COMMENTARY
Insight SMA | 4th Quarter 2020

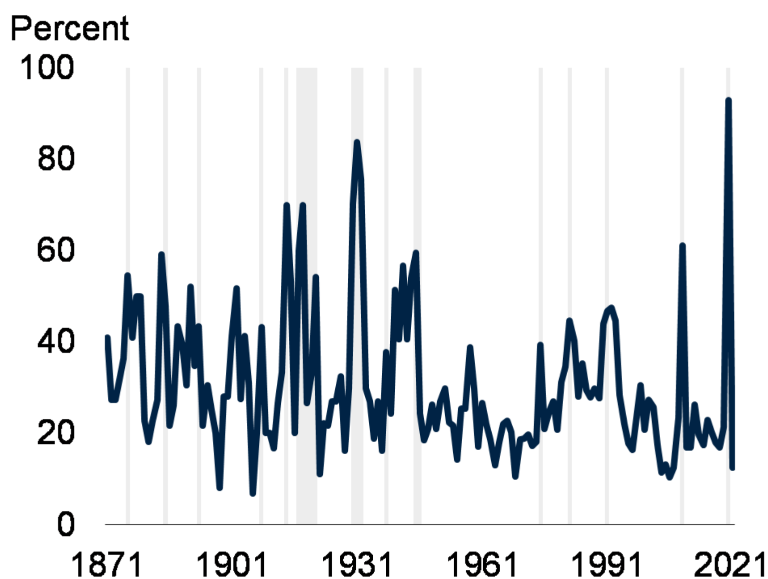
The philosophy behind the Sterling Capital Insight portfolio is that few investors should possess better insight into the future prospects of a company than its executives and Board members. Just as lower valuations generally tilt the odds of investing success in investors' favor, so too does insider buying. That thesis has been validated by academic studies from researchers at Harvard, Yale, Stanford, and the University of Michigan, which independently found that corporate insiders have achieved superior risk-adjusted returns. A peer-reviewed article published in the November 2011 edition of the International Review of Economics and Finance further validated those findings, concluding that "Insider actions have positive predictive power for future returns. Managers know more about their companies than any outsider, including Wall Street analysts, and as such investors could benefit from observing the behavior of insiders. Results are statistically significant."

The majority of the Insight portfolio is invested in companies in which there has been recent insider buying activity; we also retain the flexibility to own companies in which insiders own a substantial (5%+) stake of the company, whereby their incentives already are well-aligned with ours as shareholders, but where it would be less likely to expect insiders to take a further stake via additional purchases. Such flexibility also enables the portfolio to invest in overseas companies that trade on U.S. exchanges, where insider buying is not reported in real time.

Performance

What a year - amid a global pandemic and a record percentage of global economies slipping into recession, who would have guessed the S&P 500® would turn in an above-average performance for 2020? As financial commentator Barry Ritholtz recently told *Barron's*: "Not only did you have to predict that a pandemic would occur, but you would have had to take it to the second level, which is that the Federal Reserve's going to take rates to zero, and that Congress, which cannot agree on renaming a library, would panic and pass a $3 trillion stimulus. That's how you get a positive year [for equities], despite all the terrible news."

Proportion of World Economies in Recession



Source: World Bank

For the quarter ended 12.31.2020, the Insight portfolio gained 12.2% (gross of fees) and 11.9% (net of fees), which matched the S&P 500® Index and trailed the Russell 1000® Index's 13.7%. In 2020, Insight appreciated in value for the ninth year out of the last ten, rising 6.9% (gross of fees) and 5.7% (net of fees), lagging the Russell 1000 and the S&P 500, which checked in at 21.0% and 18.4%, respectively. Our portfolio's performance reflected its tilt toward "value" vs. "growth" – with the latter outperforming the former in 2020 by the widest margin on record. It's worth highlighting that insider buying tends to spike on *valuation* opportunities, such as in March 2020 and March 2009, rather than growth opportunities, so we'd therefore generally expect our opportunity set to reflect somewhat of a value bias.

The sharp contrast between growth and value was highlighted by the Russell 1000® Growth Index (+38.5%) outperforming the more-staid Russell 1000® Value (+2.8%) by more than 35 percentage points in 2020, the widest spread on record. As we outlined in our commentary a quarter ago, over the past 40+ years, the likelihood of so-called "growth" or "value" styles outperforming in any given year has amounted to a coin flip, so investors who choose to focus on the past year's triumphant style may not benefit from extrapolating that into the infinite future.

From a style perspective, the three worst-performing factors in 2020 were valuation-based (EBITDA, sales, and cash flow, respectively). In other words, buying inexpensive stocks served investors poorly in 2020, while buying growth companies (almost irrespective of valuation) served investors well.

Best & Worst Factor Themes Of 2020 *(So Far)*

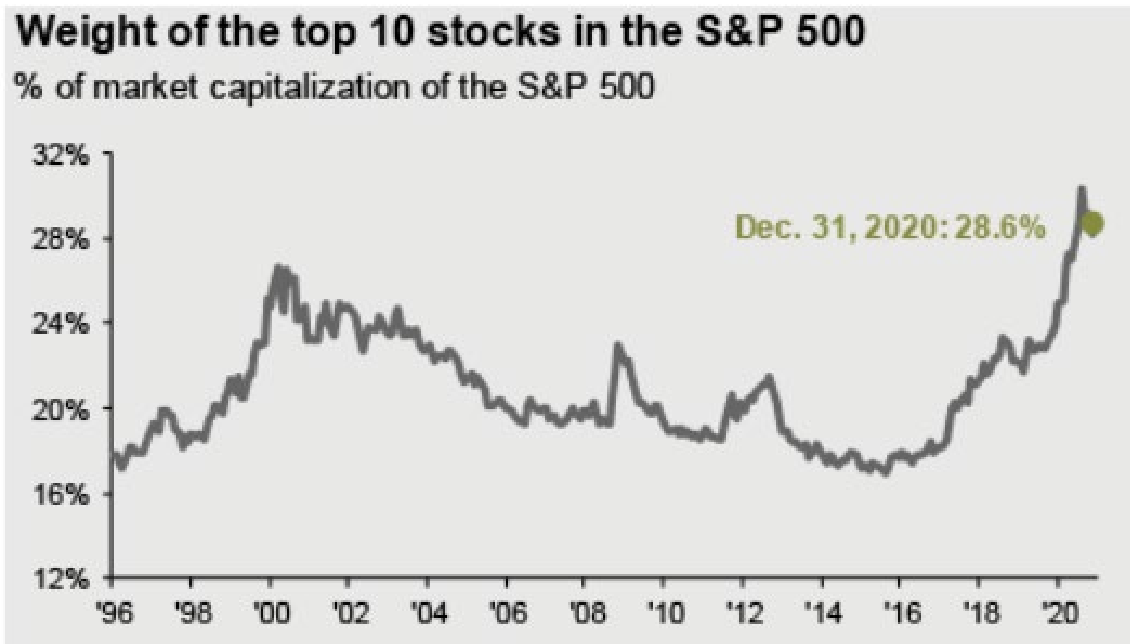
Top 15 Factors '20	YTD	Bottom 15 Factors '20	YTD
Sales Growth	16%	EBITDA to EV	-21%
Price to 52W Low	16%	Sales Yield	-18%
Current Ratio	12%	Cash Flow Yield	-16%
Percent Upgrades	11%	Dividend Yield	-15%
Alpha	11%	Net Debt to EV	-15%
Long Term Growth	10%	Shareholder Yield	-14%
Fundamental Beta	9%	Sales To EV	-14%
Earnings Variance	9%	Earnings Yield	-13%
Asset Turnover	8%	Book Yield	-12%
CAPEX to Assets	8%	ROIC Change	-12%
Receivables Turnover	8%	Buyback Yield	-11%
Percent Buy Ratings	8%	ROA Change	-9%
Earnings Growth	7%	Net Debt to EBITDA	-9%
Net Income Margin	6%	Assets	-8%
Asset Growth	6%	Negative Earnings	-7%

Source: Cornerstone Macro

Investing legend Ben Graham counseled, "Buy not on optimism, but arithmetic." Or as the Greek philosopher Heraclitus said: "To be even-minded is the greatest virtue." As a reminder, growth trounced value in the 1990s, then value went on a seven-year run, outperforming growth by a cumulative 99%. Over the past 12 years, growth has outperformed value nine times. When everyone leans to one side of the boat, equilibrium tends to have a way of shifting. That's an observation, rather than a specific prediction for 2021, or any other arbitrary time period. For the record, we prefer companies with both growth and value attributes, with Morningstar Direct's analysis showing that our portfolio shades more toward value than it did a year ago. By their methodology, 38% of our portfolio was most recently categorized as value, compared to 20% at year-end 2019.

While it was a positive year for stocks, it was also a relatively narrow year. Only four of 11 sectors outperformed the overall S&P 500 index: Technology (+43.9%), Consumer Discretionary (+33.3%, dominated by Amazon), Communication Services (+23.6%. dominated by Google), and Materials (+20.7%). Meanwhile, three sectors finished the year in the red: Financials, Real Estate, and Energy.

As of December 28, the median stock in the Russell 3000® was up just 1%, reflecting the outsized impact that the market's largest companies exerted. Apple, the index's largest constituent, rose 82% for the year, while Amazon (either the second- or third-largest index constituent, depending on the day) shot up 76%. Combined, those two stocks contributed roughly seven percentage points (or 40%) of the S&P 500's total return in 2020. According to Bernstein Research, the 25 largest Technology companies account for 27% of the market, matching the Nifty Fifty stocks at their peak in 1973 and higher than the 23% reached during the dot.com bubble in 2000. The ten largest stocks comprise nearly 29% of the index, well above historical norms.



Source: JPMorgan Asset Management

In general, the best-performing stocks in 2020 fit one of two categories: the first was hyper-growth companies, even those that relied on the capital markets spigot remaining wide open to fund their cash-burn. For example: Tesla, which shot up more than six-fold, despite diluting its shareholders twice in the span of three months. CEO Elon Musk said Tesla is "trying to spend money at the fastest rate that we can possibly spend it." Some of these hyper-growth companies are "pre-revenue," meaning they are little more than concepts or business plans at this point. The panoply of pre-revenue electric vehicle companies reminds us that there probably won't be dozens of winners in that business (newly public Fisker is on its second attempt after having declared bankruptcy once already!) In fact, companies that produce gasoline-powered vehicles have proven to be fairly mediocre investments over a variety of time periods, even for survivors like Chrysler, GM, and Ford – to say little of Edsel, AMC, or Packard.

The second group of high-performing stocks in 2020 were those that were severely impacted by the pandemic, such that investors believe they will snap back sharply in 2021.

In general, most of our companies are steadier, having endured relatively modest COVID-19 impacts in 2020, and are capable of funding themselves through internally-generated cash flows. Among our biggest investment surprises of the year is that the market found such companies relatively less appealing. For example, two of our Technology holdings:

- Bank and payments processor **Fidelity Information Systems.** Its stock generated a 2.8% total return for the year, even as its revenue and earnings held up much better than the "average" company in the market, with accelerating growth anticipated in 2021 and beyond, as banks move their systems to the cloud and higher-margin e-commerce transactions continue to gain share.
- **Genpact** slipped -1% for the year, even as it grew its earnings through a pandemic, and expects to do so again in 2021.

For that matter, **Verizon** gained only 9% since we added it in March, whereas severely impacted and more-leveraged businesses like former holding Aramark more than tripled since March.

Best and Worst Performers

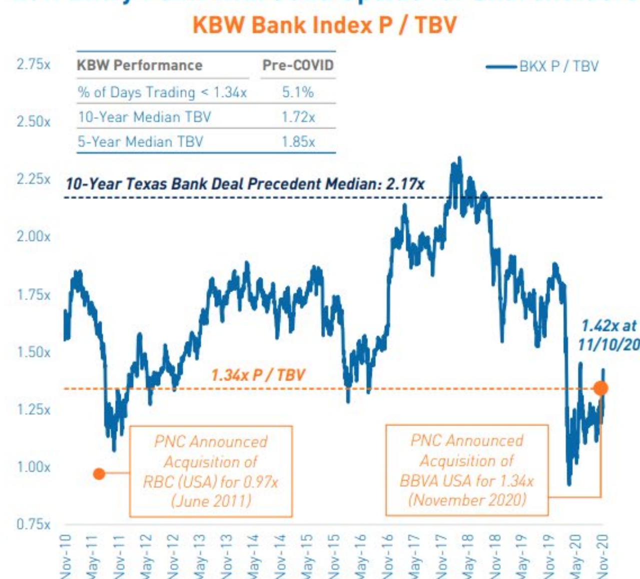
Four of our holdings turned in 30%+ gains for the quarter, with **PNC** leading the way (+36%)**.** The company, which earlier in 2020 monetized its multi-billion dollar stake in Blackrock, announced that it is redeploying those proceeds to purchase the U.S. banking assets of BBVA. PNC expects the acquisition of BBVA to be more than 20% accretive to per-share earnings in the first year after deal closure.

Financially Compelling Transaction

Transaction Summary

Transaction total value	$11.567 billion, all cash
Price to tangible book	1.34x
Deposit premium	3.7%
Earnings per share accretion	~21% in 2022
Internal rate of return	> 19%
Annual expense reduction	~$900 million, expected to be realized in 2022 *(35% of BBVA USA's 2022 expense base)*
Merger and integration costs	~$980 million
Credit marks	3.9% of BBVA USA's estimated loans at closing
Closing conditions	Regulatory approvals & customary conditions
Estimated closing	Mid-2021

Low Entry Point with Solid Upside for Shareholders



– IRR, EPS accretion, expense reduction, integration costs and credit marks are estimates based on due diligence and management projections; approximately 25% of annual expense reduction will be write-offs of capitalized items; KBW Bank Index P / TBV is the daily average of each of the 24 component bank's price to tangible book value; Pre-COVID as of February 21, 2020; Texas Bank precedents with target assets >$1 billion since 2011 9

Source: PNC

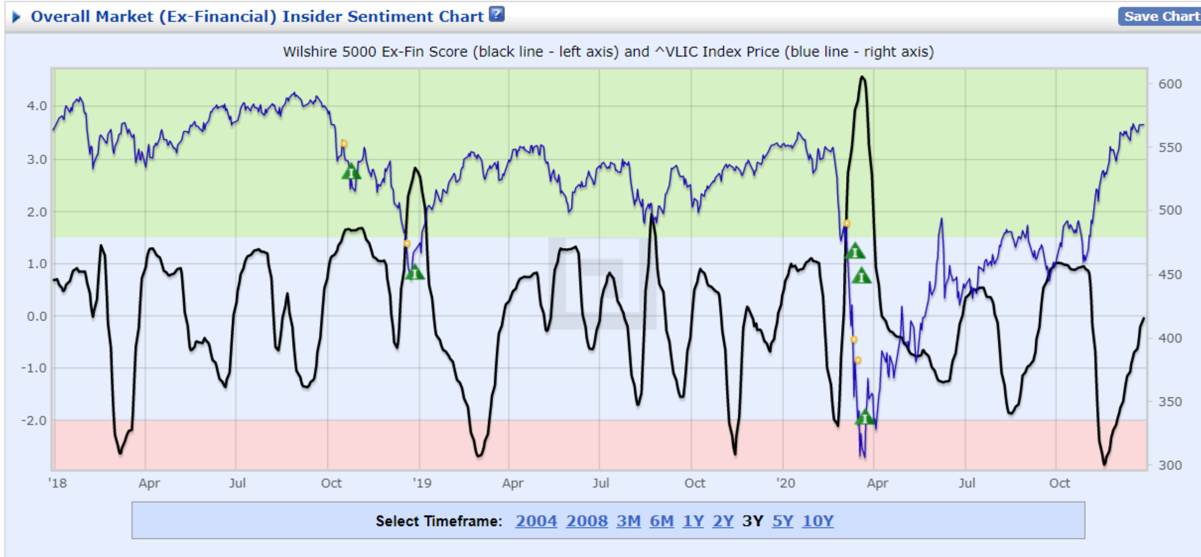
Corteva was the portfolio's second-best performer for the quarter, up 34%. Activist investor Starboard Value took a stake in Corteva, "highlighting the potential to grow margins from the current 14.4% to 23%," according to Bernstein Research. Meanwhile, as Citi Research opines, "The momentum in Ag has support and is somewhat disconnected from the economic recovery." Corn and soybean prices are at their highest levels since 2013-14, and farmers' strong cash position "historically has been highly correlated with price increases in seeds and crop protection chemicals, as farmers are more willing to trade up when they are flush" with cash, according to Bernstein.

Hartford (+33%), purchased in September, was also in the 30% gainer club. Late in the quarter, the company announced a $1.5 billion buyback authorization, enough to repurchase nearly 10% of the company.

Worst performers for the quarter were **Fidelity National** and **Home Depot** (each down -4%), followed by **Humana** and **Verizon** (down -1% each).

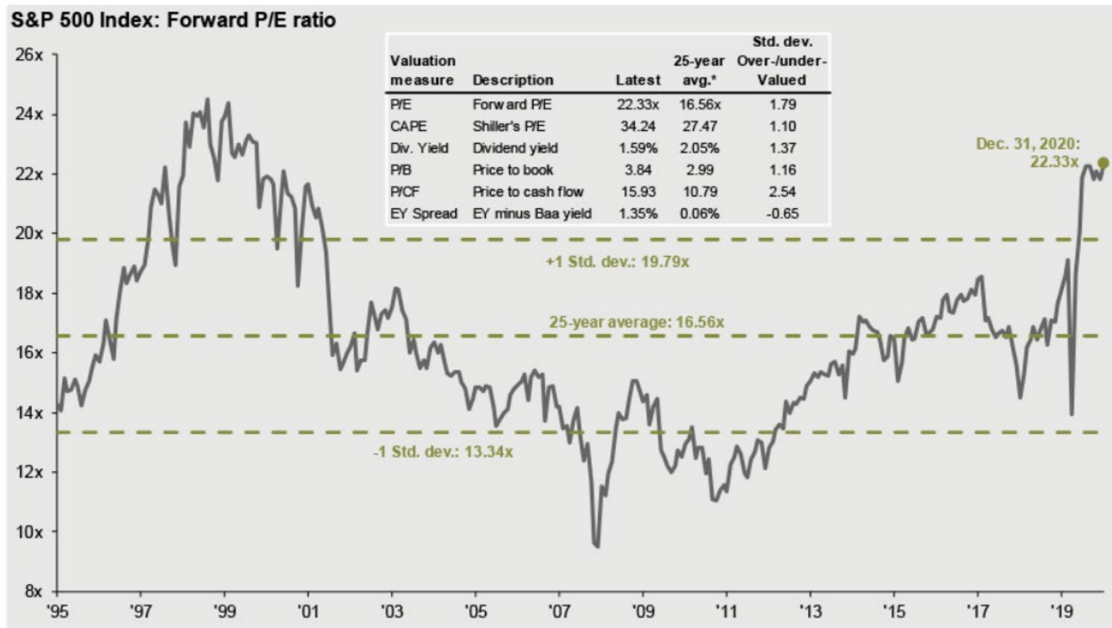
Purchases and Sales

While we've found several attractive holdings for recent purchase, we would be remiss not to mention that insiders sold more stock in November 2020 than in any month on record, while insider buying in that month was the second-lowest in the past two years, according to the Washington Service. Fast forwarding to today, overall insider activity has returned to neutral territory, as shown by the black line in the following chart:



Source: InsiderScore

Perhaps that's a function of valuations, which are higher now than they were pre-pandemic.

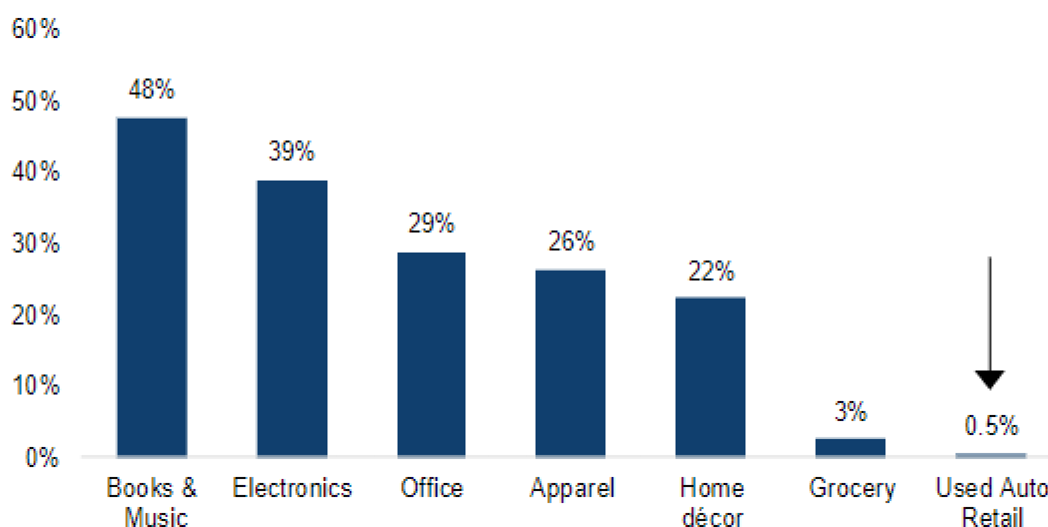


Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	22.33x	16.56x	1.79
CAPE	Shiller's P/E	34.24	27.47	1.10
Div. Yield	Dividend yield	1.59%	2.05%	1.37
P/B	Price to book	3.84	2.99	1.16
P/CF	Price to cash flow	15.93	10.79	2.54
EY Spread	EY minus Baa yield	1.35%	0.06%	-0.65

Source: JPMorgan Asset Management

Regardless of the environment, we seek to fill our portfolio with companies where there *is* insider buying and where valuation *isn't* stretched.

We added used-car retailer **CarMax** to the portfolio in October. In *kicking the tires*, we're particularly enamored of CarMax's opportunity to grow its share through the rollout of omni-channel (i.e., e-commerce) buying and selling. In other words, consumers seeking to trade in a vehicle and/or purchase a vehicle from CarMax will be increasingly able to do so however they choose: in-person at a CarMax location, online, or through a combination of physical and virtual methods. Today, CarMax possesses just 3% market share of the used-car industry, and only 1% of used cars are sold online. We believe the company is broadening its addressable market, and that the percentage of used cars sold online is likely to follow the steep upward trajectory seen elsewhere in e-commerce.

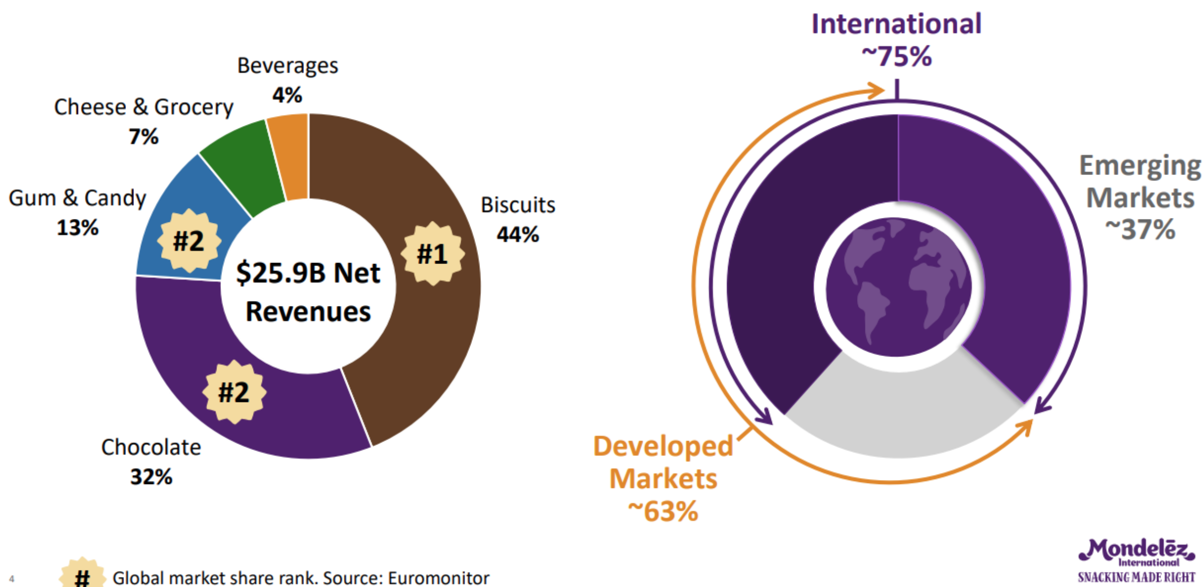


Source: Jefferies

In early October, Board member Mark O'Neil purchased $252,000 of CarMax stock. From 1992 to 2000, he "worked on the development and rollout of CarMax, including as Vice President from 1997 to 2000," according to the company's proxy statement, so he should know the company well. His transaction also looks opportunistic to us, as he joined the company's Board a year ago, but waited until recently to purchase shares.

From a valuation perspective, "CarMax's multiple has fallen back to its historical range with little further downside risk from here," according to JPMorgan, "and is likely to benefit significantly from the omni-channel transformation with benefits to both top line and profitability." For its part, Guggenheim sees "easy compares, [fiscal] stimulus, advertising, and moderated used car pricing" as catalysts that should *drive* "a run of 6-9%" same-store sales growth for the next several years. Evercore ISI believes "faster used unit comps in [2021] should drive multiple appreciation, with KMX at a 20% discount to the S&P vs. the modest premium that we believe is merited in a large and fragmented industry ripe for multi-channel leaders."

Our other purchase in the quarter was snack maker **Mondelez**, which we added to the portfolio in December. We are attracted to the steadiness of its food portfolio, as well as its outsized exposure to higher-growth international markets.



Source: Mondelez

The company boasts nine iconic brands -- including Oreo, Trident, and Cadbury – which are complemented by a variety of national champions, such as Triscuit and Chips Ahoy. In addition, we see several “hidden assets” that the company is monetizing gradually, in the form of its equity stakes in JDE Peet’s and Keurig Dr. Pepper. Proceeds from those divestitures are likely to be steered toward acquisitions and incremental share buybacks – JPMorgan, for example, believes the company may double its historical average buyback pace in each of 2021 and 2022.

Board member Patrick Siewert was a recent insider buyer, and the stock’s discounted multiple (near its lowest ever vs. the S&P 500) offers up a *tasty* opportunity, in our view.

On the sell side of the ledger, we exited animal health company **Elanco**, after its stock surged on news of involvement by an activist investor. Disappointing financial performance caused valuation to rip higher, eroding our perceived margin of safety, especially amid elevated leverage.

We also sold data provider **IHSMarkit** near an all-time high valuation after S&P Global announced it intends to merge (i.e., acquire) IHS. Both Elanco and IHS produced market-beating returns during our ownership.

Company Updates

Constellation Brands consummated its low-price wine divestitures, which leaves the company with a faster-growth profile and less leverage. Stock repurchases should resume imminently.

Humana announced a $1.75 billion accelerated share repurchase program, the largest in its history. **Thomson Reuters** renewed its buyback authorization for up to five million shares, effective January 4, 2021. **Aon** added $5 billion to its share repurchase authorization, and there was additional insider buying at the company during the quarter.

Home Depot is acquiring HDSupply, while **UGI** announced it is buying West Virginia’s Mountaineer Gas Company in a transaction that it expects to be accretive to earnings and free cash flow in the first year of operation.

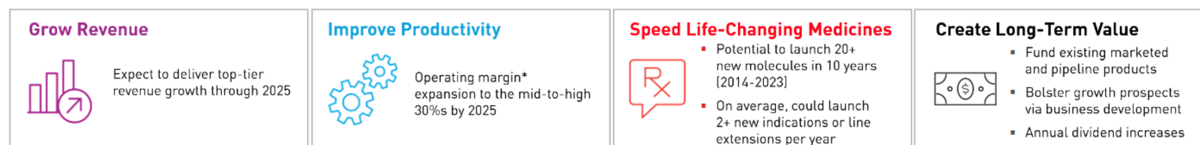
General Dynamics won several large contracts during the quarter, including $4.6 billion to supply tanks to the U.S. Army, $9.5 billion to manufacture submarines for the U.S. Navy and $4.6 billion of cloud computing services for various federal government agencies. These strike us as sizable relative to a company with an existing backlog of $81 billion and a market value of just $45 billion.

Cooper is rolling out its MiSight pediatric contact lens program to the United Kingdom, Russia, Spain, Portugal, Taiwan, and South Korea, following success in Canada and the United States. The company possesses a "multi-year lead in the U.S. for a [pediatric] soft contact lens," according to Raymond James, and "with more screen time for children, we are optimistic that there will be increasing momentum in the market over the coming years." Stifel Research provides the analogy that "MiSight is to a subset of Optometrist practices what Invisalign was to General Dentistry 15 years ago."

Visa *rang the register* for a 7% year-over-year dividend increase, while **FMC** *fertilized* a 9% bump, **Huntington Ingalls** *floated* an 11% increase, and **Eli Lilly** *injected* a 15% boost to its quarterly payout.

Lilly's late-stage clinical trial for *tirzepatide* succeeded in achieving diabetes and weight-loss reduction goals, paving the way for a likely multi-billion dollar blockbuster product. The company also announced that the federal government ordered 300,000 vials of its COVID-19 antibody *bamlanivimab* for $375 million, with an option to purchase up to an additional 650,000 vials through June 2021 at comparable financial terms. The company's initial guidance for 2021 came in significantly better than prevailing Street expectations.

- **Volume-based double-digit revenue growth driven by portfolio of new medicines**
- **Operating margin* of 32% reflects continued progress on productivity**
- **Our innovation-based strategy continues to deliver results, with a number of key data readouts, including additional tirzepatide studies in type 2 diabetes, the potential for several key NILEX approvals, and LOXO-305 Phase 3 initiation**
- **Third consecutive year of 15% dividend increase reflects confidence in outlook**



*Non-GAAP

Source: Eli Lilly

Conclusion

In terms of positioning, the Insight portfolio's most-significant sector overweights are Financials and Healthcare. While the Healthcare sector was a middling performer in 2020, it trades "at a multi-decade discount to the S&P 500, despite having the least negative 2021 EPS revisions of any sector YTD [2020] and strong EPS growth potential," according to Goldman Sachs. Thus, we see a constructive risk/reward, and think our holdings are well-positioned for shareholder value creation. As Joseph Robillard of HHR Asset Management said: "Successful investing is about having everyone agree with you – later."

What should we do in 2021? How will stocks perform under a new presidential administration? Will growth again top value, or will there be a reversion to the mean? We won't pretend to have a crystal ball. What we will do is continue to manage Insight the way we have since inception: by investing in companies where insiders are signaling with their own money that they view their companies' stock as attractive. Incentives motivate behavior, and insiders who purchase their companies' stock have extra incentive to generate performance that fuels share price outperformance.

"If you win, do not boast of your victory. If you lose, do not be discouraged. When it is safe, do not be careless. When it is dangerous, do not fear. Simply continue down the path ahead." Those words come from Kano Jigoro, the founder of Judo. As we steer the portfolio in the future, we strive to follow his sage advice, which seems as relevant to investing as it does to martial arts.

As the calendar turns to 2021, we hope the New Year brings much happiness and especially health.

Adam Bergman, CFA®
Portfolio Manager

Performance Disclosure: *Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the investment management fees and trading expenses. Gross of fees performance returns reflect the deduction of trading costs; a client's return will be reduced by the management fees and other expenses it may incur. Investment management fees are described in Sterling's Form ADV 2A. Performance reflects the reinvestment of interest income and dividends and realized capital gains. The performance presented represents past performance and is no guarantee of future results. Performance is compared to an index, however, the volatility of an index varies greatly and investments cannot be made directly in an index. Market conditions vary from year to year and can result in a decline in market value due to material market or economic conditions. The Performance is considered Supplemental Information to the Composite Disclosure Presentation which is attached.*

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

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

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

The 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 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.*

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 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).* ***Free cash flow (FCF****): 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. In other words, FCF measures a company's ability to produce what investors care most about: cash that's available to be distributed in a discretionary way.* ***EBITDA:*** *EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization and 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.* ***Net Debt-to-EBITDA:*** *The net debt-to-EBITDA ratio measures a company's ability to pay off its liabilities. It shows how much time the company needs to operate at the current debt and EBITDA levels to pay all of its debt. (Technical definitions are sourced from Corporate Finance Institute.)*

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Sterling Capital Management – Insight SMA Composite

August 31, 2011 – December 31, 2019

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 ($MM)	Percent of Firm Assets	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 1000 Index	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2019	34.77	33.19	49	21	0.0	58,191	0.71	31.43	11.28	12.05
2018	-4.10	-5.26	51	16	0.0	56,889	0.38	-4.78	10.79	10.95
2017	25.37	23.78	57	18	0.0	55,908	0.35	21.69	9.18	9.97
2016	10.39	8.88	146	33	0.1	51,603	0.30	12.05	9.92	10.69
2015	5.14	3.69	116	29	0.1	51,155	0.25	0.92	9.35	10.48
2014	7.41	5.88	134	29	0.1	47,540	0.24	13.24	9.42	9.12
2013	28.48	26.64	121	27	0.1	45,638	0.24	33.11		
2012	17.74	16.17	74	14	0.3	4,422	0.08	16.42		
2011 (Inception 8/31/11)	4.86	4.62	2	0	0.0	3,932		3.50		
Annualized Since Inception	15.00	13.50						14.66		

Sterling Capital Management LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sterling Capital Management LLC has been independently verified for the periods 01/01/01 to 12/31/19. 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. 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 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.