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

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

Performance

SMID Opportunities gained 7.2% (gross of fees) and 6.9% (net of fees) during the fourth quarter compared to an 8.5% increase for the Russell 2500. For the full year 2019, the portfolio returned 36.1% (gross of fees) and 34.5% (net of fees) versus a 27.8% increase for the Russell 2500.

Quarterly Winners and Losers

The portfolio had 22 holdings post gains in the fourth quarter, including 11 double-digit gainers, while nine holdings lost ground, including two double-digit decliners.

Managed-care provider **Centene** (+45%) led the way. The stock bounced as heightened political concerns eased and earnings grew 38% during the first nine months of the year. The company also won an appeal in North Carolina where it was awarded two additional Medicaid regions, benefited from a favorable ruling from the fifth Circuit Court in Texas related to the Affordable Care Act (ACA), and received approval from all 27 states for its pending acquisition of WellCare. Other top contributors included: hospital Group Purchasing Organization (GPO) **Premier** (+31%), which bounced on rumors it put itself up for sale; rail operator **Kansas City Southern** (+15%), benefiting from implementation of Precision Scheduled Railroading (PSR) and relatively better carload trends versus peers, **Webster Financial** (+15%) and auto dealer software provider **CDK Global** (+14%).

Trailing the most were beverage can maker **Ball Corp** (-11%), which slumped in-part due to new capacity announced by a small industry participant. Heading into 2020, Ball should realize $20-40 million in manufacturing efficiencies, laps $40 million of scrap headwinds, adds 5 billion units of new capacity within 12-18 months, and benefits from continued strength in demand as 70% of new beverage launches are in aluminum cans, up from just 32% in 2014. **Hexcel** (-11%) pulled back as Boeing pauses production of the 737 Max, which has $400,000 of Hexcel content per plane. Hexcel's exposure to the Airbus 350 is more than all Boeing programs combined and nearly 13,000 aircraft remain in the Boeing and Airbus backlogs. **First Service** (-9%) announced an equity offering raising $230 million at a discount, which caused some head scratching. A few days later, it acquired four regional restoration companies. Similar to First Service's other segments, it's a leading provider in the highly fragmented restoration industry, but only owns 2.5% market share, leaving plenty of opportunity to grow in the $60 billion addressable market. **Rogers Corp** (-9%) suffered from trade war issues and the ban on Huawei, where it is an indirect supplier of printed circuit board materials. **Universal Health Services** (-3%) continues to post above-average volume growth in acute settings, but flattish volumes in its behavioral health segment.

2019 Winners and Losers

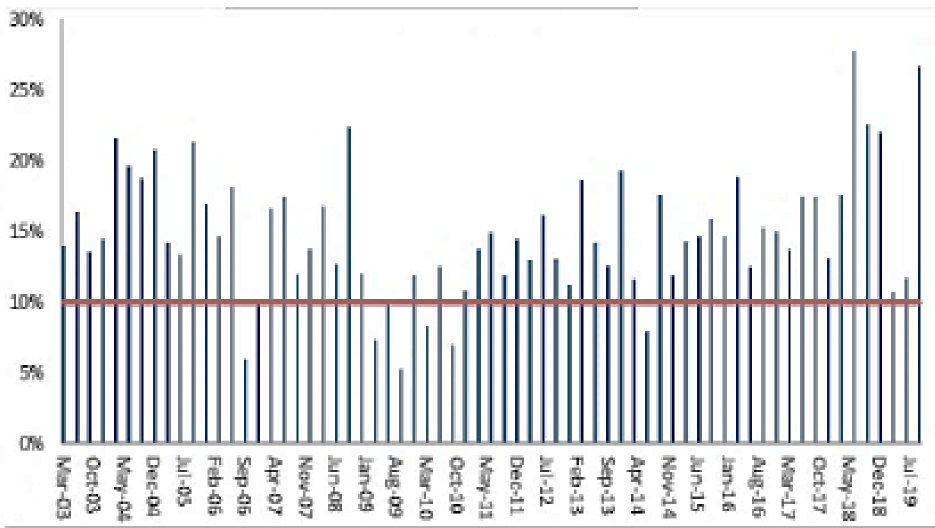
The portfolio had 34 gainers, 27 double-digit gains and six holdings up more than 50% (!). Three holdings fell during the year, including two that fell double-digits.

Two of our biggest winners this year were FinTech holdings **Global Payments** (+77%) and **Fiserv** (57%). Global Payments was the year's biggest contributor to performance, yet we see plenty of upside ahead. The company acquired Total System Services on September 18, adding bank issuing capabilities as well as increased scale to its merchant acquiring offering. Vertical specific software targeting education, medical and restaurant end-markets has been expanded to include retail with TSS's Vital POS offering. In our view, revenue and cost synergies contemplated when closing the deal have already been raised, yet remain conservative. Management said the TSS acquisition has similar economics to its Heartland acquisition in 2016, which contributed to the stock's advance from $70/share to $160/share over the subsequent three year period.

At 3-4 times the size, TSS could have a similar impact on the stock. We believe the combination of secular tailwinds, synergies, share gains and incremental M&A support 20%+ annual EPS growth over the medium term.

Fiserv got an earlier start integrating its transformative acquisition of First Data. The deal catapulted the bank processor and bill payments provider into a worldwide leader in payments issuing and acquiring. First Data's Clover offering is the fastest growing tablet-based point-of-sale solution, serving small- and medium-sized businesses. Clover is relatively inexpensive, easy to use, and boasts an open architecture with more than 2,000 developers that have created more than 350 applications, including solutions to manage inventory, loyalty and rewards programs, track and manage payroll, provide analytics, accounting solutions and web and mobile ordering capabilities. Management is targeting 20%+ EPS accretion in year one and 40%+ by year five. We see upside to management's projected revenue synergies as Fiserv leverages its 12,000+ bank processing client relationships, sharing fees when they sell Clover to their merchant customers. Early signs are positive, signing 20 core account processing clients in the first quarter post-close and more than 200 in the pipeline. Management's 2020 outlook projects EPS growth of 25%, which would mark 35 consecutive years of double-digit earnings growth. In fact, of only 6 quarters in the past 67 has management failed to deliver 10%+ EPS growth.

Fiserv Quarterly EPS Growth (year-over-year)



Source: RBC Capital Markets

Implementation of PSR enabled Kansas City Southern (+62%) to improve rail car velocity by 50% versus January. PSR enables KSU to handle more volume with less equipment, improve speed and lower dwell time, and reduce labor and maintenance costs in part due to lower downtime and retiring older locomotives. It's still early in the process, but savings guidance has been increased twice in the past four months. Management maintained its operating ratio target of 60% by 2021, but indicated it would be lowering the target (lower is better) after a "white boarding" session. The company executed a $550 million accelerated stock repurchase during the fourth quarter and its capital allocation plan calls for $2 billion of stock buybacks by 2022.

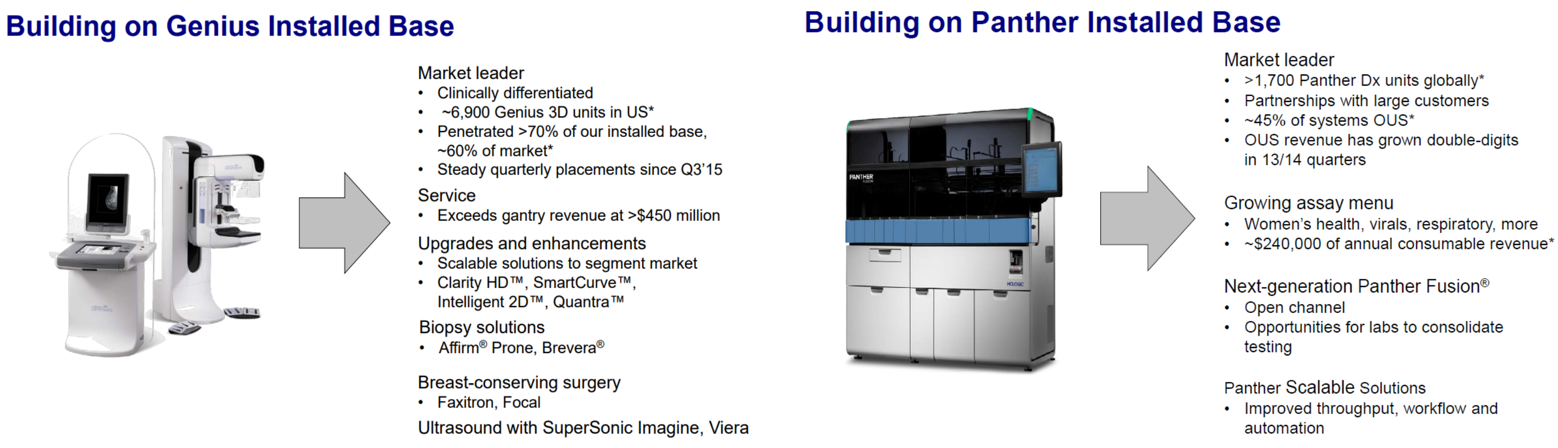
Similar to a couple of our biggest gainers sharing a common theme, so too did two of our biggest detractors. Energy: **Encana** (-18%) and **Centennial Development Resources** (-37%) both experienced setbacks, even as oil prices rallied, and were two of three portfolio holdings to deliver negative returns during the year. Indeed, it was a great year for equity investors! Centennial was sold from the portfolio in June. Encana acquired legacy SMID Opportunities holding Newfield early in the year and made progress enhancing production, improving drilling cycle time and lowering well costs. However, the high mix of natural gas and natural gas liquids (NGLs), accounting for ~70% of production, put pressure on the stock. Natural gas prices fell by nearly a third in 2019, closing near $2/Mcf. Morningstar's analyst estimates Encana's full cycle breakeven is above $4/Mcf. And, of its 55% liquids production, ~25% is NGLs, where prices have collapsed due to oversupply of ethane and propane (combined, the two represent 70% of an NGL barrel). Factors pressuring prices may persist and the stock rebounded 20% in December, leading us to swap into **Parsley Energy.**

Sallie Mae (-3%) was the portfolio's other decliner in 2019. We added the leader in private student loans in September and discussed our rationale in our third quarter commentary. We continue to believe the combination of mid-teens earnings growth, a 20%+ return on equity, and a mid-single-digit valuation is a recipe for long-term shareholder success.

Quarterly Portfolio Changes

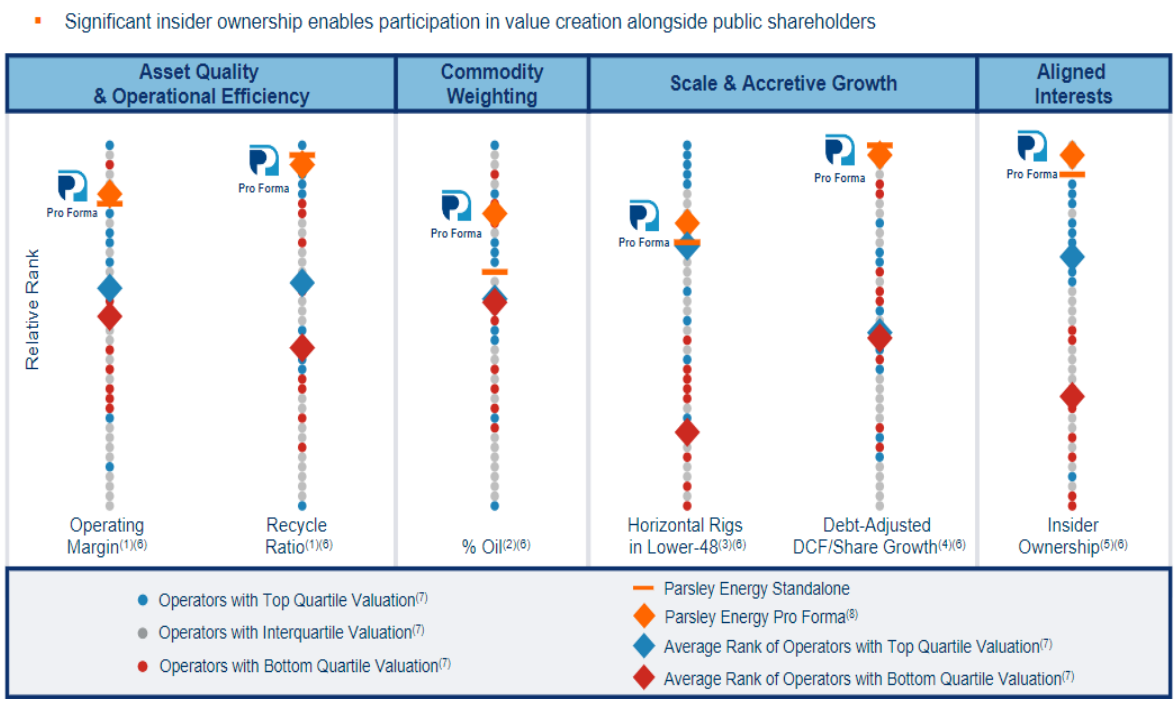
We added two new holdings and sold one.

We added medical technology provider, **Hologic**. Through early detection and treatment, the company is focused on improving women's health, with the added benefit of the lowering overall health costs. The business model is solid with 70% recurring revenues and leading positions in its two largest markets, Breast Health and Diagnostics, which account for three-quarters of revenues. Future growth opportunities include international markets, where Hologic under-indexes relative to peers (25% versus 50%), an upgrade cycle to 3D mammography machines that has several more years of runway, and a steady increase in its Panther molecular diagnostic machine, where a growing menu of assays and underutilization also present meaningful opportunities.



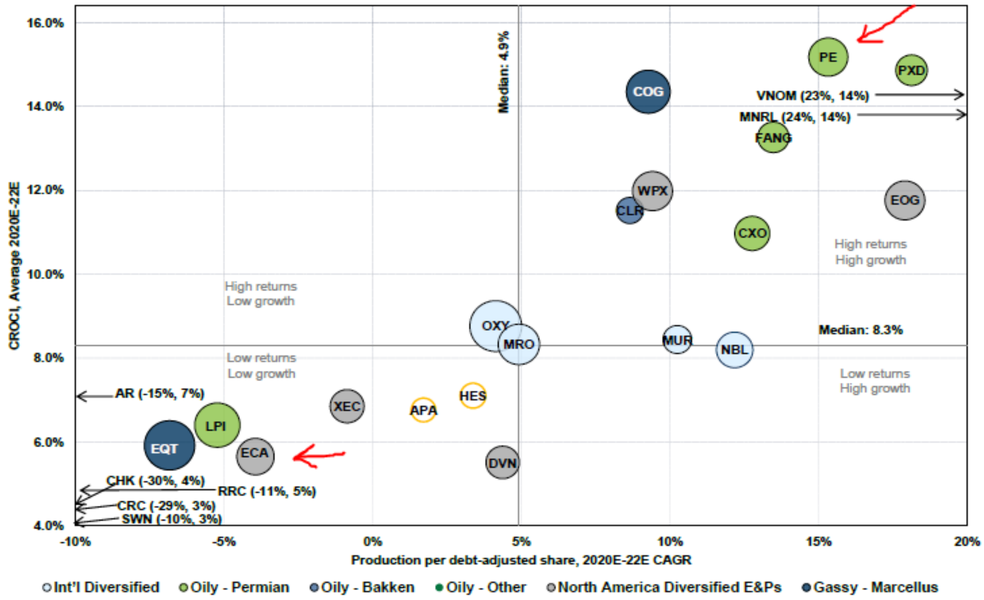
Source: Hologic

On the last day of the year, we added Parsley Energy and sold Encana, as previously noted. Parsley is a low cost, high margin Permian pure-play oil producer. Post its pending acquisition of Jagged Peak Energy, the company will have amassed 270,000 acres of high-quality assets in the Midland and Delaware basins. Parsley ranks highly against peers in important metrics such as profitability, oil mix, and growth in debt-adjusted cash flow per share. And importantly, management and the board are aligned with a 12.1% stake in the company.



Source: Parsley Energy

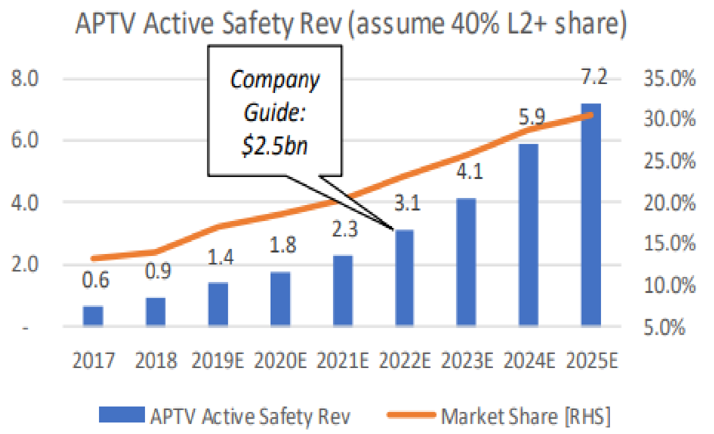
Importantly, Parsley is differentiated from mid-sized companies (and Encana) in its ability to generate high returns on capital employed while also delivering near-industry leading production per debt adjusted share. Despite these strong profitability and growth metrics, Parsley trades at an EV/EBITDA multiple of just 3.8x on 2020 estimates, slightly below Encana. We believe this is just the right elixir for strong shareholder returns.

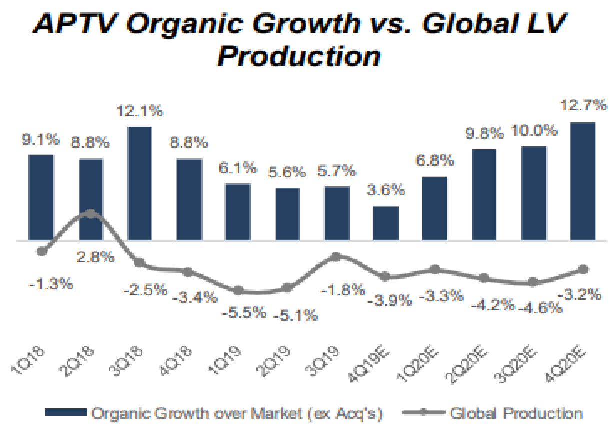


Source: Company Data, Goldman Sachs Global Investment Research

Active Safety and Vehicle Electrification

We discussed our favorable view on payments earlier, highlighting Global Payments and Fiserv, and we thought it might be helpful to review another example of portfolio exposure to a secular theme. Adoption of active safety in autos, while seemingly commonplace these days, is still in the early stages. **Aptiv** estimates only 15% of vehicles worldwide have active safety features. Greater penetration of vehicles is *driving* Aptiv's content per vehicle higher. Management is estimating the company will generate \$2.5 billion of related sales by 2022, but Wolfe Research's analyst suggests simply maintaining its dominant 40% market share would result in active safety revenues being nearly 25% higher than management's estimate, or \$3.1 billion in 2022, before doubling again by 2024 (see chart below on the left). In addition, Aptiv benefits from the electrification of vehicles with content per vehicle increasing by \$2,000 or more through Aptiv's high voltage wiring, connectors, plug-in chargers and architectural optimization for weight reduction. Adoption is accelerating as regulators clamp down on CO_2 emissions – in the EU, fleet averages must be at 57 MPG or auto makers face penalties beginning January 1, 2020. European hybrid mix would need to increase from 3.4% in 2018 to 15%+ in 2020 to meet standards. Active safety and electrification of vehicles are two themes enabling Aptiv to consistently and sustainably grow above market (see chart below on the right).





Source: Wolfe Research

Conclusion

The Russell 2500's impressive 27.8% gain last year may have investors feeling anxious heading into next year, especially in light of paltry 2% expected earnings growth in the same year. However, combined with 2018's 10% decline (recall it was the fourth worst year for small caps and the third worst year for midcaps) and mid-single-digit earnings growth, the two-year average return of 7.2% is below the long-term average and multiple expansion is far less. Relative to large caps, smaller stocks trailed for the third year in a row, leading many sell-side strategists to favor smaller companies heading into 2020.

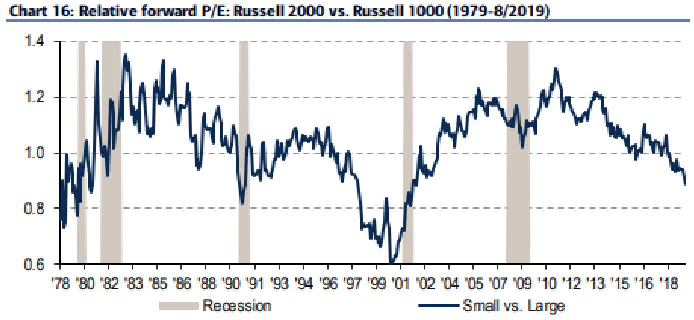
Citi strategist Lori Calvasina wrote in her December monthly Spyglass report, "Small Caps continue to look deeply undervalued relative to Large Cap. When we compare Small Caps to Large Caps, we continue to find that Small Caps look deeply undervalued, more than 1 standard deviation below the long-term average on our model." She went on to say that on a relative basis, small-cap valuations are 1.7 standard deviations below the long-term average. Dating back to 1989, this sizeable discount has occurred 29 times with small caps outperforming 83% of the time over the ensuing 12 months and by an average of 8%.

Model Upper Bound (Standard	Model Lower Bound (Standard	Model Upper Bound (Rel P/E Level)	Model Lower Bound (Rel P/E Level)	Avg 12 Mo Fwd Rel Ret	# Times	% Times OP
2.5	1.5	1.2	1.1	2%	14	50%
1.5	0.5	1.1	1.0	0%	120	53%
0.5	-0.5	1.0	1.0	0%	125	44%
-0.5	-1.5	1.0	0.9	1%	58	60%
-1.5	-2.5	0.9	0.8	8%	29	83%
-2.5	-3.5	0.8	0.7	14%	2	100%

Source: Citigroup

Merrill Lynch's Savita Subramanian believes we might be entering a "recovery" phase in the market, "where small caps have led large caps ~90% of the time. A key variable to watch? The ISM – the #1 most correlated macro indicator with the relative performance of small vs. large caps. We see multiple signs the ISM could be troughing: rebounding heavy truck orders, less-negative OECD Lead Indicators and improvement in the BofAML Industrial Momentum Indicator. With small vs. large cap relative valuations at 17-year lows, assuming we do not see a recession in 2020, small caps could be poised to re-rate relative to large caps."

Chart 16: Relative forward P/E: Russell 2000 vs. Russell 1000 (1979-8/2019)



Source: FactSet, BofAML US Equity & US Quant Strategy

While small may be positioned better than large, we believe SMID Opportunities offers a better risk/reward proposition than the Russell 2500, given better near- and longer-term growth prospects and relatively cheaper valuation. The portfolio continues to look attractive on our four time-tested "pillars."

<u>Pillar Metrics: Growth, Valuation, Profitability & Balance Sheet Strength</u>

	19y EPS Gr	20y EPS Gr	21y EPS Gr	'16-'21 EPS CAGR	20y P/E	21y P/E	ROE	Int Cov
SMID Median*	12%	9%	10%	13%	17.4	16.0	14.7	7.3
R2500 Median	2%	5%	9%	7%	20.4	18.4	7.5	2.6

**Representative account. Source: Bloomberg*

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

Josh Haggerty, CFA®
Portfolio Manager

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. 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.

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Sterling Capital Management - SMID Opportunities SMA Composite

June 30, 2011 – December 31, 2018

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

Year	Total Return "Pure" Gross of Fees	Total Return Net of Fees	No. of Portfolios	Composite Assets End of Period ($MM)	Percent of Firm Assets	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 2500	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2018	-9.34	-10.41	28	6	0.0	56,889	0.35	-10.00	11.46	14.10
2017	13.93	12.62	30	8	0.0	55,908	0.41	16.81	9.14	12.13
2016	16.08	14.64	67	14	0.0	51,603	1.20	17.59	10.67	13.67
2015	-0.39	-1.64	31	8	0.0	51,155	0.73	-2.90	10.53	12.42
2014	13.30	11.94	32	6	0.0	47,540	0.40	7.07	10.58	11.67
2013	25.34	23.89	20	4	0.0	45,638	0.25	36.80		
2012	17.47	16.08	13	2	0.0	4,422	0.16	17.88		
2011 (Inception 6/30/11)	-10.17	-10.72	3	0	0.0	3,932		-9.78		
Annualized Since Inception	8.07	6.77						8.70		

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 12/31/17. The verification report(s) is/are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Notes:

1. Sterling Capital Management LLC (SCM) is a registered investment advisor with the SEC. Registration does not imply a certain level of skill or training. Sterling manages a variety of equity, fixed income and balanced assets. Prior to January 2001, Sterling was a wholly owned subsidiary of United Asset Management (UAM). In January 2001, Sterling Capital Management LLC purchased all the assets and business of Sterling Capital Management Company from UAM to become an employee owned firm. There were no changes in personnel. In April 2005, BB&T Corporation purchased a majority equity ownership stake in Sterling Capital Management LLC. There were no changes in personnel. 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. There were no changes in personnel. In January 2013, CHOICE Asset Management firm merged into Sterling Capital Management. There were no changes in personnel. "Percent of Firm Assets" and "Total Firm Assets" prior to 2013 are for CHOICE Asset Management. In August 2015, 8 new employees joined Sterling Capital management via Stratton Management Company following the close of BB&T's purchase of Susquehanna Bancshares. There were no changes to personnel.
2. Joshua L. Haggerty, CFA, has managed the portfolio since inception. No alterations of composites, as presented herein, have occurred due to changes in personnel or other reasons at any time.
3. Inception date of composite: June 30, 2011. Creation date: June 30, 2011. The appropriate index is the Russell 2500 Index which measures the performance of the smallest 2,500 companies in the Russell 3000. It represents the universe of stocks from which small- and mid-cap managers typically select. The index is reconstituted annually. Total return includes price appreciation/depreciation and income as a percent of the original investment. A complete list of all of SCM's composites and 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.