COMMENTARY
SMID Opportunities SMA | 4th Quarter 2020

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 whose market capitalization falls within the range 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 Summary and Review

During the fourth quarter, the SMID Opportunities portfolio gained 16.8% (gross of fees) and 16.4% (net of fees), the second best quarterly return since inception (2Q20 was slightly better), while also trailing the Russell 2500 by the widest quarterly margin since inception, as the index delivered a record-setting 27.4% increase. For 2020, the SMID Opportunities portfolio gained 7.4% (gross of fees) and 6.1% (net of fees), but, largely due to trailing in 4Q, the portfolio lagged the Russell 2500's 20.0% increase. For what it's worth, the median Russell 2500 constituent gained less than 1% in 2020.

With the benefit of hindsight, we were too risk-averse. The year was bookended by the all-time records for lowest and highest quarterly returns for small caps. The portfolio held up better than the benchmark during the first quarter collapse and, as the pandemic unfolded, we opportunistically recycled capital into new and existing high-quality franchises, a strategy which has been in our playbook for nearly a decade. While all of our new additions in the first half of the year rose into year end, they struggled to keep pace with the torrid rebound in companies that were under more duress or that were unprofitable. For example, we added insurance broker **AJ Gallagher** on April 1, which gained 57% from our purchase into year end, but trailed the 81% gain for benchmark. Since March 31, unprofitable companies in the Russell 2500 gained 122%, and the most-levered quintile in the index gained 90%, according to Bloomberg.

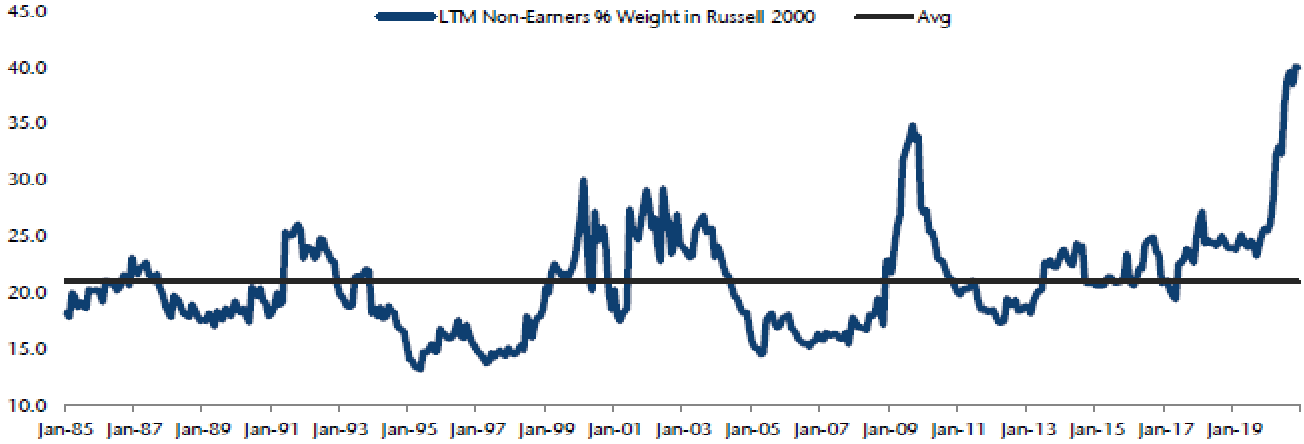
We were aware of the possibility that attempting to upgrade the portfolio could result in trailing the market in a steep V-shaped recovery, as such rallies are typically led to by lower-quality companies. However, W-shaped, U-shaped, or Nike swoosh-shaped recoveries were also possibilities and, in such environments, higher-quality businesses tend to be more resilient. Taking a longer-term view, quality compounders deliver better medium- and long-term performance, as profits and cash flows compound more rapidly and consistently. The median SMID Opportunities holding is expected to generate EPS in 2022, which is 34% higher than 2019 versus the median Russell 2500 company growing EPS just 2% over that same period.

"The markets are moved by animal spirits, and not by reason." – John Maynard Keynes

Surprisingly, despite the unprecedented disruption in the economy and equity markets early in the year, the environment was also ripe with speculation. Private companies jumped at the chance to take advantage of extreme valuations for immature, but rapidly growing, businesses, irrespective of the timeline for profitability. Companies raised $167 billion via 454 initial public offerings (IPOs) on U.S. exchanges, topping the $108 billion calendar-year record set during the Tech Bubble in 1999, according to Dealogic. More IPOs doubled on their first day in 2020 than in any year since 2000. Since 2000, the cumulative number of first-day doubles is just 27, compared to 19 first-day doubles in the year 2020. Biotech funding topped $133 billion, more than double 2019's $58 billion and well-above the $70 billion five-year average. While we understand the allure of investing in companies researching treatments and vaccines for COVID-19, many of these companies have never produced revenues, let alone profits.

Companies within the Russell 2500 who were expected to lose money in the year ahead returned 55%, compared to the index's return of 20%, according to Bloomberg. Note that the weight of non-earners in the Russell 2000 is the highest ever, near 40% (see top chart on the following page). Constituents that traded above 10x price-to-sales at the start of the year returned 52%, also according to Bloomberg. Therefore, the portfolio's mandate to invest in profitable companies amidst what might be considered "irrational exuberance" resulted in a substantial headwind for the portfolio.

Record High Weight for Non-Earners in the Russell 2000



Source: FactSet, FTSE Russell, Jefferies

4Q20 Contributors and Detractors

Top Contributors	GICS Sector	Contrib. to Return
SLM	Financials	2.38
F5 Networks	Info Technology	1.27
Universal Health Services	Health Care	1.24
Global Payments	Info Technology	1.18
Teleflex	Health Care	1.01

Top Detractors	GICS Sector	Contrib. to Return
Akamai Technologies	Info Technology	-0.26
Waste Connections	Industrials	-0.05
MagnaChip Semiconductor	Info Technology	-0.04
Alaska Air	Industrials	-0.03
Premier	Health Care	-0.01

Source: FactSet, Sterling Capital

Top contributors:

- **SLM (+54%)** rallied, as investors' election-related concerns faded – we never considered student loan forgiveness or free tuition as likely outcomes. Third quarter results were aided by loan originations at the high-end of previous guidance and a $3.6 million reserve release, as assumptions embedded in 2Q provisions proved too dire. CEO Jonathan Witter noted market conditions should support further sales of the loan portfolio to fund additional buybacks once the existing program is completed in 1Q21.

- **F5 Networks' (+43%)** Investor Day highlighted a rapid growth outlook (software revenues are expected to grow 35%+ in fiscal 2021), driven by the proliferation of modern applications in containers or that are cloud-native (estimated to grow at a 36% compound annual growth rate (CAGR) to 2023). F5 enables the development of modern applications, the delivery of the applications on-premise or remotely, and secures applications. Management believes application security will be the fastest-growing security segment, since applications contains the most value. Substantial cash flow generation is expected to enable continued growth investments as well as sizable share repurchases. Management guided to $500 million in buybacks for each of the next two years, and half of annual free cash flows thereafter.

- **Universal Health Services' (+28%)** Sun Belt-based hospitals saw accelerating COVID-19 cases throughout the third quarter, but didn't experience the same level of non-COVID-19 admission declines seen earlier in the year. Still, acute facility admissions were down 17.3% year-over-year, which was more than offset by higher acuity driving a 26.2% increase in revenue-per-admission. Patients going to hospitals are sicker and in greater need of urgent care. Looking to 2021, we see the potential for volumes to rebound as vaccines are deployed and UHS's behavioral unit is (unfortunately) likely to see strong demand due to COVID-19 impacts.

- **Global Payments' (+21%)** technology-enabled merchant acquiring solutions are helping the company gain share across most/all of its business lines. Management highlighted its AWS partnership, which triples its addressable market by expanding the geographic footprint and enabling frictionless digital experiences in e-commerce. The board increased the repurchase authorization to $1.25 billion, and management mentioned more than once on its earnings call that, at current prices, the stock was a "compelling opportunity."

- **Teleflex (+21%)** rebounded, despite a cautious 4Q outlook, as investors looked to growth in 2021. The acquisition of Z-Medica, a provider of hemorrhage control products that reduce time to hemostatis by 94 minutes (compared to standard gauze) should add two points to what already appeared to be above-trend growth next year.

Top detractors:

- **Akamai Technologies (-5%)** ended the year up 23%, but all of the gain and then some occurred in the first nine months. The company was viewed as a work-from-home beneficiary, and as a result, the stock didn't participate in the vaccine-related rally into year end. We believe tailwinds are sustainable in its cybersecurity and content delivery network businesses, and its discount to pure plays in each of those segments should narrow.

- **Waste Connections (-1%)** didn't participate in the rally, presumably because it already had a nice year-to-date gain, and waste collection may not be considered a "recovery" play. However, we believe strong pricing will persist, while volumes will face easier comparisons beginning in the second quarter of 2021, which could result in accelerating profit growth.

- **MagnaChip Semiconductor (-6%)** was added in mid- to late-December, and therefore had minimal time to contribute to quarterly returns. Our rationale is provided below.

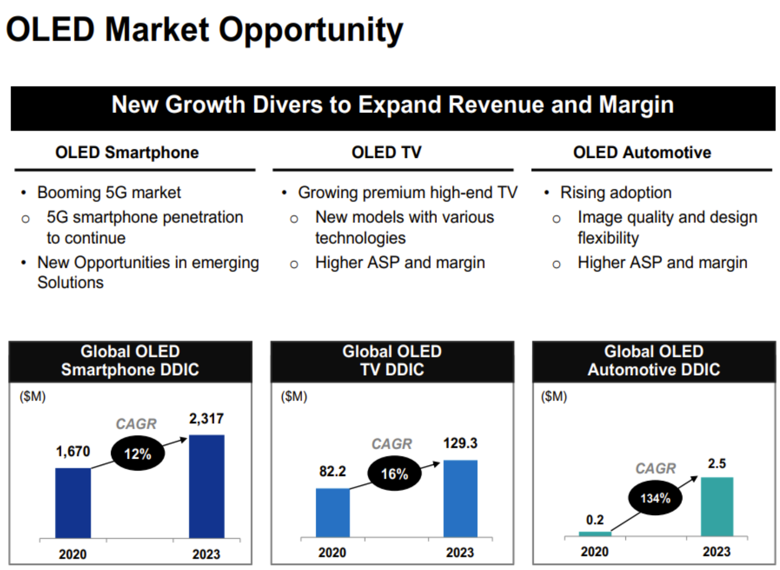
- **Premier (-2%)** was a small position that we sold during the quarter, causing its contribution to be immaterial.

- **Alaska Airlines (-3%)** was sold in October, and therefore we missed the vaccine-related rebound into the end of the year.

Portfolio Changes

We added three new holdings and sold two, adding exposure to secular growth areas such as OLED displays (organic light-emitting diodes) and 5G, information services and data and analytics, as well as the growing attention, research and capital flows related to private equity markets and ESG (environmental, social and governance).

We added MagnaChip, which designs analog and mixed-signal semiconductors for display drivers and power management in a variety of end markets. Medium-term growth is expected to be driven by display drivers for OLED displays used in smartphones. OLED display advantages include extended battery life, thinner and lighter phones, the ability to stretch the screen across curved edges of phones, and enabling foldable and roll-up capabilities. MagnaChip is the leading non-captive provider of chips that control OLED displays, a market expected to grow at a double-digit CAGR through 2025. Despite this attractive growth tailwind and an enviable net cash position that represents 46% of its current market capitalization, the stock trades at a discount to the market at 17.7x 2021 consensus EPS estimates. The discount is more startling when the balance sheet is incorporated, such as its Enterprise Value (market capitalization plus net debt) to EBITDA (a proxy for cash flow) multiple of less than 4x 2021 consensus estimates.



Source: OMDIA Q2'20

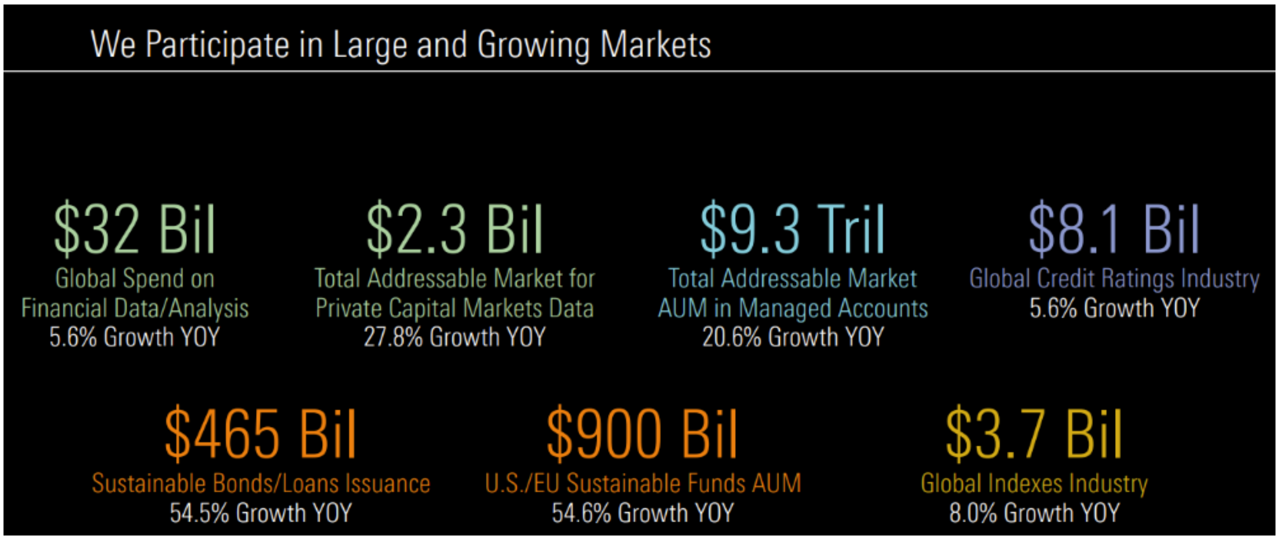
Don't let the company's sub-$500 million market cap fool you. MagnaChip has a lengthy operating history, with nearly 3,000 patents and a leading position (33.2% share) in the non-captive market for OLED display drivers. MagnaChip was also the first to develop High Frame Rate (HFR) OLED display drivers used in 5G smartphones. OMDIA, a global market research firm, estimates 5G smartphone shipments will reach 200 million units in 2020, double in 2021, and grow five-fold to one billion units by 2023. Revenue from 5G smartphones represented 20% of total OLED revenues in the first half of the year, before jumping to 40% in the third quarter.

If/as the company achieves its 2023 aspirations, we think shareholders could be handsomely rewarded. The plan to grow the top-line by double-digits and deliver a free cash flow margin of at least 8% would result in a free cash flow yield on current enterprise value (market capitalization minus net debt) of 19.6%. With little sell-side coverage, we think MagnaChip is misunderstood and that the upcoming Investor Day in 1Q21 could provide clarity on management's vision and capital allocation plan. We suspect a substantial buyback will be forthcoming.

We added **TransUnion**, a leading credit reporting agency that transformed into a diversified risk and information solutions provider of credit, public and alternative data assets on a next-generation IT platform. The company has a robust database of information, spanning disparate data sources to provide a more holistic view of consumers' identities. TransUnion's addressable markets have broadened to include healthcare, insurance, fintech (where it holds the leading position), media, telecom and the public sector, as well as high-growth and strategic international markets. Expanding addressable markets provide a long runway of growth with high incremental margins. TransUnion's mission-critical data and analytics are embedded in businesses' workflow to acquire customers, assess which customers are worth capturing, identify cross-selling opportunities, and manage collections and potential fraud.

The annual report provides an excellent summary of why we're attracted to this business: "We believe we have an attractive business model that has highly recurring and diversified revenue streams, low capital requirements, significant operating leverage and strong and stable cash flows… high customer retention and revenue visibility… we typically obtain updated information including a growing set of public record and alternative data at little or no cost."

Morningstar has a strong brand with a wide-moat franchise, mostly subscription-based revenues, and participates in large and growing markets. The company's track record of success is supported by the stock outperforming over nearly every time period since its IPO in 2005. Aside from its firmly entrenched core businesses that provide data and research, we're attracted to the company's secular growth opportunities in private market data (via Pitchbook), ESG research and scoring (via Sustainalytics), and establishing itself as a fourth alternative in the $8 billion credit ratings industry (via Morningstar DBRS).



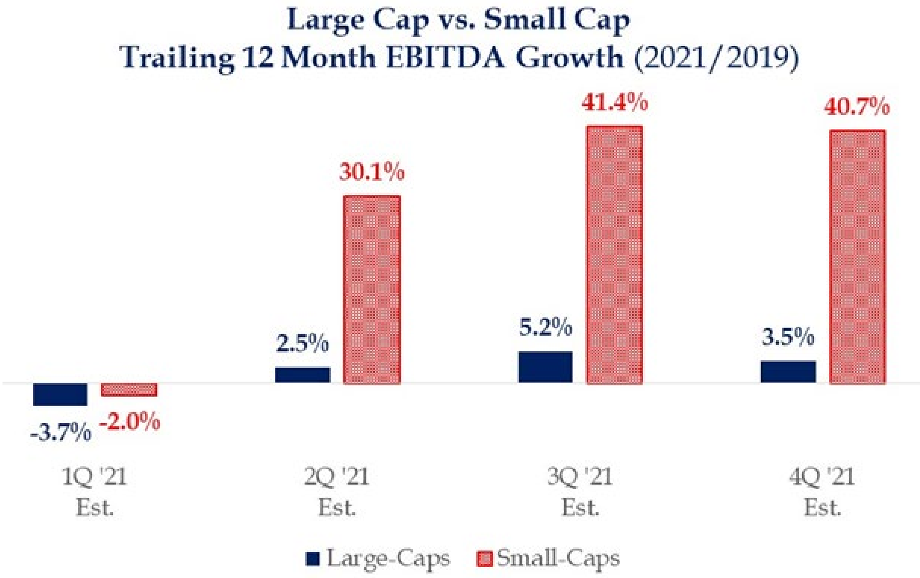
Source: Morningstar

We sold Alaska Airlines as it rebounded from the nadir of the pandemic. Management did an enviable job of shoring up the balance sheet and taking care of its employees, while trying to navigate possibly the most challenging environment for air travel ever, including post 9/11. However, we remained concerned about the timeline for a return to air travel, what utilization will be going forward, and potential further dilution.

We sold healthcare group purchasing organization (GPO) **Premier** after it reset contracts with 96% of its net administration fee customers. New contracts include much higher revenue share arrangements, lowering revenue and EBITDA by $100-$110 million. The restructuring eliminated the dual-class structure, which was rumored to be an obstacle for potential acquirers. Even so, we can't hang our hat on that outcome, and the reduced profitability of the GPO business along with execution issues in its Performance Service segment led to our exit.

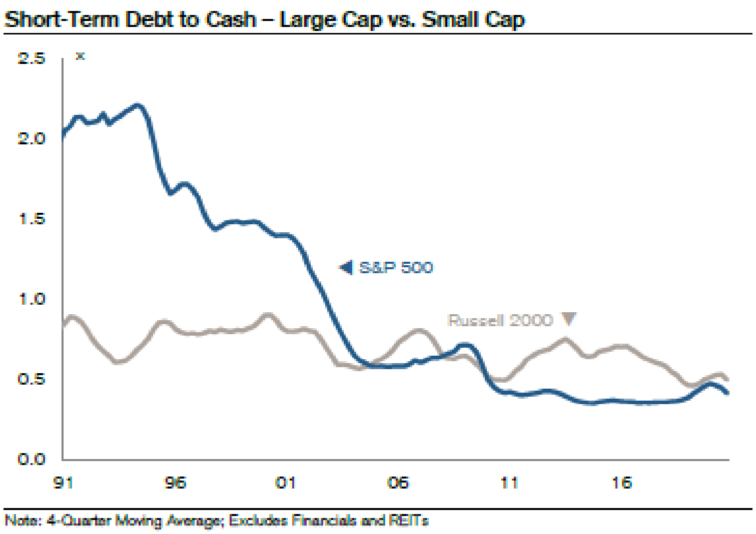
Conclusion

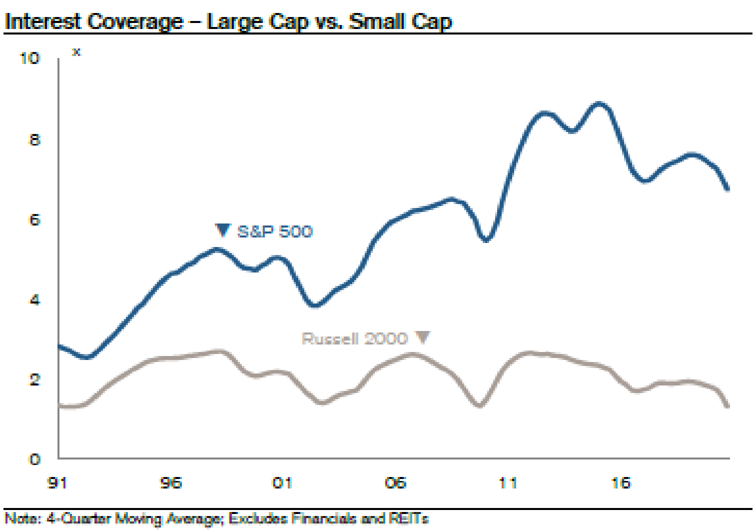
A rotation to small- and mid-cap companies is underway. We see a potential continuation of that trend, as smaller companies are expected to grow profits and cash flows at a much more rapid pace than their larger peers in 2021, albeit from depressed 2020 levels. That said, 2019 to 2021 earnings and sales growth estimates are better for small caps than large caps.



Source: Strategas

Should small- and mid-cap stocks continue to lead, we'd expect the rally to broaden out. The initial stages of recoveries are typically led by speculation, e.g., investors looked the other way regarding companies' balance sheets in 2020, leading to the highest leverage and lowest interest coverage in more than 30 years. We suspect the next phase of the recovery might involve a focus on valuations, financial flexibility and consistency of profits.





Source: Standard & Poor's, FactSet, Credit Suisse

Our companies are consistently growing faster, trade at a discount, are more profitable, and operate with more conservative balance sheets than the median Russell 2500 constituent. The fact that the median portfolio holding is expected to grow earnings in 2020 at a high single-digit rate and generate double-digit growth in 2021 and 2022 illustrates the resiliency and consistency of the businesses and provides greater confidence in our companies, regardless of the economic environment.

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	22 EPS vs '19 EPS	22y P/E	22y EV/ EBITDA	22y EV FCF Yld	ROE	EBITDA Mgn	Interest Coverage	Leverage
SMID Median *	7%	13%	12%	12%	35%	17.7	12.6	4.5%	15.2	22.9	5.3	1.6
R2500 Median	-13%	6%	11%	4%	2%	19.9	12.4	3.8%	4.2	10.0	1.9	2.5
vs Benchmark	20%	7%	1%	8%	32%	-11%	2%	17%	264%	128%	179%	-35%

**Representative account. Source: Bloomberg*

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

Josh Haggerty, 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. "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 2500™ Index *measures the performance of the small to midcap segment of the U.S. equity universe, commonly referred to as "SMID" cap. The Russell 2500™ Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500™ Index is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.*

Technical Terms: ***Free Cash Flow (FCF)****: measures a company's financial performance. It shows the cash that a company can produce after deducting the purchase of assets such as property, equipment, and other major investments from its operating cash flow.* ***Compound Annual Growth Rate (CAGR)****: the measure of an investment's annual growth rate over time, with the effect of compounding taken into account. It is often used to measure and compare the past performance of investments, or to project their expected future returns.* ***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.* ***ESG****: ESG is the acronym for Environmental, Social, and (Corporate) Governance, the three broad categories, or areas, of interest for what is termed "socially responsible investors." They are investors who consider it important to incorporate their values and concerns (such as environmental concerns) into their selection of investments – as opposed to simply considering the potential profitability and/or risk presented by an investment opportunity. (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 - SMID Opportunities SMA Composite

June 30, 2011 – December 31, 2019

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 Index	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2019	36.12	34.46	27	8	0.0	58,191	1.01	27.77	12.28	14.58
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	11.04	9.71						10.78		

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. 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.