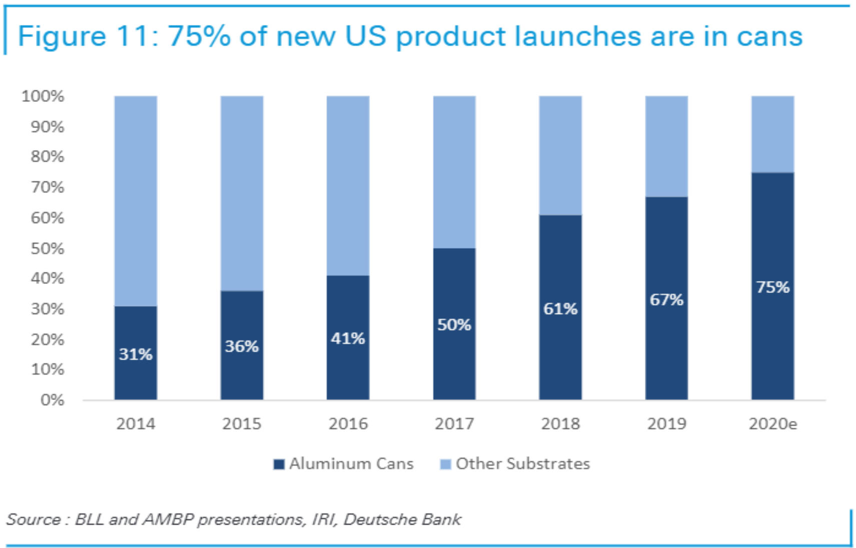
We returned **Activision** to the portfolio for the fourth time in a decade, following three prior profitable experiences. Recent weakness in the stock seems to stem largely from accusations of human resources issues. While we won’t minimize those, we also believe the company’s core video game franchises (Call of Duty, World of Warcraft, Candy Crush) are unlikely to be dented by such internal matters. In fact, the company is approaching an 18-month period that’s likely to see significant new content released by each of its divisions: Activision, Blizzard, and King.



Source: Activision

The company meets our “pillars” criteria for above-average growth (15% EPS growth penciled in for 2022), below-average valuation (the stock trades at a rare double-digit percentage P/E discount to the S&P 500), above-average returns (17%+ return on equity (ROE)), and above-average balance sheet strength ($6 billion of net cash). The company also raised its dividend for 11 consecutive years, most recently by 15% year-over-year. Board Member Peter Nolan, who was previously a savvy buyer of Activision shares, purchased $2 million in early August in the low $80s.

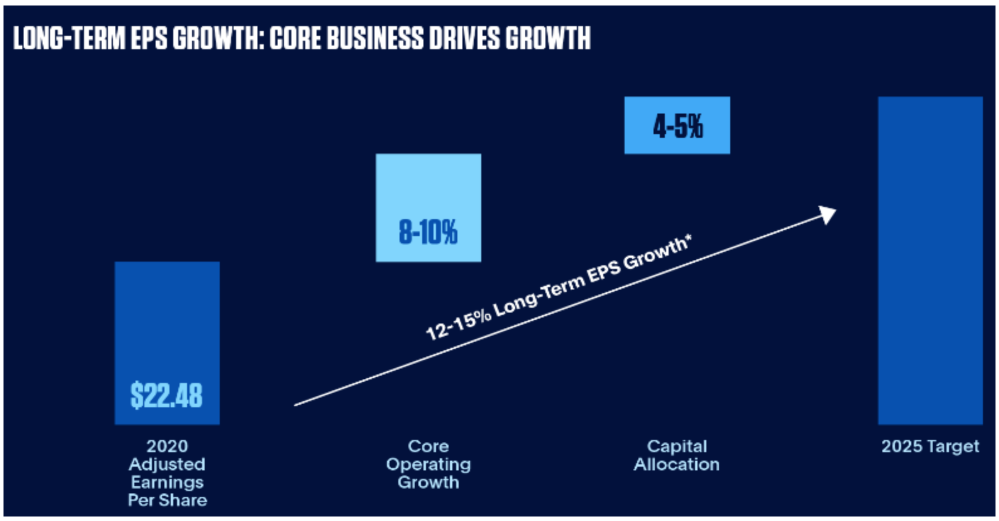
In a similar vein, we returned aluminum beverage can maker **Ball**, *recycling* another previously successful portfolio holding. With the industry in a sold-out situation well into the year ahead, and aluminum cans continuing to take share from plastic and glass bottles, we see industry leader Ball as well-positioned to capture its fair share of industry volumes.



Source: Deutsche Bank

In August, **eight** separate insiders at the company purchased shares at prices ranging from $88-$95/share. “Buying has been rare at the firm, which makes the purchases stand out,” according to InsiderScore. “The buys are the first since 2018 and align with stepped-up share repurchases.”

Managed-care insurer **Anthem** joins UnitedHealth and CIGNA in the portfolio. While various waves of COVID-19 created near-term volatility for the industry, we like the ability for these companies to reprice their business annually. Consolidation over the years led to a more rational competitive environment and good underwriting profitability, a trend we expect to continue in the future. Similar to Activision, Anthem offers growth at a reasonable price, in our view, with the stock trading at 13x 2022 earnings estimates amid a consistent track record of double-digit EPS growth.



*Anthem defines long-tern in rolling 5-year increments. Source: Anthem

The company increased its dividend for eight consecutive years, this year by 19%, while also repurchasing more than 3% of its shares outstanding. Board Member Ryan Schneider purchased $500,000 of Anthem shares in late July which, along with “a lack of insider selling since late May sends a positive valuation message,” in InsiderScore’s view. “He is only the sixth buyer at the firm since 2004 and is the first repeat buyer since 2010.”

Finally, CEO Bruce Caswell’s purchase of $367,000 of **Maximus** shares suggests to us that the government contractor’s shares are attractively valued – prior to this transaction, Mr. Caswell already owned nearly $10 million of the company’s stock. Maximus builds and staffs websites and call centers for Medicare, Medicaid, the Veterans Administration, the Internal Revenue Service, and other federal agencies. While COVID-19 information and the 2020 census provided a bolus of work for the company over the past 18 months, its future pipeline looks strong as well. We like the company’s visibility into future revenue, insofar as it typically has line of sight to ~90% of its sales a year ahead of time.

New Awards & Pipeline

New Awards (YTD)	June 30, 2021
Signed Contracts	**$3.24B**
Unsigned Contracts	**$1.38B**

Sales Pipeline	June 30, 2021	New Work %
Proposals Pending	$4.2B	
Proposals in Preparation	$6.8B	
Opportunities Tracking	$22.6B	
Total Pipeline	**$33.6B**	**63.6%**

Pipeline dynamics

- Approximately $1B of the reduction in the pipeline is due to the UK Restart program (pipeline at March 31, 2021 was $35.6B)
- Remainder of the reductions are due to government delays or cancellations of work that pushes the opportunities out past the two-year horizon of the pipeline
  - Some of this is the residual effect of the pandemic altering procurement priorities

Source: Maximus

With COVID-19-related work expected to fade, shares traded near a 15% discount to the S&P 500, roughly their lowest relative multiple since 2004. The “CEO’s first purchase in a long career at MMS sends a compelling undervalued message,” InsiderScore flagged. “A reversal to positive sentiment by CEO Caswell along with the lack of any sales since mid-June are a strong indication insiders think the stock is now oversold. It [was] his first purchase since becoming [a] reporting insider in 2004.”

Late in the quarter, Maximus announced it is taking over a Federal Student Loan processing contract from Navient. According to Raymond James research, “The current contract is slated to continue through mid-December 2023, and we estimate it as having a historical annual run rate of $130-150 million and margins that are comparable to Maximus’ legacy government contracts. We believe there is a near-term opportunity to grow the business as other players are stepping down and Maximus is in a great position to pick up the slack. Maximus will not own [the] loans, [it] is simply servicing the loans for a fee.”

In terms of sales, we *checked out* of **Dollar Tree**, amid concerns that freight and labor costs would pinch its cost structure, while contemporary reports about vendor snafus driving out-of-stock situations would pinch sales. Those concerns were validated when, subsequent to our sale, the company reported weak same-store sales, and significantly lowered its financial guidance for the second time this year.

Toward the tail end of the quarter, we sold **Kimberly Clark**. While KMB shares lifted modestly since our purchase last year, earnings estimates declined, and the significant (nearly 200%) increase in natural gas prices over the past several months seems likely to be a particularly burdensome input cost pressure for KMB. Meanwhile, there has been no subsequent insider buying at the company since last year. We perceived more attractive risk/reward opportunities elsewhere, and elected to move on.

Finally, as referenced earlier, we *removed* **Cooper**, which was a success story, insofar as contact lens purchases rebounded from last year's COVID-19 lows, while approval in China of the company's pediatric myopia treatment fueled incremental investor enthusiasm. At the time of our sale, valuation stretched toward the upper boundary of historical ranges, and insiders including CEO Albert White shifted from a six-figure buyer at the time of our purchase last year to a nine-figure seller this year. Combined, we interpreted these as caution signs to heed.

Company Updates

Microsoft announced it is raising prices by a double-digit percentage for Office 365 effective March 1, 2022 – its first such price increase. As Bernstein Research opined, "The price increase is long overdue. Microsoft justified the price increase by citing increased feature functionality over the past decade. Microsoft has added more than 20 apps to Office 365 since its launch." This represents a tangible example of the kind of "pricing power" we seek in our companies, enabling them to stay well ahead of the prevailing level of inflation (*pricing power* being synonymous with *inflation*).

In terms of incremental capital allocation, **Chubb** added $5 billion to its share repurchase authorization after Hartford rebuffed its acquisition bid. **Corteva** raised its dividend 8% year-over-year, and announced a $1.5 billion share buyback program. **Mondelez** increased its dividend 11%. **Marsh & McLennan** reported its best organic growth in two decades and raised its dividend 15% (11th-consecutive annual increase). Finally, **Verizon** lifted its dividend 2%, in-line with its pattern in recent years. Collectively, these actions point toward our companies possessing strong financial flexibility. All but three of the companies in the portfolio pay a regular dividend, with the average constituent increasing its dividend 10% year-over-year. Through share buybacks, the average constituent in our portfolio also reduced its shares outstanding by -0.6% year-over-year, providing us with a slightly greater proportional stake in those companies – the value of which should compound over time.

Conclusion

As clients heard in previous communications, the Insight portfolio is scheduled to sunset in early 2022. We intend to continue managing the portfolio with the same diligence and care that we have for the past decade. In the well-established Naval tradition that the captain is always accountable for his ship, your undersigned portfolio manager's account was the first Insight portfolio to open, and it will be the last to close.

More than half of Insight's holdings overlap with our Special Opportunities and/or Equity Income portfolios. So as clients consider a post-Insight future, those portfolios which are also managed by the Equity Opportunities Group may provide a natural harbor, in multiple ways – as similarly-managed in terms of investment philosophy and as tax-efficient destinations for many existing Insight holdings.

We look forward to engaging again in January with a recap of full-year 2021. Until then, best wishes for a happy and safe conclusion to the year.

As always, we greatly appreciate your interest in our thoughts and support of our services.

Adam Bergman, CFA®
Portfolio Manager

Important Information

Disclosures

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® 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 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 NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

Technical Terms: **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. **Price to Earnings (P/E)**: The Price to Earnings ratio is 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). **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. **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. (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 that these methods will be successful.

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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.

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Sterling Capital Management – Insight SMA Composite
August 31, 2011 – December 31, 2020

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

Year	Total Return "Pure" Gross of Fees	Total Return Net of Fees	No. of Portfolios	Composite Assets End of Period ($MM)	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 1000	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2020	6.90	5.66	34	18	70,108	0.52	20.96	18.18	19.10
2019	34.77	33.19	49	21	58,191	0.71	31.43	11.28	12.05
2018	-4.10	-5.26	51	16	56,889	0.38	-4.78	10.79	10.95
2017	25.37	23.78	57	18	55,908	0.35	21.69	9.18	9.97
2016	10.39	8.88	146	33	51,603	0.30	12.05	9.92	10.69
2015	5.14	3.69	116	29	51,155	0.25	0.92	9.35	10.48
2014	7.41	5.88	134	29	47,540	0.24	13.24	9.42	9.12
2013	28.48	26.64	121	27	45,638	0.24	33.11		
2012	17.74	16.17	74	14	4,422	0.08	16.42		
2011 (Inception 8/31/11)	4.86	4.62	2	0	3,932		3.50		

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. Adam B. Bergman, CFA, has managed the portfolio since inception. No alterations of composites, as presented herein, have occurred due to changes in personnel or other reasons at any time.
3. Inception date of composite: August 31, 2011. Creation date: August 31, 2011. The appropriate index is the Russell 1000 Index which measures the performance of the largest 1,000 US companies, representing over 90% of the investable US market. The index is reconstituted annually. Total return includes price appreciation/depreciation and income as a percent of the original investment. A complete list of all of SCM's composites and 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.