COMMENTARY
Special Opportunities SMA | 4th Quarter 2020

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

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

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

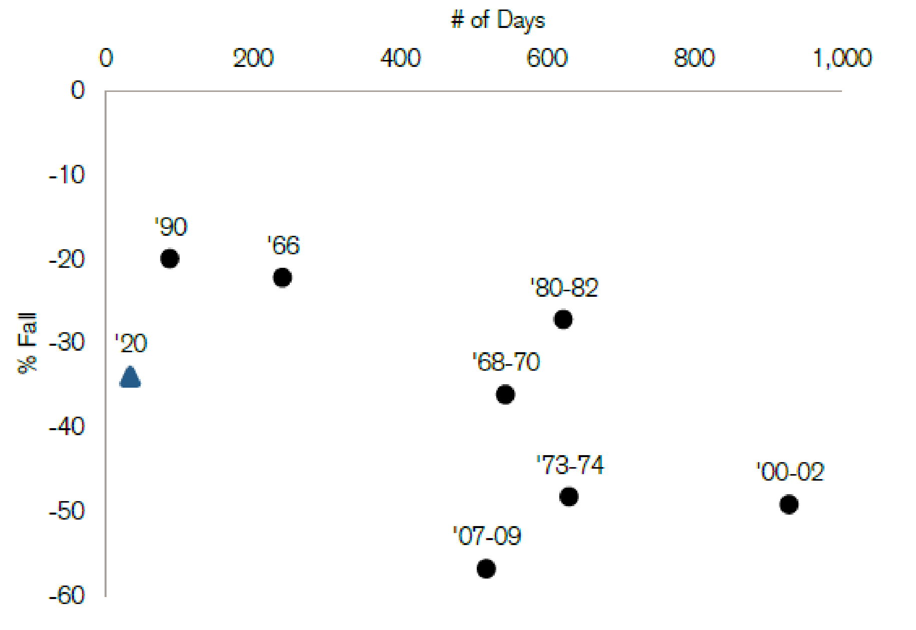
Consistent with our endeavor to generate above-average returns with below-average risk, when compared to the overall equity market, we must "dare to be different" from our benchmark. In industry parlance, our portfolio demonstrates high "active share," meaning our philosophy offers the statistical opportunity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

Performance Summary and Review

The Special Opportunities portfolio gained 16.1% (gross of fees) and 15.7% (net of fees) in the fourth quarter, outperforming the Russell 3000® Index's 14.7% increase. Despite outperforming in the final three quarters of the year, gaining +54.3% (gross of fees) and +53.0% (net of fees) versus +52.8% for the Russell 3000, the portfolio trailed for the full year, gaining 15.2% (gross of fees) and 13.9% (net of fees) versus the Russell 3000's 20.9% increase. The portfolio has delivered double-digit annualized returns over 1, 2, 3, 5, 10 years and since inception. This has certainly met our long-term hurdle rate and hopefully yours as well.

In early 2020, we were confronted with a global pandemic, the U.S. recession and the quickest bear market in history.

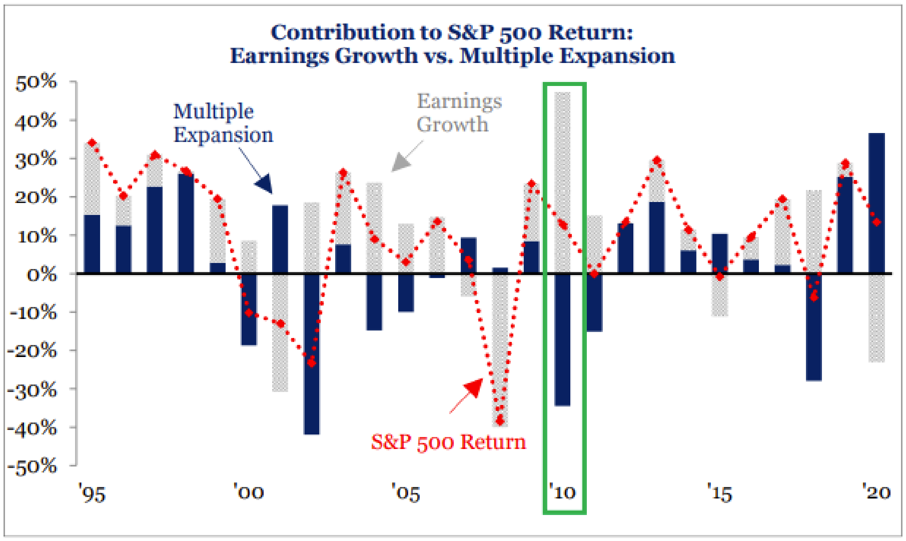
Peak to Trough Market Declines around Recessions



Note: Price return

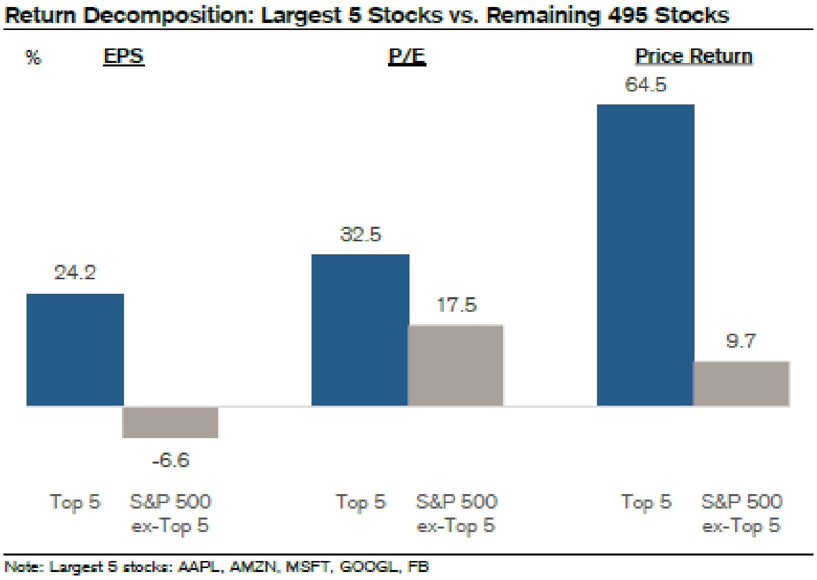
Source: Standard & Poor's, Haver Analytics®, Credit Suisse

Lessons from the financial crisis prompted Congress to urgently pass unprecedented stimulus of $2 trillion dollars, and the Fed to lower the funds rate to zero and to expand its balance sheet by $3 trillion to $6.7 trillion, all of which contributed to the shortest bear market ever and the best quarterly return for stocks in 22 years (+22.0% in 2Q20). Despite a contentious presidential election, resurgence in COVID-19 cases, and Congress's inability to agree on an additional outsized stimulus package, equities delivered a mid-teens percentage return in 4Q20 that was sparked by COVID-19 vaccine approval for Pfizer and Moderna. All together, 2020 was a stellar year for equities. In fact, 2019 and 2020 combined for the best two years for stocks since the late 1990s, despite minimal earnings growth in 2019 and substantial earnings declines in 2020. Thus, multiple expansion was responsible for nearly all of the market's gains (shown by the dark blue bars in the chart below).



Source: Strategas

Highlighting the substantial volatility, if you missed the five best days of the S&P 500® Index in 2020 you would have been down 21%, or 35% below the actual return. Additionally, illustrating the concentration in the market, if you owned all but the largest five stocks in the S&P 500, which gained 65%, you would have been up only 10%. Meanwhile, the median Russell 3000 constituent was up less than 1%.



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

Growth was THE key factor for 2020 returns, with the Russell 1000® Growth Index outperforming Russell 1000® Value Index by 36%, the widest margin on record. High quality stocks, categorized by the S&P's quality ratings, gained 10.5%, and trailed the market by nearly 10%. The cheapest quintile of Russell 1000 constituents fell 9.4%, while the most expensive gained 49.5%, based on P/E.

4Q20 Contributors and Detractors

Top Contributors	GICS Sector	Contrib. to Return
NXP Semiconductors	Info Technology	1.28
PTC	Info Technology	1.27
F5 Networks	Info Technology	1.21
HCA Healthcare	Health Care	1.15
Capital One Financial	Financials	1.10

Top Detractors	GICS Sector	Contrib. to Return
Akamai Technologies	Info Technology	-0.27
Lennar	Consumer Dis.	-0.21
Boston Scientific	Health Care	-0.16
Gilead Sciences	Health Care	-0.10
Rackspace Technology	Info Technology	0.02

Source: FactSet, Sterling Capital

Top Contributors:

- **NXP Semiconductor's** 3Q results were significantly better than expected, but the stock's 27% 4Q gain was sparked by investors' focus on a post-COVID-19 world. NXPI derives half of its revenues from the cyclical automotive industry, which is expected to see a production snap back in 2021. In addition, NXP's content per vehicle continues to increase, driven by growth in autonomous vehicle applications and electric vehicle demand. As a result, management expects NXP to continue growing faster than the market. As leverage falls below the 2x target, share repurchases are expected to resume.

- **PTC** delivered its third consecutive year of double-digit ARR (annualized value of renewal customer arrangements) growth. The value proposition of its cloud-based offerings is rapidly gaining traction. OnShape, the only multi-tenant, cloud-native computer aided design (CAD) program in the marketplace, saw its pipeline increase six-fold year-over-year. In December, PTC announced the acquisition of Arena Solutions, bolting on a leading provider of cloud-based product lifecycle management (PLM) software.

- **F5 Networks'** investor day highlighted an accelerating growth outlook. Software revenues are expected to grow 35%+ in fiscal 2021, driven by the proliferation of container-based and cloud-native applications, estimated to grow at a 36% compound annual growth rate (CAGR) to 2023. F5 enables the development, delivery, monitoring, management and security of legacy and modern applications. 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.

- **HCA**, the largest health system operator, provided guidance for 2021 that topped sell-side estimates. Higher acuity and favorable payer mix are expected to continue to offset soft volumes heading into 2021. In-patient surgery volumes fell 6.8% in 3Q, but volumes in September recovered to within 1% of the prior year's levels. Additionally, out-patient surgery volumes were up in September, versus down 12% in July and August.

- **Capital One** is benefiting from a benign credit environment that led to a $390 million reserve release last quarter and a $637 million year-over-year decline in credit card provisions. While card balances are down, management noted spend was up in September. Meanwhile, consumer loan balances were up 11% led by auto originations, up 10%.

Top Detractors:

- **Akamai** ended the year up 22%, 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. However, we see sustained secular tailwinds in its content delivery network and cybersecurity. In fact, both businesses trade at substantial discounts to pure-play peers, resulting in an attractive sum-of-the-parts proposition. Cybersecurity in particular doesn't get enough credit, but reached a scale ($1 billion+ in sales growing 20%+) that will be increasingly hard to ignore.

- **Lennar** fell, despite reporting strong fiscal 4Q results and providing fiscal 2021 guidance above sell-side expectations. Orders rose 16%, and guidance for community count growth of 10% in fiscal 2021 suggest continued growth ahead. Management is executing its plan to reduce land supply, down to 3.9 years from 4.5 a year ago, and to increase lots controlled via options, up to 39% from 25% two years ago. Significant free cash flow and recent debt pay down reduced leverage to the lowest level in the company's publicly traded history, opening the door to buybacks.

- **Boston Scientific** followed up an investor update that included a push out of two key transcatheter aortic valve replacement (TAVR) products in development, with an announcement that development of one of the two products, Lotus, would be halted. While disappointing, the move isn't expected to meaningfully alter profitability. As elective procedures return in 2021, Boston Scientific could see outsized growth against easy comparisons.

- **Gilead** fell out of favor, as positive vaccine news soured sentiment for its COVID-19 therapy, Remdesivir. However, given the tripling of the hospitalization rate to 15 per 100,000, Remdesivir's 4Q sales could come in well above of guidance and consensus estimates. During the quarter, management made the decision to stop pursuing the development of Filgotinib for rheumatoid arthritis, which didn't aid investor confidence regarding management's capital allocation. Investors were still digesting the $21 billion acquisition of Immunomedics announced in 3Q when the December announcement of the $1.4 billion MYR Pharmaceuticals acquisition hit the tape. Immunomedics bolsters the oncology portfolio, while MYR adds to Gilead's hepatitis portfolio.

- **Rackspace**, added during the quarter, generated a gain but was too small to provide a material contribution to performance in a quarter with sizeable gains.

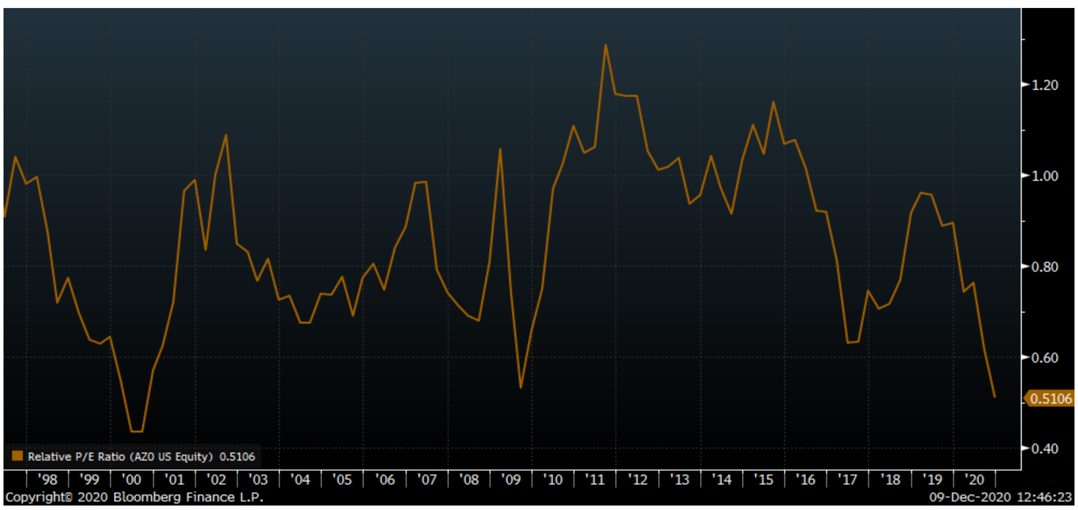
Portfolio Changes

We added three new positions, increasing exposure to public and private cloud, as well as an auto parts supplier expected to see growing demand from an aging auto fleet, and a defense contractor.

We added **AutoZone (AZO)** in December, after the company reported its second-best quarterly same-store sales growth in the company's history, +12.3%. The company is the leader in Do-It-Yourself (DIY) auto parts, with 6,000+ stores. The business is highly recurring, as 84% of sales are derived from maintenance and parts failures. While the DIY segment is slower growing and facing greater competition from online competition, Autozone is rapidly growing its commercial business, or Do-It-For-Me (DIFM). This segment is largely comprised of selling parts to professional mechanics. Importantly, AutoZone's commercial customers are more focused on parts availability, service and speed of delivery than price, areas where Autozone offers a clear and sustainable competitve advantage versus online competitors, in our view. There are four large players in the DIY and DIFM markets, but collectively, this group only has 33% and 16% share, respectively, providing fertile ground for consolidation and further share gains. Autozone repurchased 85% of its shares since 1998 and we expect continued repurchases ahead, supported by a new $1.5 billion authorization shortly after our entry.

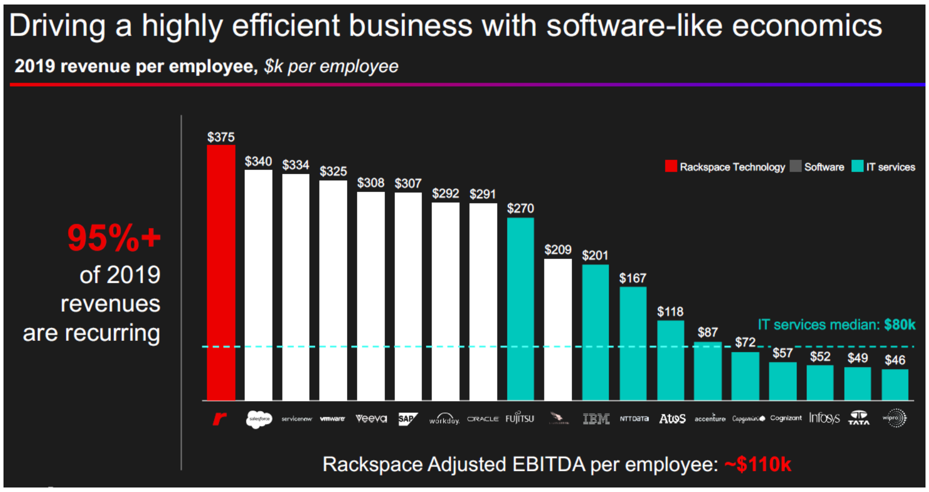
We see double-digit EPS growth over the medium-term, irrespective of whether that level is achieved during fiscal 2021's difficult comparison to fiscal 2020's 22% growth. The company's 32% return on invested capital (ROIC) ranks in the top 3% of Russell 3000 constituents. In fact, AZO was one of just three stocks in the Russell 3000 with a ROIC greater than 30%, and that's expected to grow EPS in fiscal 2020, despite having a negative year-to-date stock return. Its relative P/E ratio was the lowest since 2000, offering an attractive entry point, in our view.

AZO's Price to Earnings Ratio Relative to the S&P 500



Source: Bloomberg

We added **Rackspace (RXT)**, a cloud-focused managed services provider with more than 120,000 customers. Rackspace helps customers design, manage and migrate enterprise IT systems to public, private, hybrid and multi-cloud environments. Part of its competitive advantage is its cloud-vendor agnostic approach, partnering with all of the major service cloud providers. In addition, over $1 billion invested in research and development during the past decade resulted in nearly two-thirds of workloads becoming automated, driving further differentiation and industry leading productivity (shown in the chart below as revenue per employee).

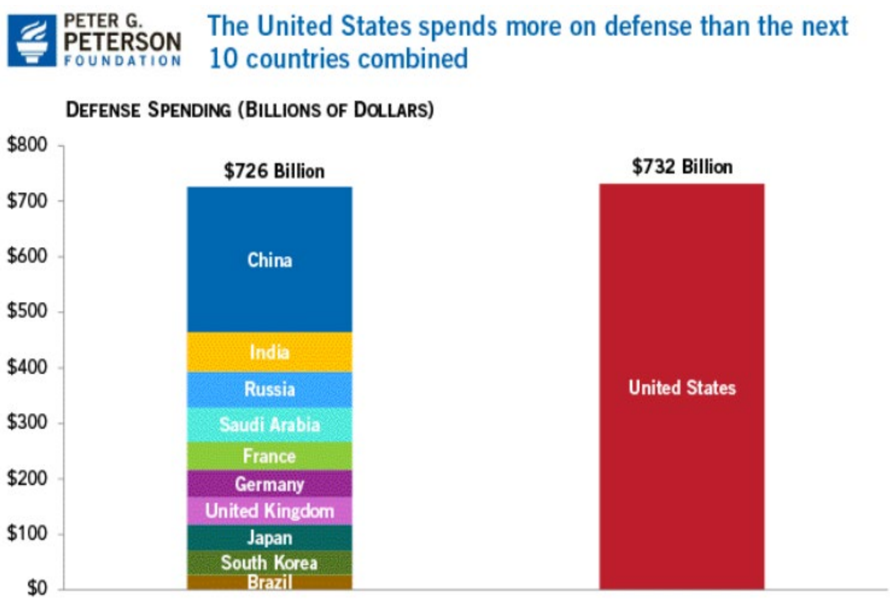


Source: Rackspace

We're attracted to Rackspace's large, rapidly growing addressable market, leading position, and high visibility with more than 95% recurring revenues. Despite these attractive characteristics, the stock traded at just 13x earnings at purchase.

We added shares of **General Dynamics** (GD) in December. General Dynamics is one of the largest aerospace and defense contractors in the world, offering a broad portfolio of products and services in the fields of aviation, combat vehicles, weapon systems, information technology and C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance), shipbuilding and repair. Among its most well-known products are the Abrams battle tank, the Stinger and Tomahawk missile systems, and Gulfstream jets.

As the largest defense budget in the world (note the chart below), U.S. federal defense spending may face some uncertainty in the future, but has typically held up within a narrow range throughout history. Additionally, the 2021 fiscal year budget was recently solidified by Congress through the National Defense Authorization Act (NDAA).



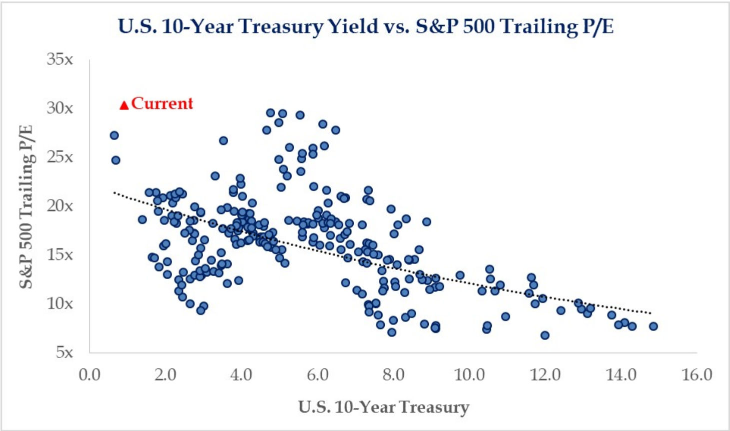
Source: Stockholm International Peace Research Institute, April 2020

COVID-19 caused a variety of disruptions and headwinds for General Dynamics that are likely to linger in 2021. Gulfstream flights, and thus sales activity, will lag an economic rebound, but we believe 2022 should show an overall acceleration in growth and margins. IT should continue to benefit from managing digital transitions for government agencies. Combat and mission systems will continue to be paramount to defense spending. And per GD's Q3 earnings, marine systems had a formidable backlog of $42.5 billion, lending to decades of visibility in shipbuilding and maintenance, notably for nuclear submarines.

According to Bloomberg, analysts estimate a double-digit EPS CAGR between 2022 and 2025, as business normalizes post-COVID-19. GD generates an ROE consistently above 25% over its history as a publicly traded company. Leverage is at a reasonable 2.6x net debt to EBITDA. Trading at an 11.5x 2022 price to earnings (P/E) multiple, a considerable discount to the market today and the company's historical multiple, we feel the market has temporarily discounted the fundamentals of the business, allowing us an attractive entry. Lastly, the company sports a solid 3% dividend yield. The dividend has both compounded at a 10% growth rate over the last five years and risen annually for 22 years in a row now, which we believe is soon to be 23 years.

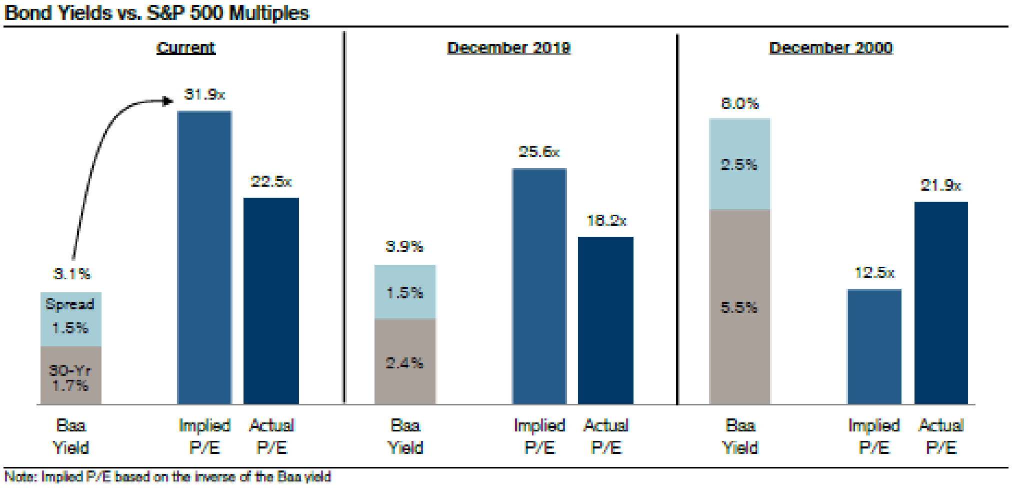
Conclusion

Since the Wuhan lockdown on January 23, the yield on the U.S. 10-year Treasury bond fell nearly 1%. As the cost of capital declined, investors lowered discount rates on the future cash flows, resulting in higher net present equity values. The correlation between interest rates and equity multiples is shown in the chart below. Re-ratings can happen in the other direction as well.



Source: Strategas

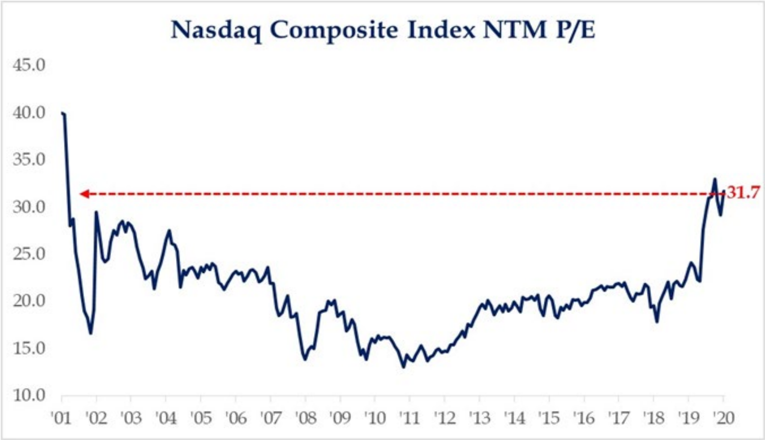
More than 70% of the global bond market offers a yield below 1%, and the BAA corporate bond yield fell to just 3.15% in late December, leaving equities, even at elevated valuations, as the better alternative, in our view. Recall the equivalent P/E multiple of a 3.15% yield is 31.7x. On that basis, equities appear undervalued (on the left side of the chart), unlike late 2000 (on the right side of the chart).



Source: Standard & Poor's, Moody's, FactSet, Thomson Financial, Credit Suisse

Additionally, fixed income securities offer investors zero growth, i.e., coupons are fixed and investors receive par at maturity. Therefore, cheaper valuations combined with reasonable growth prospects make stocks, and more specifically holdings in Special Opportunities, more attractive on a risk/reward basis, in our view. The median portfolio holding trades at 19.0x 2021 EPS estimates and is expected to grow EPS at a 12% CAGR over the five-year period from 2017 to 2022.

Not all equities offer the same opportunity. Historically, valuation was THE key determinant of future returns, particularly over longer time periods. What worked in the recent past may not work in the future, particularly from current valuation levels. For example, the NASDAQ trades at nearly 32x forward earnings estimates, its highest valuation since the Tech Bubble in 2001.



Source: Strategas

However, that doesn't mean Technology stocks should be avoided. In fact, our portfolio is substantially overweight the sector with a 31% weighting. Our holdings provide exposure to cybersecurity, over-the-top (OTT) streaming, private and public cloud, application development and delivery, modern technology stacks offering software as a service (SaaS), digital payments, thermal imaging, electric vehicles and autonomous vehicles, industrial digitization, virtual reality, 5G and more. Yet, only two of our holdings are more expensive than the NASDAQ's NTM (next twelve months) P/E, and the median holding is less than 20x consensus estimates for 2021. In fact, only three of our 11 Technology holdings trade at more than 20x consensus 2022 EPS estimates, and the median trades at just 16.5x. Despite cheaper valuations, our median Technology holding is expected to deliver a double-digit EPS CAGR from 2017 to 2022 and a double-digit ROE with leverage of just 1.5x.

In addition, we continue to overweight Healthcare, where we believe strong secular tailwinds will drive above-average growth, yet the group trades at a 22% discount, its second-lowest relative multiple in more than 20 years. Over the past five years, the S&P 500 P/E multiple rose 69%, while the Healthcare's multiple is up just 13%.

S&P 500 Healthcare Relative P/E to the S&P 500

Source: Bloomberg

While excesses can and often do last longer than investors expect, we continue to follow our investment discipline of deploying capital to companies with attractive growth opportunities and valuations. Based on the table below, relative to the Russell 3000 median, the median portfolio holding in Special Opportunities trades at a discount, is more profitable, has a more conservative balance sheet, and should continue to deliver faster and more consistent earnings growth.

Pillar Metrics: Growth, Valuation, Profitability & Balance Sheet Strength

	Growth/Stablity				Valuation			Profitability		Balance Sheet	
	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
SO Median *	15%	12%	12%	32%	16.5	11.8	5.0%	14.9	28.0	9.2	1.9
R3000 Median	7%	11%	6%	9%	19.7	12.7	3.9%	5.6	12.4	2.6	2.4
vs Benchmark	8%	1%	7%	23%	-16%	-8%	29%	168%	126%	253%	-19%

**Representative account. Source: Bloomberg*

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

Josh Haggerty, CFA®
Associte Portfolio Manager

Dan Morrall
Executive Director

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

The Russell 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® 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 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: ***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.* ***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.* ***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. R****eturn on Invested Capital (ROIC)****: a profitability or performance ratio that aims to measure the percentage return that a company earns on invested capital. The ratio shows how efficiently a company is using the investors' funds to generate income.* ***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.)*

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Sterling Capital Management – Special Opportunities SMA Composite

December 31, 2000 – December 31, 2019

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

Year	Total Return "Pure" Gross of Fees	Total Return Net of Fees	No. of Portfolios	Composite Assets End of Period ($MM)	Percent of Firm Assets	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 3000 Index	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2019	27.22	25.74	4	525	0.9	58,191	Not Meaningful	31.02	12.31	12.21
2018	-3.32	-4.46	4	453	0.8	56,889	Not Meaningful	-5.24	10.99	11.18
2017	20.55	19.08	4	493	0.9	55,908	Not Meaningful	21.13	9.85	10.09
2016	5.72	4.31	4	721	1.4	51,603	Not Meaningful	12.74	10.35	10.88
2015	9.59	8.00	4	901	1.8	51,155	Not Meaningful	0.48	9.67	10.58
2014	15.93	14.23	4	927	1.9	47,540	Not Meaningful	12.56	9.33	9.29
2013	26.61	24.72	4	850	1.9	45,638	Not Meaningful	33.55	13.49	12.71
2012	15.45	13.68	4	718	16.2	4,422	Not Meaningful	16.42	15.75	15.95
2011	-2.72	-4.18	3	776	19.7	3,932	Not Meaningful	1.03	17.35	19.62
2010	12.79	11.08	3	868	24.5	3,548	Not Meaningful	16.93	22.62	22.94
2009	39.65	37.53	2	752	26.5	2,839	Not Meaningful	28.34	21.26	20.61
2008	-32.07	-33.08	2	507	26.6	1,907	Not Meaningful	-37.31	19.08	16.02
2007	16.24	14.60	1	552	26.8	2,059	Not Meaningful	5.14	8.80	8.25
2006	23.07	21.29	1	346	26.3	1,314	Not Meaningful	15.72	8.62	7.62
2005	4.67	3.11	1	261	28.9	904	Not Meaningful	6.12	10.45	9.63
2004	29.90	27.85	1	155	29.7	522	Not Meaningful	11.95	14.87	15.05
2003	45.35	42.97	1	55	34.8	158	Not Meaningful	31.06	17.20	18.37
2002	-16.17	-17.58	1	27	52.9	51	Not Meaningful	-21.54		
2001	10.65	9.18	1	15	62.5	24	Not Meaningful	-11.46		
Annualized Since Inception	11.53	9.91						7.17		

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 index is the Russell 3000 Index which measures the performance of the largest 3,000 US companies, representing approximately 98% of the investable US market. It represents the universe of stocks from which all-cap managers typically select. The index is reconstituted annually. Total return includes price appreciation/depreciation and income as a percent of the original investment. A complete list of all of SCM's composites and 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.