Special Opportunities SMA Commentary

3rd Quarter 2021

"Flexibility is the key to stability." - John Wooden

The Sterling Capital Special Opportunities strategy is designed to be a "core" or "all-seasons" portfolio, with a primary goal of generating long-term capital appreciation. Noting that our industry often classifies investments with either a "growth" or "value" label, we argue instead that value without growth represents a wasting asset, and growth without regard to the price is merely speculation. We strongly believe in building a well-diversified portfolio with constituents that boast both growth and value characteristics. We seek above-average growth of capital, but endeavor to mitigate downside risks by using time-tested valuation tools and profitability ("quality") parameters.

Both academic literature and our own experience suggest that the so-called growth and value styles, as well as small- and large-capitalization companies, move into and out of investment favor, much as our underlying economy moves through various phases of expansion and retrenchment. Sustained periods of out- or under-performance can lead to unproductive investor outcomes via switching. By blending the characteristics, we hope to offer our clients a more consistent return profile, while also allowing us the flexibility to take advantage of occasional perceived extremes in sentiment.

Consistent with our endeavor to generate above-average returns with below-average risk compared to the overall equity market, we must "dare to be different" from our benchmark. In industry parlance, our portfolio demonstrates high "active share," meaning our philosophy offers the statistical opportunity to outperform popular averages. By constructing portfolios with approximately 30-35 carefully selected securities, we believe we can achieve 95% of the diversification of a 500-stock portfolio while eliminating expensive, poorly-financed, or strategically vulnerable companies from our holdings.

Performance Summary and Review

Year-to-date, the Special Opportunities portfolio's 18.3% (gross of fees) and 17.3% (net of fees) return was ahead of the Russell 3000® Index's 15.0% return. The portfolio also outperformed during the third quarter, rising 0.7% (gross of fees) and 0.4% (net of fees), while the index declined 0.1%. The portfolio generated double-digit annualized returns for the past one, two, three, five, ten and 20 year periods.

During the third quarter, inflation concerns persisted, supply chain disruptions extended, sourcing labor remained difficult, the infrastructure bill, debt ceiling and reconciliation discussions appeared to make little progress, and China used a heavy hand across several industries. Nonetheless, risk-taking continued, at least early in the quarter, and investment-grade corporate spreads (compared to risk-free instruments) narrowed to pre-crisis levels and near all-time lows, at 0.84%. In September, the market was spooked when the Fed signaled it would begin tapering later this year and finish by mid-2022. The timeline was sooner than previously expected, and left the door open for a potential rate hike as soon as late next year. Equity markets fell as investors digested the news. The ten-year Treasury yield declined in 2Q21, but rebounded in 3Q21, including a 20 basis point jump in September. Value stocks performed better for the month and the Russell 3000® Value Index maintained a year-to-date edge of 3% over the Russell 3000® Growth Index. However, Growth led for the quarter, (Russell 3000 Growth Index +0.7% versus Russell 3000 Value Index -0.9%). Smaller companies meaningfully underperformed (Russell 2000® Index, -4.4%).Within the Russell 3000, Financials and Technology were ahead of the pack, while Materials and Industrials lagged.

Please refer to the Performance Disclosure found on page 10.

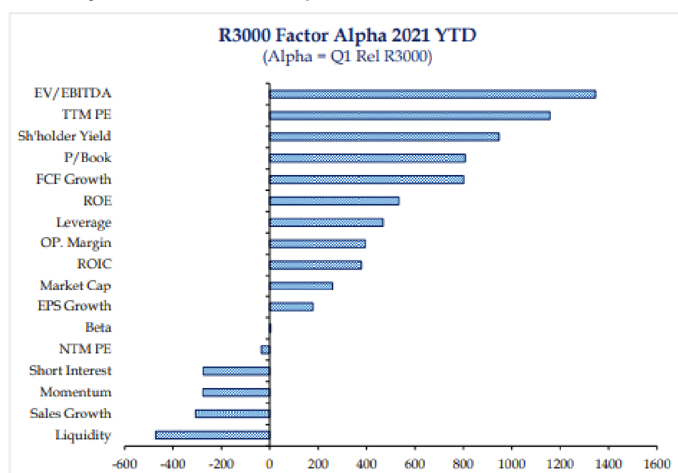
STERLING CAPITAL

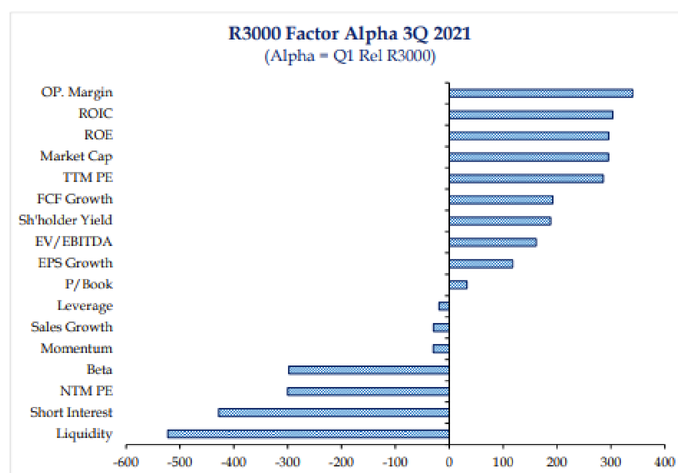
PULSUS UT LIBERA

Special Opportunities SMA Commentary

3rd Quarter 2021

In 2021, valuation (EV/EBITDA, trailing twelve month price to earnings (TTM PE), price to book (P/B)) and returns on investment (return on equity (ROE), return on invested capital (ROIC)), both EOG pillars, have been important factors to alpha generation (shown in the charts below), contributing to the portfolio's strong start to the year and third-quarter results.





Source: Strategas

3Q21 Contributors and Detractors

Top Contributors	GICS Sector	Contrib. to Return
HCA Healthcare Inc	Health Care	0.77
Danaher Corporation	Health Care	0.55
Verisk Analytics Inc	Industrials	0.39
Intuit Inc.	Information Technology	0.35
Ball Corporation	Materials	0.33

Top Detractors	GICS Sector	Contrib. to Return
FedEx Corporation	Industrials	-0.74
Activision Blizzard, Inc.	Communication Services	-0.54
Rackspace Technology, Inc.	Information Technology	-0.52
PTC Inc.	Information Technology	-0.45
Akamai Technologies, Inc.	Information Technology	-0.40

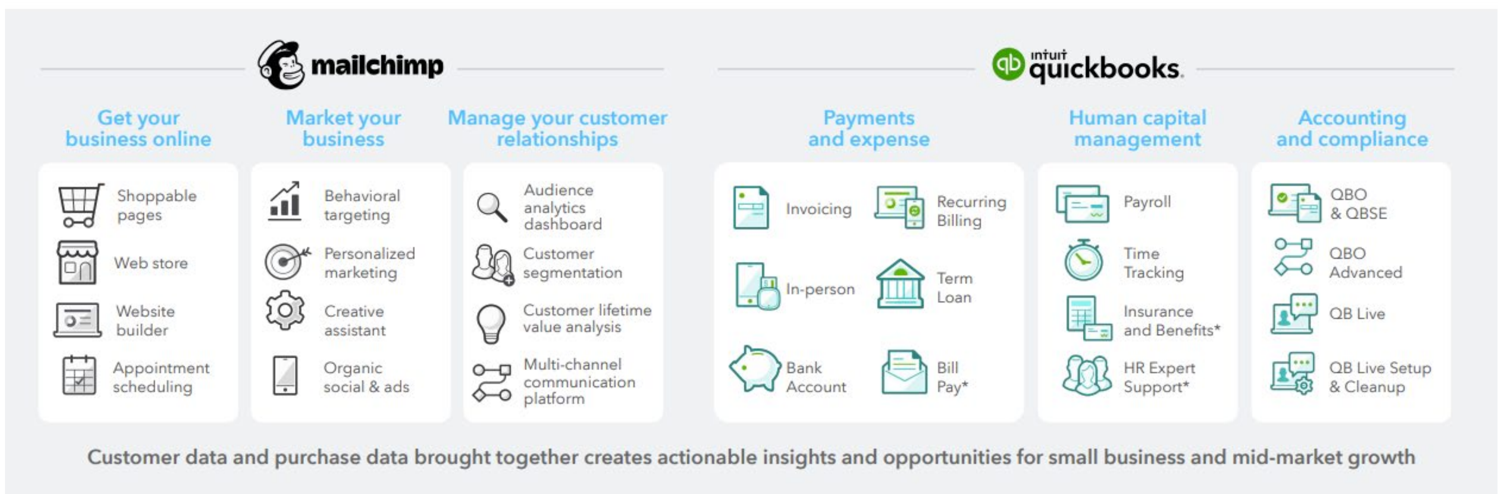
Source: Factset, Sterling Capital

Top Contributors:

- **HCA Healthcare**, the largest hospital operator in the U.S., "experienced a strong rebound in demand for healthcare services," according to CEO Sam Hazan. Same-facility equivalent admissions rose 27% and emergency room admissions rose 40%. COVID-19 patients represented just 3% of inpatient volumes versus 10% in 1Q21, even as the Delta variant caused a spike in new cases.
- **Danaher** impressed, with core revenues up 31.5% in the second quarter. Diagnostic revenues grew 37%, led by 50% growth at Cepheid. Encouragingly, order growth is trending above revenue growth. The company completed the acquisition of Aldeveron, expanding capabilities in genomic medicines by providing "ingredients" for gene and cell therapies, such as the new mRNA COVID-19 vaccines.
- **Verisk's** core Insurance vertical grew a healthy 7.8%, while Energy's 5.0% increase was in-line with consensus, and Financial Services' 8.1% decline was directionally what we expected. Recall Financial Services is only 5% of total revenues, but has been a drag on sentiment and a focal point for investors. CFO Lee Shavel took over business leadership six months ago, and noted at a recent conference that "within six to 12 months there is some probability that you will see a change in the portfolio." Either outcome, a divestiture or returning the segment to growth, could provide a positive catalyst for the stock.

STERLING CAPITAL

- **Intuit** announced the $12 billion acquisition of MailChimp, bolting on front-office capabilities to its back-office QuickBooks franchise. Intuit aims to be a “one-stop shop” for small- and medium-sized companies to operate and grow their businesses.



Source: Intuit

- **Ball Corp’s** beverage can volumes rose 13% in the quarter, nearly half of which were higher margin specialty cans (think Red Bull cans, slim cans and larger, twist-off beer cans). Demand continues to exceed supply, causing the domestic market to import cans from Europe to satisfy customers. Investments are being made to increase capacity, with long-term contracts in hand. Meanwhile, the dividend was raised 33%, and buybacks are expected to total $700-800 million in 2021 and ramp toward $2 billion in 2022. Six different insiders purchased shares in August.

Top Detractors:

- **FedEx** reduced full-year guidance, citing cost inflation and inefficiencies caused by labor constraints. The company plans to hire 90,000 employees to prepare for peak season, and announced several price increases to offset higher costs. Still, margins are expected to be down for fiscal 2022 and capital expenditures (CapEx) are forecast to rise to meet growing demand.

- **Activision** fell, as lawsuits related to workplace harassment hurt sentiment and led to management turnover, primarily in its Blizzard division. Additionally, a crackdown on youth video game play in China hit all stocks in the industry, even though China represents less than 5% of Activision’s revenues. In August, Director Peter Dolan bought $1.7 million of stock, bringing his reported holdings to more than $16 million.

- **Rackspace** reported a 10% decline in bookings, albeit versus a difficult comparison that included a $38 million deal a year ago. Encouragingly, core revenue growth was up 17%. Management guided to full-year bookings of $1 billion, stating that level is necessary to drive double-digit revenue growth in 2022. Meanwhile, $65-70 million is being invested for growth, and a changing mix of sales is (temporarily) crimping gross margins. As management executes the strategy, the stock could re-rate higher.
- **PTC Corp** reported in-line results amidst an improving industrial backdrop, but didn't meet investors' higher hurdle rate. Internet of Things (IoT)-related business saw high-teens annual run rate (ARR) growth, led by resales from partner Rockwell, but marked a sequential deceleration. Management noted that customers were distracted by supply chain issues, which crimped IoT bookings. Onshape, its cloud-native software as a service (SaaS) offering, grew ARR 40%. We continue to believe the digitization of the Industrial sector is in the early stages and PTC is a leader in this transition.
- **Akamai Technologies** spent $600 million on Guardicore to bolster its security offerings in zero trust fraud protection. We continue to believe AKAM's valuation should move higher as security becomes a larger portion of total sales (33% today).

Notable Items

TransUnion announced the $3.1 billion acquisition of Neustar, bolstering its marketing, fraud and communications offerings. Neustar counts more than 4,000 customers, including more than half of the Fortune 500. Management sees cost and revenue synergies accelerating revenue growth and more than doubling margins over the medium-term.

We caught up with **NXP's** SVP of Business Development to discuss company investments in ultra wide-band (UWB). The technology enables secure ranging and sensing capabilities for auto, mobile and IoT. Use cases include secure digital keys to unlock and start a vehicle via smartphones and key cards, and secure sharing of vehicle access with other mobile devices. Content per phone could be ~$2, and up to $18-$20 per vehicle.

Regeneron announced the U.S. Health and Human Services (HHS) and Department of Defense (DoD) agreed to purchase 1.4 million additional doses of REGEN-COV, its COVID-19 therapeutic cocktail. The government is paying $2,100 per dose, but plans to keep the cost free to consumers. That equates to $2.94 billion of revenues for Regeneron, which led analysts to materially increase revenue and earnings estimates for fiscal year 2021.

Autozone's board authorized a new $1.5 billion repurchase program as it exhausted the existing program. Previous buying led to an 8.1% year-over-year decline in shares outstanding, and management noted on the last call that the company bought more than 90% of shares outstanding in 1998.

Portfolio Changes

We added two new names to the portfolio and exited five. The additions increase exposure to secular growth in payments and e-commerce, as well as 5G, electric vehicles, IoT, data centers and the cloud.

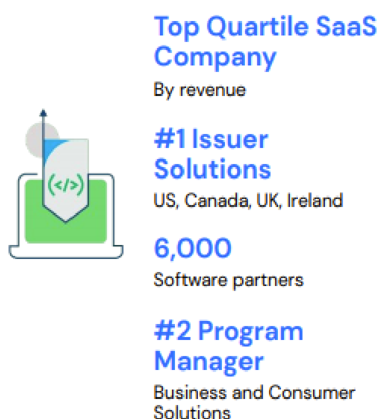
Special Opportunities SMA Commentary

3rd Quarter 2021

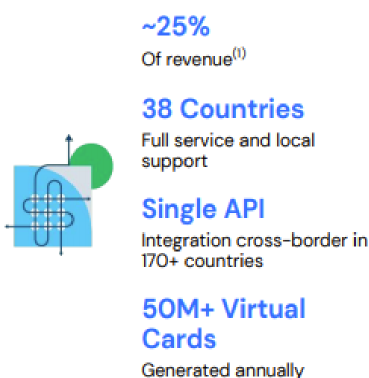
We added **Global Payments** (GPN) in August, a pure-play software and payments technology company. The addressable market is large and growing, benefiting from the conversion of cash and check to electronic forms of payment. We have a favorable view of management, led by CEO Jeff Sloan and President Cameron Bready, as well as CFO Paul Todd, who served as CFO of TSYS prior to the company's acquisition by GPN in 2019. The team's strategy of deploying vertical specific software solutions and attaching payments creates greater value-add for customers while reducing price sensitivity. The stock lagged the market over the past two years as investors digested the merger with TSYS and worried that new entrants were disrupting the industry, creating our perceived *special opportunity*. GPN's competitive advantages include: one, its global footprint, serving 3.5 million customers across 100+ countries; two, its technology offerings, including enterprise software solutions that enable customers to run their businesses more efficiently; and three, its long-lasting, sticky relationships with customers. We believe Global Payments is an above-average company trading at an unusual discount to the market and well below our assessment of intrinsic value. Three insider purchases in early August, including a $500,000 purchase by the CEO, suggest those that know the company best share our view.

Unique model

Software driven



Full Ecomm Omni



Faster growth markets

Targeting 75% technology-enabled revenue

Source: Global Payments

Management's outlook for 2021 earnings per share (EPS) growth of 26-28% and high-teens to 20% through the cycle meets our growth hurdle. At our entry, the stock traded at 16.7x 2022 EPS estimates, nearly a 20% discount to the market and the cheapest relative multiple since 2013 (note the chart at the top of the following page). ROE is deflated by goodwill allocated from the $24 billion acquisition of TSYS, but last quarter's 40.4% EBITDA margins place profitability near the 90th percentile among Russell 3000 constituents. Leverage is expected to end the year below 2.5x, the lowest among direct peers and below management's 3.0x target.

Special Opportunities SMA Commentary

3rd Quarter 2021

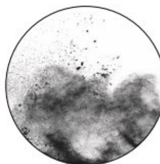
GPN's Price-to-2022 Earnings Estimate Versus the S&P 500® Index

Source: Bloomberg

We added **Amphenol** (APH) mid-quarter. Amphenol is a leading supplier of high-performance connectors and sensors designed to endure extreme weather, temperature, pressure and other conditions, and must function flawlessly. Amphenol ranks as the #2 supplier worldwide. We're attracted to its diverse end-market exposure, which include secularly growing segments, such as: 5G networks, data centers, clean energy systems and the electrification of autos.

Enabling the Electronics Revolution

Clean and Efficient
- Environmentally friendly
- More power efficient



Harsh environment
- Ruggedized
- Extreme vibration, temperature, pressure

Connected and Mobile
- Always on
- Available anywhere

Increased complexity
- Multiple connections
- Next-generation applications

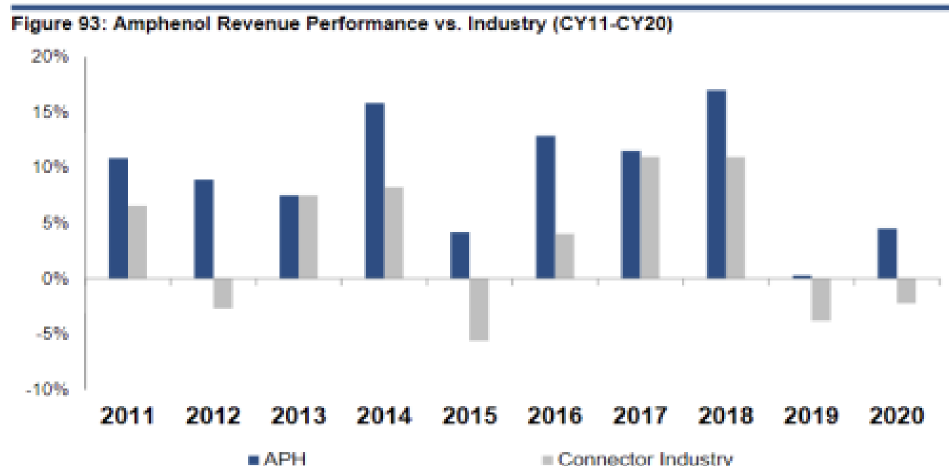
High speed
- 5G capable and beyond
- Increased bandwidth

Source: Amphenol

STERLING CAPITAL

PULSUS UT LIBERA

Historically a shareholder-friendly company, Amphenol illustrated its resiliency in 2020 by confidently raising its dividend 16% and buying back six million shares. The company has been a share gainer, and we expect growth to exceed the market going forward.



Source: Evercore ISI

The combination of growing end markets, above industry growth, acquisitions and shareholder friendly buybacks led to strong returns over time, and we see the playbook continuing. Recent data from the Bishop Report shows global connector sales rose 19% in August and orders were up 34%, both ahead of consensus expectations. Despite the resiliency of the business, the strong track record of growth, and recent signs of connector sales exceeding expectations, at purchase the stock traded below its long-term relative average premium to the market.

We removed **Broadridge** (BR) from the portfolio in July after the stock's strong performance pushed valuation 30% above our purchase roughly two years prior. The company's solutions are mission critical, which informs its 98% client revenue retention. The high mix of recurring revenues (90%) is also attractive and we expect steady growth to continue. However, difficult comparisons could limit upward estimate revisions and at 27x forward earnings estimates, a 15% premium to its three-year average, we found the risk/reward less compelling.

We sold **Boston Scientific** (BSX) into 2021 stock price strength, even as fundamentals trailed our expectations. When we purchased shares in early 2020, we expected a continuation of above-peer growth. Since then, estimates for 2021 and 2022 were cut by more than 20%, much due to pandemic-related reduction in non-emergent procedure volumes. While procedures will undoubtedly return, the pandemic crimped Boston's ability to gain an early foothold with its Watchman product in the left atrial appendage closure (LAAC) market. As a result, new competitive entrants are poised to gain share. In addition, missteps occurred, including: the discontinuation of Lotus, an aortic valve system, due to delivery mechanism issues; a two-year delay of its second-generation Acurate neo, for aortic valve replacement; and perhaps a poorly-timed $925 million acquisition of Preventice Solutions shortly ahead of reimbursement cuts, impacting long-term holter (ambulatory cardiac monitoring), one of its largest products. Between July and September, Chairman and CEO Mike Mahoney also sold $27 million of stock.

We sold **Gilead** (GILD), as the company's capital deployment efforts failed to reinvigorate growth. Over five years, management spent nearly $40 billion on acquisitions, including Immunomedics, Forty Seven and Kite Pharma. Yet revenues peaked in 2015 at $32.6 billion, and were only $25 billion over the past 12 months. Acquired assets are targeting cancer-fighting therapies, outside the company's core expertise, and time will tell if they can develop into blockbusters. Moreover, with valuation rising and buybacks on hold, we chose to redeploy capital.

We exited **Cerner Systems** (CERN) early in the quarter after a five-year holding period. We were originally attracted to the prospects of its #2 position in healthcare IT systems for hospitals, offering efficiencies and cost savings for providers and better outcomes for patients. Sadly, the company's long-time CEO Neal Patterson passed away shortly after our purchase, and execution suffered thereafter. Neal was once Forbes' fourth "best-performing bosses" in America, and we underestimated how difficult it would be to replace him. In 2018, we were encouraged when the company won a $10 billion contract with the Department of Veterans Affairs (VA) to align the country's largest health system with the Department of Defense, a Cerner customer since 2015. However, a recent strategic review of the VA initiative revealed problems with patient safety, productivity, cost, schedule, and performance, which resulted in the project halting for at least the remainder of 2021. Furthermore, the company has "mutually agreed" with current CEO Brent Shafer to depart at year's end.

We removed **Cisco Systems** (CSCO), the leading provider of network infrastructure, which faces increased competition and headwinds from software-defined networking that place less importance on hardware. Cisco has been slow to migrate to higher-margin software and security solutions, resulting in a modest, mid-single-digit growth outlook over the medium-term. At our sale, the stock was at a 20-year high and traded at 15x forward earnings, the high-end of its ten-year range.

Conclusion

Numerous worries include monetary and fiscal policy, the debt ceiling, tariffs on China, elevated commodity prices, labor shortages, supply chain issues, port congestion, the Delta variant and more. What impact will the outcome of these issues have on our companies' businesses, their stock prices, and through a longer-term lens, their intrinsic values? While we attempt to gain a better understanding of these dynamics, we also know that accurately forecasting the multitude of macro, geopolitical, health-related and market scenarios isn't our expertise.

We spend our time learning about our companies, while seeking out new investment ideas. We attempt to balance business quality, growth and value. We seek companies offering mission-critical products and services, which often creates a pricing umbrella, among other benefits. If inflation runs hotter than expected and labor markets remain tight, generally speaking, our companies should have the wherewithal to leverage price to ultimately sustain and grow cash flows. We prefer businesses with high margins and capital returns, reflecting quality, as opposed to companies with razor thin margins that are more susceptible to cost inflation and supply chain disruption.

Special Opportunities SMA Commentary

3rd Quarter 2021

Irrespective of the present day erratic economy, we believe certain secular trends will sustain, including: consumers and businesses will increasingly favor plastic over checks and cash and e-commerce over brick-and-mortar (benefitting portfolio holdings Visa, Fiserv, Global Payments and FedEx); increasing penetration of active safety features and electric vehicles in the automotive industry (benefitting holdings Aptiv, NXP Semiconductor and Amphenol); businesses striving to become more efficient through digitization and use of data and analytics driven processes and decision making (benefitting holdings PTC, Verisk, TransUnion and S&P Global); rising demand for medical treatment for an aging population (benefitting all of our Healthcare companies); mobility and broadband demands, the need for cybersecurity and growth in hybrid/multi-cloud over on premise IT infrastructure (benefitting holdings Alphabet, Akamai, F5 Networks and Comcast). These are just a few examples of rapidly-growing end markets that we believe will contribute to faster revenue, earnings and cash flow growth for our companies.

If current inflation rates sustain longer, that could negatively impact equity (and fixed income) valuations. However, we don't own the market. We're active investors. Special Opportunities trades at a discount to the market on all three valuation metrics shown in the table below, providing a relatively higher margin of safety despite relatively faster growth prospects (i.e., we haven't paid up for growth or businesses with pricing power).

We are unwavering in our investment discipline of deploying capital to companies that meet our pillars. The table below illustrates this dynamic. Relative to the median Russell 3000 constituent, the median Special Opportunities holding trades at a discount, is more profitable, has a more conservative balance sheet, and is expected to continue delivering faster and more consistent earnings growth.

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	22y P/E	22y EV/ EBITDA	22y EV FCF Yld	ROE	EBITDA Mgn	Interest Coverage	Leverage
SO Median *	6%	31%	10%	17%	18.1	13.4	4.6%	18.6	30.3	8.8	1.2
R3000 Median	-10%	18%	8%	8%	21.3	14.0	3.6%	9.6	14.7	1.7	2.0
vs Benchmark	16%	13%	2%	8%	-15%	-4%	29%	94%	107%	408%	-38%

*Representative account. As of 10.03.2021. Source: Bloomberg

The team's disciplined investment philosophy remains consistent with the approach that delivered mid-teens annualized returns since inception (12.31.2000) and a first percentile peer ranking, according to eVestment (as of 06.30.2021).

As always, we thank you for your interest in Sterling Capital's portfolios.

Josh Haggerty, CFA®
Co-Portfolio Manager

Dan Morrall
Associate Portfolio Manager

STERLING CAPITAL

PULSUS UT LIBERA

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 3000® Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000® Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are included.

The Russell 3000® Value Index measures the performance of the broad value segment of the U.S. equity value universe. It includes those Russell 3000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000® Value Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad value market. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

The Russell 3000® Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000® Growth Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad growth market. 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 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

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.

Technical Terms: **Price to Book Ratio**: a financial valuation metric used to evaluate a company's current market value relative to its book value. The market value is the current stock price of all outstanding shares (i.e. the price that the market believes the company is worth). The book value is the amount that would be left if the company liquidated all of its assets and repaid all of its liabilities. **Earnings Per Share (EPS)**: a key metric used to determine the common shareholder's portion of the company's profit. EPS measures each common share's profit allocation in relation to the company's total profit. **Price Earnings Ratio (P/E)**: 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). **CapEx**: (short for capital expenditures) is the money invested by a company in acquiring, maintaining, or improving fixed assets such as property, buildings, factories, equipment, and technology. **Net Debt to EBITDA**: The net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio measures financial leverage and a company's ability to pay off its debt. Essentially, the net debt to EBITDA ratio (debt/EBITDA) gives an indication as to how long a company would need to operate at its current level to pay off all its debt. **Return on Invested Capital (ROIC)**: a profitability or performance ratio that aims to measure the percentage return that a company earns on invested capital. The ratio shows how efficiently a company is using the investors' funds to generate income. **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. **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. **Revenue Run Rate**: an indicator of financial performance that takes a company's current revenue in a certain period (a week, month, quarter, etc.) and converts it to an annual figure get the full-year equivalent (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.

Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.

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.

The opinions contained in the preceding commentary reflect those of Sterling Capital Management LLC, and not those of 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.

Investment advisory services are available through Sterling Capital Management LLC, a separate subsidiary of Truist Financial Corporation. Sterling Capital Management LLC manages customized investment portfolios, provides asset allocation analysis and offers other investment-related services to affluent individuals and businesses. Securities and other investments held in investment management or investment advisory accounts at Sterling Capital Management LLC are not deposits or other obligations of Truist Financial Corporation, Truist Bank or any affiliate, are not guaranteed by Truist Bank or any other bank, are not insured by the FDIC or any other federal government agency, and are subject to investment risk, including possible loss of principal invested.

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 – Special Opportunities SMA Composite

December 31, 2000 – December 31, 2020

Description: Consists of all discretionary separately managed wrap Special Opportunities portfolios. Sterling's Special Opportunities equity portfolios invest primarily in companies with the best perceived combination of underlying growth potential and attractive valuation in a concentrated portfolio that has the flexibility to shift among styles.

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 3000	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2020	15.23	13.92	3	419	70,108	Not Meaningful	20.89	20.36	19.41
2019	27.22	25.74	4	525	58,191	Not Meaningful	31.02	12.31	12.21
2018	-3.32	-4.46	4	453	56,889	Not Meaningful	-5.24	10.99	11.18
2017	20.55	19.08	4	493	55,908	Not Meaningful	21.13	9.85	10.09
2016	5.72	4.31	4	721	51,603	Not Meaningful	12.74	10.35	10.88
2015	9.59	8.00	4	901	51,155	Not Meaningful	0.48	9.67	10.58
2014	15.93	14.23	4	927	47,540	Not Meaningful	12.56	9.33	9.29
2013	26.61	24.72	4	850	45,638	Not Meaningful	33.55	13.49	12.71
2012	15.45	13.68	4	718	4,422	Not Meaningful	16.42	15.75	15.95
2011	-2.72	-4.18	3	776	3,932	Not Meaningful	1.03	17.35	19.62
2010	12.79	11.08	3	868	3,548	Not Meaningful	16.93	22.62	22.94
2009	39.65	37.53	2	752	2,839	Not Meaningful	28.34	21.26	20.61
2008	-32.07	-33.08	2	507	1,907	Not Meaningful	-37.31	19.08	16.02
2007	16.24	14.60	1	552	2,059	Not Meaningful	5.14	8.80	8.25
2006	23.07	21.29	1	346	1,314	Not Meaningful	15.72	8.62	7.62
2005	4.67	3.11	1	261	904	Not Meaningful	6.12	10.45	9.63
2004	29.90	27.85	1	155	522	Not Meaningful	11.95	14.87	15.05
2003	45.35	42.97	1	55	158	Not Meaningful	31.06	17.20	18.37
2002	-16.17	-17.58	1	27	51	Not Meaningful	-21.54		
2001	10.65	9.18	1	15	24	Not Meaningful	-11.46		

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. George F. Shipp, CFA, has managed the portfolio since inception. No alterations of composites, as presented herein, have occurred due to changes in personnel or other reasons at any time.
3. Inception date of composite: December 31, 2000. Creation date: December 31, 2000. The appropriate index is the Russell 3000 Index which measures the performance of the largest 3,000 US companies, representing approximately 98% of the investable US market. It represents the universe of stocks from which all-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. Portfolios utilize trade-date accounting. Valuations and performance are reported in US dollars. Composite returns are calculated monthly by weighting the aggregate SMA/Wrap sponsor returns using beginning of period market values. Periodic time weighted returns are geometrically linked. Returns are not calculated net of non-reclaimable withholding taxes due to immaterial dollar amounts.
5. "Pure" gross of fees returns are presented as supplemental information and do not reflect the deduction of any fees including trading costs. The net of fee return reflects the actual SMA fee of the individual portfolios in each platform except for one platform where the maximum fee is deducted from the gross return. The SMA fee includes all charges for trading costs, portfolio management, custody and other administrative fees. The actual fee may vary by size and type of portfolio. The maximum SMA or bundled external platform fee is 2.82% annually and includes Sterling's actual management fee of 0.32%. Sterling's actual management fees are 50 basis points annually or less. 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.