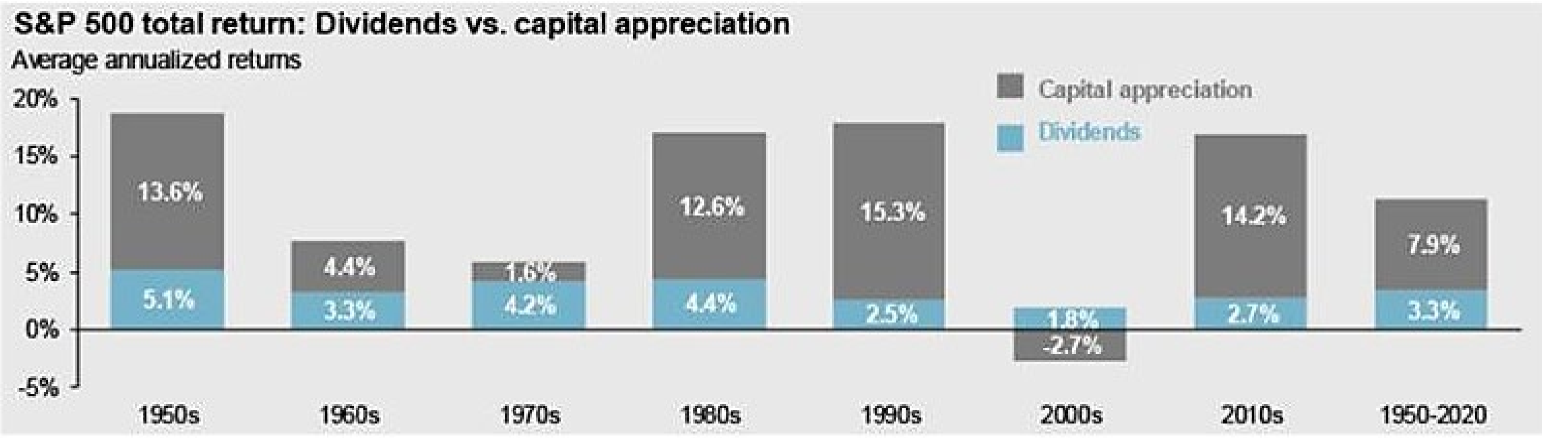
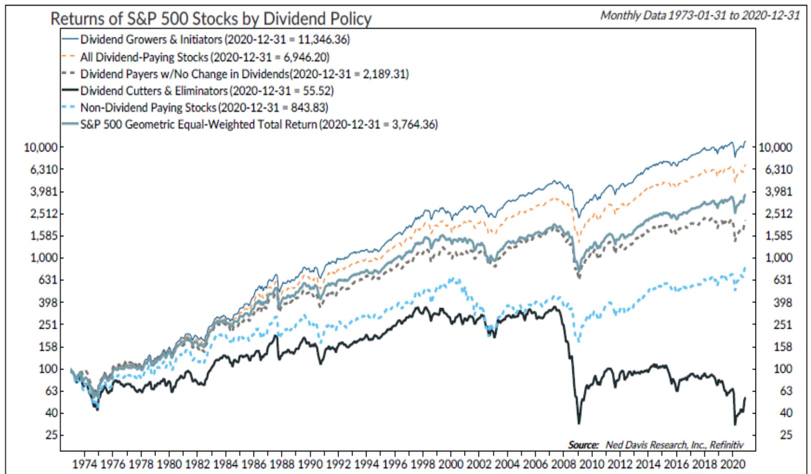
COMMENTARY
Equity Income SMA | 4th Quarter 2020

Dividends matter – that's the simple philosophy underlying the Sterling Capital Equity Income portfolio. From 1950 through 2020, the S&P 500® appreciated (price only) at a 7.9% compound rate, while total return (including reinvested dividends) was 11.2% per year. If that 3.3% per-year difference sounds trivial, consider the beauty of compounding over those 70 years. A $100 investment at 12.31.1950 would have grown to $20,488 from price appreciation alone, but to $168,785 assuming reinvestment of all cash flows. Reinvested dividends provided over 30% of the stock market's total return over time.



Source: J.P. Morgan Asset Management

To maximize our perceived odds of investment success, we go two steps further in selecting companies for our portfolio. First, we consider only those stocks whose prevailing dividend yield is above that offered by the S&P 500®, and second, we demand that dividends have grown for at least three consecutive years or in six of the last ten years. As Ned Davis Research shows at right, stocks that are able to increase payouts over time have outperformed the overall stock market as well as the no-dividend stocks which often garner the most attention. Once again, the difference is meaningful: dividend growers offered a 10.4% compound return over the last ~48 years, compared to 7.9% for equally-weighted members of the S&P 500® and just 4.5% for no-yield constituents.



Returns Based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly.

Portfolio Performance Statistics Analysis Dates: 1973-01-31 - 2020-12-31		
Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	10.4	11346.4
All Dividend-Paying Stocks	9.2	6946.2
Dividend Payers w/No Change in Dividends	6.6	2189.3
Dividend Cutters & Eliminators	-1.2	55.5
Non-Dividend Paying Stocks	4.5	843.8
S&P 500 Geometric Equal-Weighted Total Return	7.9	3764.4

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Source: Ned Davis Research

Performance

Who would have guessed stocks would perform admirably, despite a global pandemic and deep global recession? We should give credit where it is due. While the jury's still out on the wisdom of printing money, as global central banks have done, we applaud the management teams of many public companies for adapting realities of social distancing, working remotely, and serving customers in newfound ways.

For the year, the Equity Income portfolio turned in a 7.2% (before fees) and 5.8% (after fees) total return, topping the Russell 1000® Value Index's 2.8% return over the same time period. Equity Income's overweight of Technology and Healthcare relative to the benchmark and underweight of Financials and Utilities contributed positively to portfolio performance.

In the final quarter of 2020, the Equity Income portfolio recorded a 15.2% (before fees) and 14.8% (after fees) gain, which lagged the Russell 1000 Value Index's 16.3% total return over the same time period.

Best and Worst Performers

It was a strong quarter for stocks, and Equity Income's constituents were no exception, with 29 holdings gaining ground in the 90-day interval, compared to just five that declined. Twenty of the gainers advanced by a double-digit percentage, while none of the decliners fell by more than 4%.

The portfolio's top quarterly performers were **Discover Financial** (+57%), followed by **Citi** (+45%), **EOG** (+40%), and **Phillips 66** (+37%). Each of those companies outperformed their respective sectors, and it didn't hurt that Energy and Financials were the top two performing sectors in the fourth quarter (+28% and +23%, respectively). Financials performed remarkably well, as macroeconomic data came in much better than most banks anticipated in their reserving assumptions earlier in 2020. In addition, the Federal Reserve began loosening the reins around capital return plans, suggesting many banks can resume share repurchases in 2021. Energy, the worst performing sector for the year, finally got in gear in the fourth quarter. That largely reflected the price of oil, which fell -20.5% for the year but climbed 20.6% in the fourth quarter. The portfolio's worst performers for the quarter were relatively modest detractors: **Home Depot** (-4%), **Crown Castle** (-4%), **Merck** (-1%), and **Verizon** (-0.2%).

For the year, the portfolio was well-served by a number of its growth-oriented constituents, such as **Microsoft** (+43%), **Analog Devices** (+27%), and **Accenture** (+26%), whereas more traditional value-oriented holdings lagged, such as **CVS** (-5%), **Verizon** (flat), and **Chubb** (+1%). We believe our search for both growth *and* value distinguishes Equity Income relative to most dividend-oriented strategies, which tend to be dominated by mature, slower-growth companies.

The accompanying chart reveals the best- and worst-performing style factors for the year. Our portfolio's focus on quality, defined in part by balance sheet strength, served us well in 2020. By contrast, our focus on inexpensive valuations, as defined by low price-to-sales or price-to-earnings ratios, was generally a detriment in the year just ended.

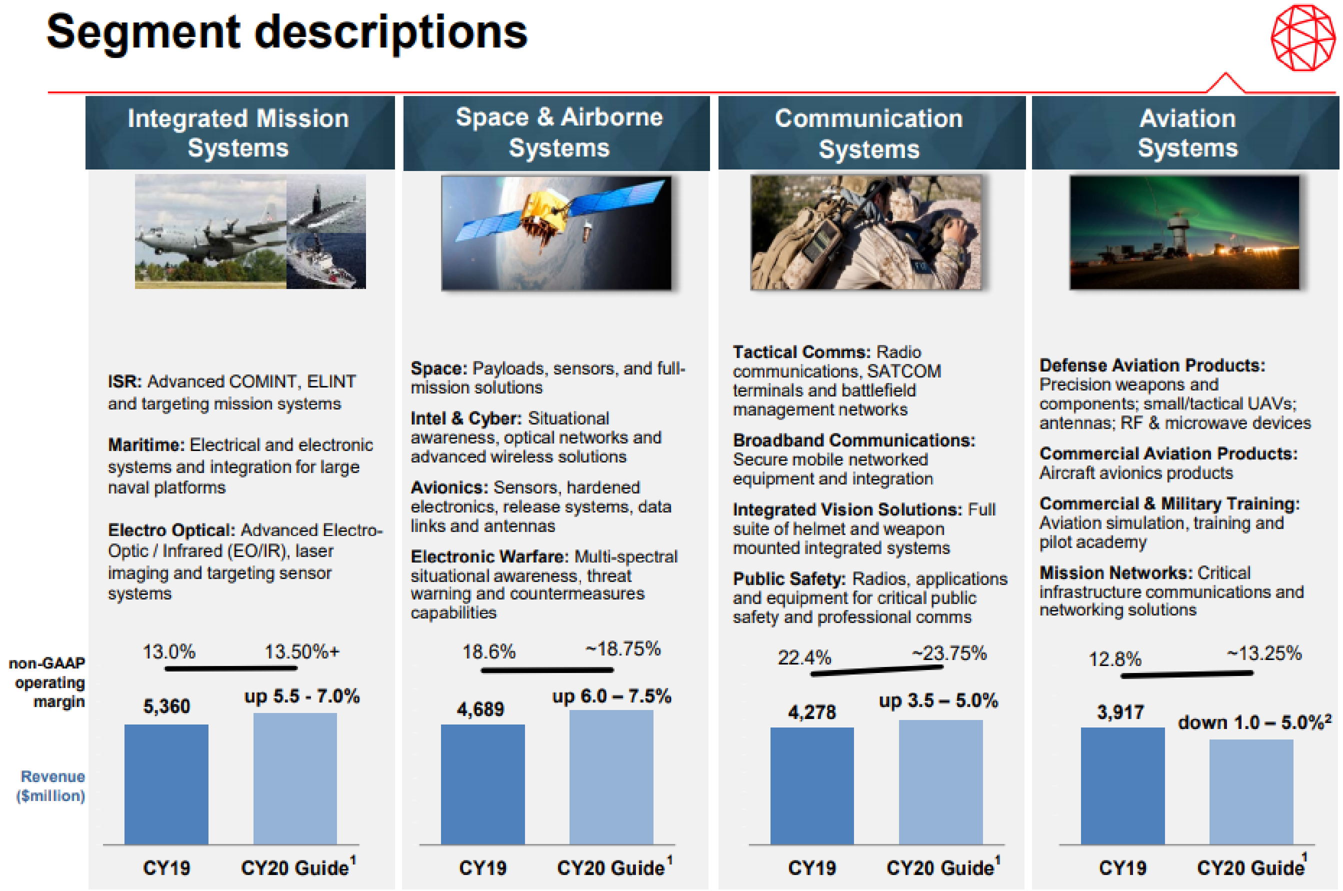
2020 Factor Returns

Source: Credit Suisse

Purchases and Sales

During the quarter, we purchased two stocks and sold one. Our lone sale was **Maxim Semiconductor**, which we exited following a takeover offer by fellow portfolio constituent, Analog Devices. With Maxim in merger arbitrage limbo, and with the discontinuation of its dividend, we no longer considered the stock an appropriate holding for our dividend growth portfolio. During our seven-plus year ownership, Maxim generated a 221% total return, well above that of the S&P 500's 152% and the Russell 1000 Value's 78% over the same period.

We added defense contractor **L3Harris** early in the quarter. Formed through the mid-2019 merger of L3 and Harris, the combined company is the nation's sixth-largest industry participant. Its tactical radios, small satellites, missile guidance systems and geospatial technologies serve key roles in helping our nation's military defend us from enemies, foreign and domestic.



Source: L3Harris

We believe our opportunity to own the stock at a sharply discounted valuation owed in part to the 17% of L3's revenue tied to commercial aviation, currently impacted by COVID-19. While we believe commercial aviation will inevitably snap back, the speed at which that occurs remains unknowable. Despite this near-term headwind, we're particularly impressed by L3's ability to pull a number of levers to achieve its financial objectives. Specifically, we believe the company's track record of over-achieving against synergy targets seems reasonably likely to continue as the two companies rationalize platforms and approach growth opportunities with a greater menu of capabilities.

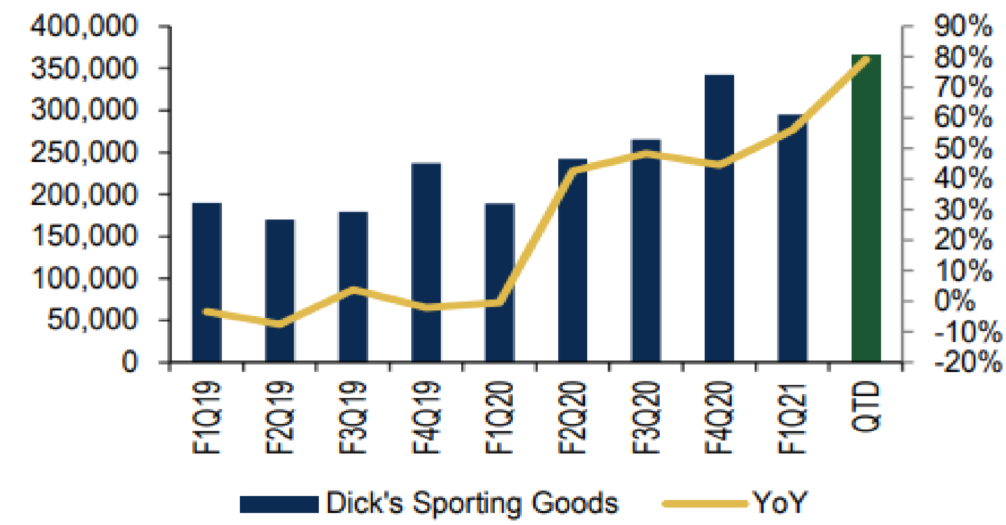
Political uncertainty presents another possible reason for the stock's discounted valuation, though Defense Department appropriations tend to be driven more by the global threat environment and less by partisan issues in Washington. We doubt either political party has a desire for foreign adversaries to achieve military supremacy. Congress passed the $741 billion Defense Authorization Act with overwhelming bi-partisan support.

At the time of our purchase, L3 shares traded near 15x earnings, a discount to their own history and the S&P 500. The stock supplies a dividend yield of nearly 2%, with the most-recent dividend increase checking in at 13% year-over-year. The company is likely to raise its dividend again in February, as well as continue to aggressively repurchase its shares, to the tune of roughly 5% per year.

Our other purchase during the quarter was sporting goods retailer, **Dick's**. The company operates more than 800 stores and a leading e-commerce website. While 2020 benefited from large-ticket purchases of home gym equipment and pandemic-induced outdoor wares, we believe sales of team sports equipment could be set for a sharp rebound in 2021 and beyond, as vaccines enable schools and gyms to reopen.

In terms of e-commerce, Dick's already saw a sharp acceleration. In the most-recent quarter, its e-commerce sales rose 95% year-over-year. No doubt, a portion of that was driven by consumers' preference to avoid indoor venues and crowds amid the COVID-19 pandemic. We also believe the e-commerce boom is being driven by increasing downloads of Dick's industry-leading mobile app. The app not only helps facilitate e-commerce transactions, it also enables consumers to earn and redeem loyalty rewards and provides Dick's with customer-specific data which it can mine for marketing purposes.

Chart 4: DKS app downloads continue to accelerate



Source: Sensor Tower, BofA Securities

Dick's has raised its dividend annually since 2015, with the most-recent increase clocking in at 14% year-over-year. At our purchase price, shares yielded 2.3% and traded at just ten times earnings – less than half the S&P 500's multiple. At that valuation, and with a net cash position, we believe the company will get back into the routine of repurchasing its stock.

Company Updates

Encompass Health shot up on news that activist investor Jana took a stake in the company, and is advocating for a value-enhancing split-off of Encompass' home health business.

Home Depot announced it is acquiring HD Supply, and turned in its second-consecutive quarter of 25% same-store sales gains.

L3Harris won a $496 million award to provide "jamming" technology for the U.S. Navy.

Corning raised its guidance intra-quarter, suggesting business has accelerated. In our recent conversation with CFO Tony Tripani, we believe it's *clear* that the company is benefiting from demand for its Valor glass, which helps vaccine manufacturers fill vials faster and more securely.

Amdocs guided for an organic growth acceleration in its new fiscal year, validating our investment thesis that a combination of improved customer spending, a gradual 5G rollout, and growth in streaming services are likely to provide tailwinds for the company.

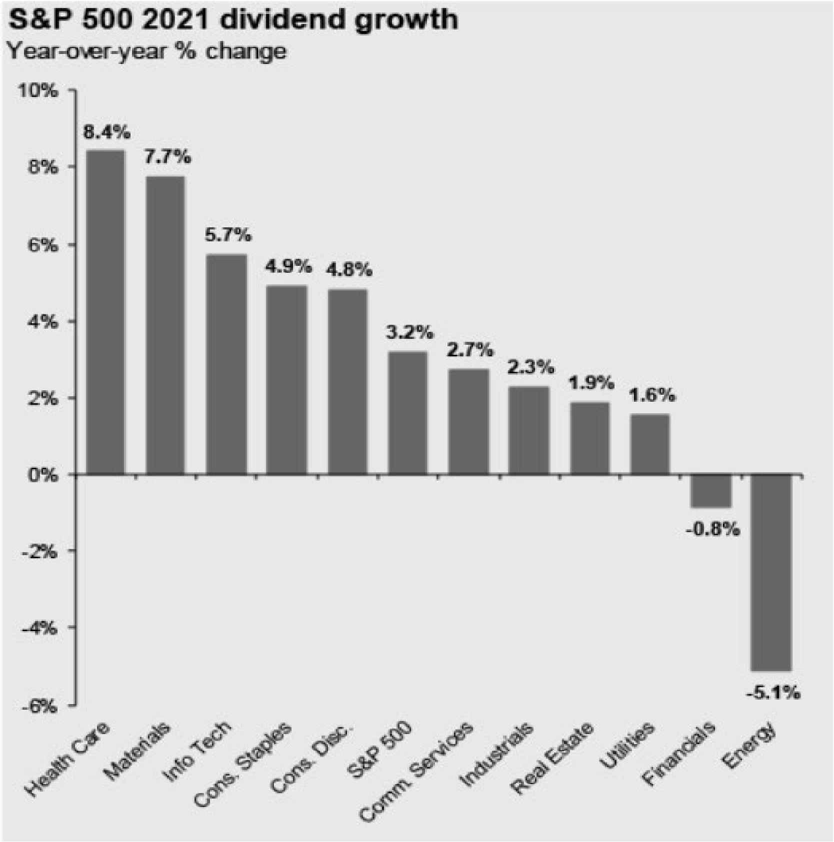
Several of our companies raised dividends during the quarter, including an outsized 25% increase by **Abbott Labs**, marking that company's 48th consecutive year of higher dividends. Sister company **Abbvie** (which spun out of Abbott in 2013) raised its dividend 10%.

Merck augmented its dividend by a *healthy* 7%, and also sold a stake in vaccine maker Moderna. In addition, Merck announced it won a $356 million contract with the federal government to supply up to 100,000 doses of its drug, MK-7110, for the treatment of severely ill COVID-19 patients.

Crown Castle *transmitted* an 11% dividend increase, and won the right to serve as DISH Network's preferred wireless tower provider, as the latter company seeks to expand its cellular footprint nationwide.

Motorola Solutions *phoned in* an 11% dividend hike, while **Tyson** *processed* a 6% increase.

The average Equity Income constituent's dividend is 7.9% higher than a year ago, which compares favorably to the S&P 500, where dividends are -1.7% lower year-over-year. Even in what's expected to be a snapback year in 2021, consensus estimates only see 3% dividend growth for the S&P 500, led by Healthcare, our portfolio's most-significant overweight relative to the Russell 1000 Value Index.



Source: J.P. Morgan Asset Management

Conclusion

The solid performance of equities in such a headline-challenged year serves as a front-and-center reminder that companies are living, breathing, *flexible* entities that can and do adjust to changing conditions. That flexibility includes adjusting pricing, headcount, supply chains, and even business focus via acquisitions and divestitures. Many of the investing public's frequent worries – whether about politics or inflation or any number of other unknowns – represent opportunities for companies to adjust as needed.

That's not to suggest equities outperform universally, but the flexibility that companies possess represents a feature that's distinctive relative to most investment alternatives: real estate doesn't move, fixed income is fixed, and precious metals never change. However, Microsoft can (and did) shift from a company that was once levered to desktop computer sales into a Software as a Service and Cloud Computing provider (helping it to deliver sales and earnings gains, even through a pandemic and recession). Home Depot responded to the COVID-19 pandemic by ramping up its buy online/pick up in-store efforts (contributing to 25% same-store sales gains during the past two quarters). Smaller competitors with less financial wherewithal struggled to follow suit, providing incremental market share opportunities for our companies to claim.

In terms of positioning, the Equity Income portfolio enters 2021 with a bit more Financial exposure than a year ago (having shifted from an underweight position to nearly market weight), a reflection of our purchases earlier this year of **Northern Trust**, **Goldman Sachs**, and Citi. The portfolio remains underweight several of the traditional yield-oriented sectors, such as Utilities and Communication Services – staid sectors that tend to feature above-average dividend yields, but below-average dividend growth.

We believe our portfolio's mid-2% dividend yield (about one full percentage point higher than the S&P 500) and high-single digit growth in underlying dividends should be attractive to yield-starved investors, particularly as the Federal Reserve signaled its intention to keep short-term interest rates pinned near zero for the foreseeable future.

Beyond their dividend characteristics, we believe the valuation potential of dividend-paying stocks in general, and our portfolio in particular, represents a latent opportunity. The Russell 1000 Value Index ended 2020 at its cheapest valuation versus Russell 1000 Growth Index since 2001. Over the ensuing seven years, Value generated robust outperformance, so we believe conditions are conducive for a repeat occurrence at some point.

Source: J.P. Morgan Asset Management

As always, we greatly appreciate your trust and confidence. In turn, we extend our most sincere wishes for much happiness, health and success in 2021 and beyond.

Adam Bergman, CFA®
Associate Portfolio Manager

Performance Disclosure: *Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the investment management fees and trading expenses. "Pure" Gross of fees performance returns 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 Composite Disclosure Presentation which is attached.*

The Russell 1000® Value Index *measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values. The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.*

The Russell 1000® Growth Index *measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.*

The 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: ***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 to Sales (P/S)****: is a formula used to measure the total value that investors place on the company in comparison to the total revenue generated by the business. It is calculated by dividing the share price by the sales per share.* ***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). (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.

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Sterling Capital does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.

Sterling Capital Management – Equity Income SMA Composite

December 31, 2000 – December 31, 2019

Description: *Consists of all discretionary separately managed wrap Equity Income portfolios. Sterling's Equity Income portfolios invest primarily in companies with a dividend yield greater than the S&P 500 and a history of growing the dividend, either three consecutive years or six of the prior ten years.*

Year	Total Return "Pure" Gross of Fees	Total Return Net of Fees	No. of Portfolios	Composite Assets End of Period ($MM)	Percent of Firm Assets	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 1000 Value Index	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2019	25.30	23.73	5	739	1.3	58,191	Not Meaningful	26.54	11.32	11.85
2018	-0.26	-1.53	5	619	1.1	56,889	Not Meaningful	-8.27	11.01	10.82
2017	20.54	18.94	4	643	1.2	55,908	Not Meaningful	13.66	9.78	10.20
2016	15.43	13.84	3	989	1.9	51,603	Not Meaningful	17.34	10.40	10.77
2015	-2.70	-4.15	3	1,100	2.2	51,155	Not Meaningful	-3.83	10.20	10.68
2014	4.61	2.98	3	1,501	3.2	47,540	Not Meaningful	13.45	8.33	9.20
2013	26.70	24.74	3	1,574	3.4	45,638	Not Meaningful	32.53	9.72	12.88
2012	12.39	10.63	3	1,272	28.8	4,422	Not Meaningful	17.51	11.83	15.73
2011	10.24	8.54	2	1,159	29.5	3,932	Not Meaningful	0.39	14.88	20.98
2010	15.64	13.87	2	992	28.0	3,548	Not Meaningful	15.51	17.82	23.51
2009	18.92	17.05	2	811	28.6	2,839	Not Meaningful	19.69	16.17	21.40
2008	-26.17	-27.26	2	620	32.5	1,907	Not Meaningful	-36.85	13.18	15.58
2007	9.20	7.66	1	668	32.4	2,059	Not Meaningful	-0.17	6.52	8.17
2006	23.09	21.35	1	442	33.6	1,314	Not Meaningful	22.25	6.00	6.78
2005	10.19	8.63	1	263	29.1	904	Not Meaningful	7.05	9.51	9.59
2004	23.23	21.39	1	128	24.5	522	Not Meaningful	16.49	12.76	14.97
2003	31.36	29.24	1	31	19.6	158	Not Meaningful	30.03	12.94	16.22
2002	-12.34	-13.78	1	15	29.4	51	Not Meaningful	-15.52		
2001	5.76	4.46	1	4	16.7	24	Not Meaningful	-5.59		
Annualized Since Inception	10.14	8.54						7.04		

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

Notes:

1. Sterling Capital Management LLC (SCM) is a registered investment advisor with the SEC. Registration does not imply a certain level of skill or training. Sterling manages a variety of equity, fixed income and balanced assets. Prior to January 2001, Sterling was a wholly owned subsidiary of United Asset Management (UAM). In January 2001, Sterling Capital Management LLC purchased all the assets and business of Sterling Capital Management Company from UAM to become an employee owned firm. In April 2005, BB&T Corporation purchased a majority equity ownership stake in Sterling Capital Management LLC. In October 2010, the management group of Sterling Capital entered into an agreement with BB&T Corporation that reduced and restructured management's interest in Sterling Capital Management. Additionally, BB&T Asset Management merged into Sterling Capital Management. In January 2013, CHOICE Asset Management firm merged into Sterling Capital Management. "Percent of Firm Assets" and "Total Firm Assets" prior to 2013 are for CHOICE Asset Management. In August 2015, eight new employees joined Sterling Capital management via Stratton Management Company following the close of BB&T's purchase of Susquehanna Bancshares. In December 2019, BB&T Corporation and SunTrust Banks, Inc. Holding Company merged as equals to form Truist Financial Corporation. Sterling Capital Management LLC is a wholly owned subsidiary of Truist Financial Corporation. 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 benchmark for this composite is the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The index is reconstituted annually. Total return includes price appreciation/depreciation and income as a percent of 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. 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. 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. Sterling's actual management fees are 50 basis points annually or less.
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. The dispersion is not meaningful because less than six portfolios are in the composite. 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.