Insight SMA Commentary

4th Quarter 2021

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 is validated by academic studies from researchers at Harvard, Yale, Stanford, and the University of Michigan, which independently found that, over time, corporate insiders achieve 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."

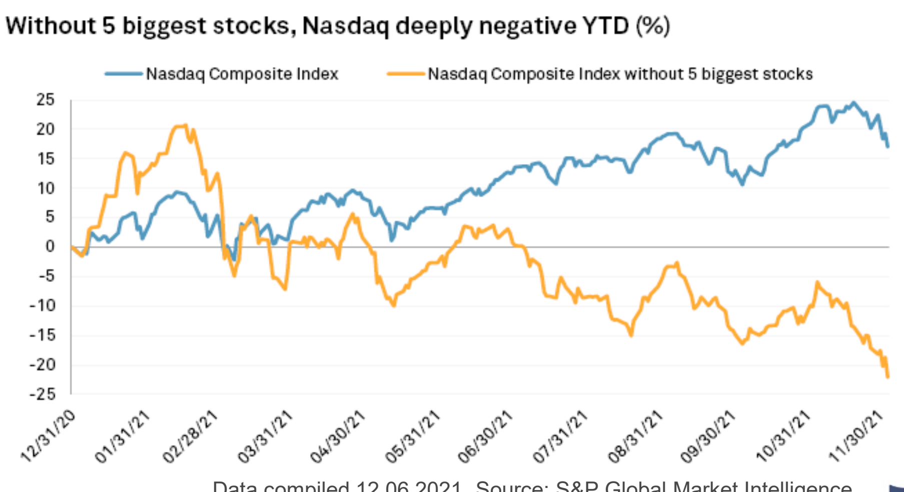
The majority of the Insight portfolio is invested in companies with recent insider buying activity. We also retain the flexibility to own companies in which insiders own a substantial (at least 5%) stake of the company, whereby their incentives already are well-aligned with ours as shareholders, but 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

As 2021 drew to a close, client account values stood at all-time highs. Happy Holidays, indeed! The combination of ultra-low interest rates, tremendous amounts of government stimulus cash sloshing through the economy (student loan repayments recently deferred yet again), and a rapid economic recovery from the pandemic lows of 21 months ago contributed greatly.

For the year, the Insight portfolio gained 23.5% (gross of fees) and 22.1% (net of fees), compared to 26.5% for the Russell 1000® Index, 28.7% for the S&P 500® Index, and 24.8% for the S&P Midcap 400® Index. In the fourth quarter, Insight gained 6.7% (gross of fees) and 6.4% (net of fees), versus 9.8% for the Russell 1000, 11.0% for the S&P 500, and 8.0% for the Midcap 400.

Naturally, we'd prefer to outperform our benchmarks, though it's unsurprising Insight lagged a white-hot market, especially one that was led by hyper-growth companies with outsized insider selling. Tesla is a case study, insofar as it rose more than 50% for the year, even as CEO/self-appointed "Techno-king" Elon Musk sold more than $16B of his shares. Somewhat remarkably, the NASDAQ Index, excluding its five largest constituents, fell roughly -20% for the year.



Data compiled 12.06.2021. Source: S&P Global Market Intelligence

Please refer to the Performance Disclosure found on page 8.

As much as anything, that's a statement about the outsized impact that the largest constituents exerted on the headline indices. The accompanying chart shows that the ten largest S&P 500 constituents comprised more than 30% of the index at year-end, near the highest level in the last 25 years. (Not owning one or two of those largest companies had a profound impact on a portfolio's ability to outperform).

Source: J.P. Morgan Asset Management

Indeed, the gains were uneven. Many of the market's more pedestrian companies saw watered-down results compared to their larger peers. For example, the Dow Jones Industrial Average rose 18.7%, trailing the S&P 500 by an unusually wide ten percentage points. Smaller- and mid-cap companies also participated in the year's gains, but generally lagged: the Russell 2000® Index, for example gained 14.8%, while the Russell 1000® Index eclipsed the Russell 2000's performance by more than 11 percentage points, the widest disparity between those two indices since 1998. International markets saw a similarly positive, but less spectacular result, with the MSCI All Country World ex U.S. Index rising 13.5%.

We'd be remiss if we didn't observe that "reversion to the mean" is one of the market's strongest tendencies. In other words, chasing the prior year's hottest areas isn't necessarily the best recipe for success. Any number of factors, including the prevailing level of interest rates and economic growth, will almost certainly differ in future periods, which could (and likely will) drive disparate investor preferences. In fact, since 1997, the best-performing Dow Jones Industrial constituent typically achieved lackluster returns the year following its pack-leading performance, while the worst constituent went on to achieve a solid double-digit average return the year following its worst-in-class performance.

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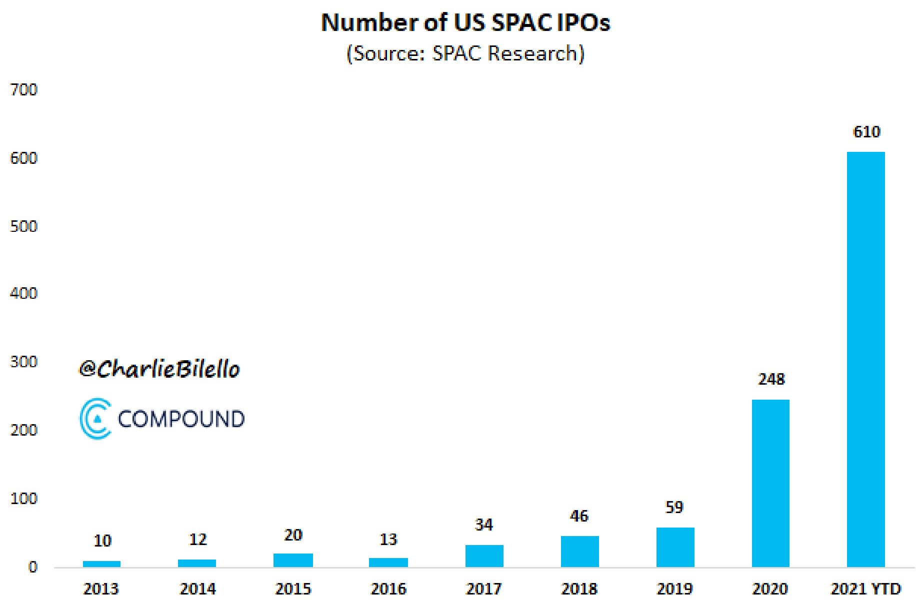
Dow's Best and Worst Performers By Year Since 1997

		Best Performers			Worst Performers			
Year	Ticker	Company Name	YTD % Chg	Following Year % Chg	Ticker	Company Name	YTD % Chg	Following Year % Chg
1997	C	Citigroup	78.10	-7.77	EK	Eastman Kodak	-24.53	18.89
1998	WMT	Walmart	106.50	69.76	BA	Boeing	-33.33	27.01
1999	AA	Alcoa	122.63	-19.28	MO	Altria Group	-57.01	91.30
2000	MO	Altria Group	91.30	4.20	T	AT&T	-66.05	35.41
2001	MSFT	Microsoft	52.74	-21.96	BA	Boeing	-41.24	-14.93
2002	EK	Eastman Kodak	19.06	-26.74	HD	Home Depot	-52.91	47.75
2003	INTC	Intel	105.84	-27.02	EK	Eastman Kodak	-26.74	25.63
2004	MCD	McDonald's	29.12	5.18	MRK	Merck & Co	-30.43	-1.03
2005	HPQ	HP	36.53	43.87	GM	General Motors	-51.52	58.19
2006	GM	General Motors	58.19	-18.98	INTC	Intel	-18.87	31.65
2007	HON	Honeywell International	36.10	-46.68	C	Citigroup	-47.15	-77.21
2008	WMT	Walmart	17.95	-4.66	GM	General Motors	-87.14	-76.56
2009	AXP	American Express	118.44	5.92	XOM	Exxon Mobil	-14.58	7.23
2010	CAT	Caterpillar	64.34	-3.27	HPQ	HP	-18.27	-38.81
2011	MCD	McDonald's	30.71	-12.08	BAC	Bank of America	-58.32	108.81
2012	BAC	Bank of America	108.81	34.11	HPQ	HP	-44.68	96.35
2013	BA	Boeing	81.12	-4.77	IBM	IBM	-2.08	-14.46
2014	INTC	Intel	39.82	-5.07	IBM	IBM	-14.46	-14.22
2015	NKE	NIKE	30.01	-18.67	WMT	Walmart	-28.62	12.76
2016	CAT	Caterpillar	36.46	69.92	NKE	NIKE	-18.67	23.06
2017	BA	Boeing	89.43	9.36	GE	General Electric	-44.78	-56.62
2018	MRK	Merck & Co	35.79	19.03	GS	Goldman Sachs Group	-34.43	37.64
2019	AAPL	Apple	86.16	80.75	WBA	Walgreens Boots Alliance	-13.71	-32.36
2020	AAPL	Apple	80.75	35.90	BA	Boeing	-34.29	-5.09
2021	MSFT	Microsoft	53.97	--	DIS	Walt Disney	-15.66	--
		Average	64.39	6.71		Average	-35.18	12.10
		Median	58.19	-3.96		Median	-33.33	15.82
		% Positive		45.8		% Positive		58.3

Source: Bespoke

The frenzy in special purpose acquisition companies (SPACs), which hit a fever pitch in the first part of 2021, hit a wall in the second half of the year. That validates Mark Twain's observation that "too much of a good thing is a bad thing."



Source: Compound Advisors

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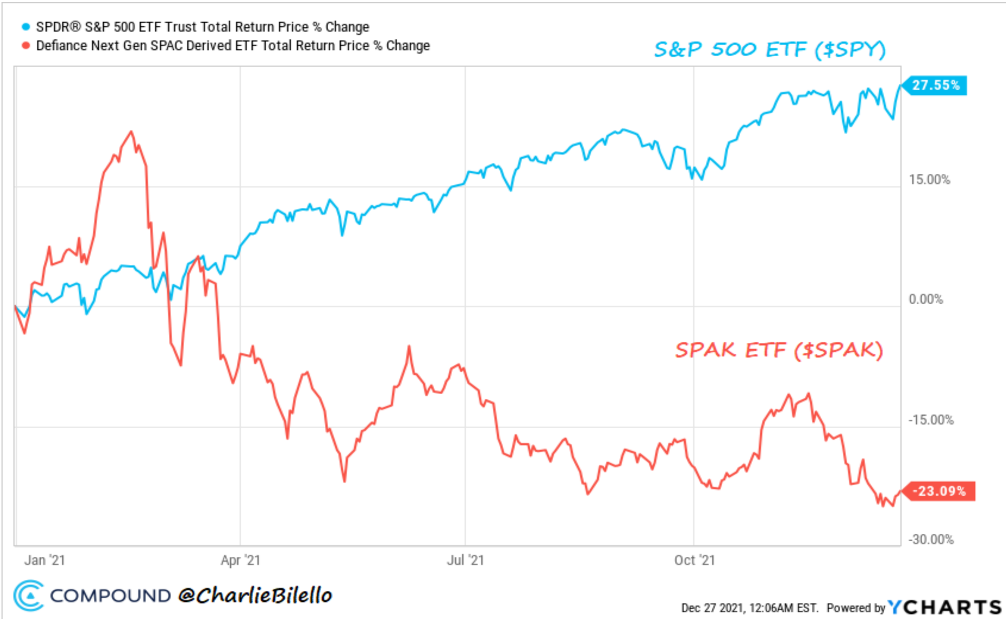
These entities "often grant [investors] the right to redeem their initial investment as an incentive to put their money in," according to a Reuters article. The article noted the average redemption rate more than doubled year-over-year to 58% in the fourth quarter. Through late December, the average SPAC fell more than -20%, underperforming the S&P 500 by 50 percentage points. No wonder investors wanted to redeem their investment!



Source: Compound Advisors

The same Reuters article also pointed to the time-tested concept that, following this decimation in SPAC values, "a lot of investors are now looking more toward companies that have proven track records, [and] demonstrated history of delivering profit."

Ironically, in late November, the cover of The *Economist* showed a rocket ship soaring vertically, depositing cash in its wake. We believe the mainstream media is somewhat late in identifying this trend.

As of 11.27.2021. Source: The Economist

Similarly, the initial public offering (IPO) market was wide open most of the year – with more than 1,000 companies going public (the most since 1996), raising a combined $315B (the most since Dealogic data began in 1995). However, the IPO Class of 2021, even if graded on a generous curve, performed quite poorly. According to CNBC, two-thirds of the year's IPOs were trading below their issue price as of December 29. And while perfection is difficult, a nearly perfect 49 of the 50 U.S. technology companies that went public this year were in a bear market (20%+ off their highs), while more than 20 of those companies lost at least half their value from their highs. Ouch. "Investors are likely to exert more value discipline following this year's IPO performance," said Sumit Mukherjee, a Bank of America managing director. What's old is new again!

In case it's unclear, the Insight portfolio does not participate in the SPAC or IPO markets. Perhaps the reasons for that are now a bit more apparent. Sure, big payoffs are possible, but our objective is to invest capital where insiders are increasing their ownership stake in the company, where the probabilities of success are above average, and where capital appreciation is historically more durable. Though there's nothing wrong with playing the lottery, we prefer investing to gambling.

Winners & Losers

The Insight portfolio owned 15 holdings that appreciated by a double-digit percentage during the quarter, partly offset by four double-digit percentage losers. Leading the charge was health insurer **UnitedHealth**, which checked in with a 29% quarterly advance. The company (and the industry) produced solid results again in 2021, with the various COVID-19 variants contributing to fewer elective medical procedures during the year. In a similar vein, competitor **Anthem** ranked as our third-best performer for the quarter, logging a 25% gain. Perhaps the Omicron COVID-19 variant also contributed to **Home Depot's** 27% surge in the quarter. To the extent that travel and other experience-type spending keeps getting deferred, consumers spent more on their homes – especially in 2021, when home prices advanced nearly 20% year-over-year.

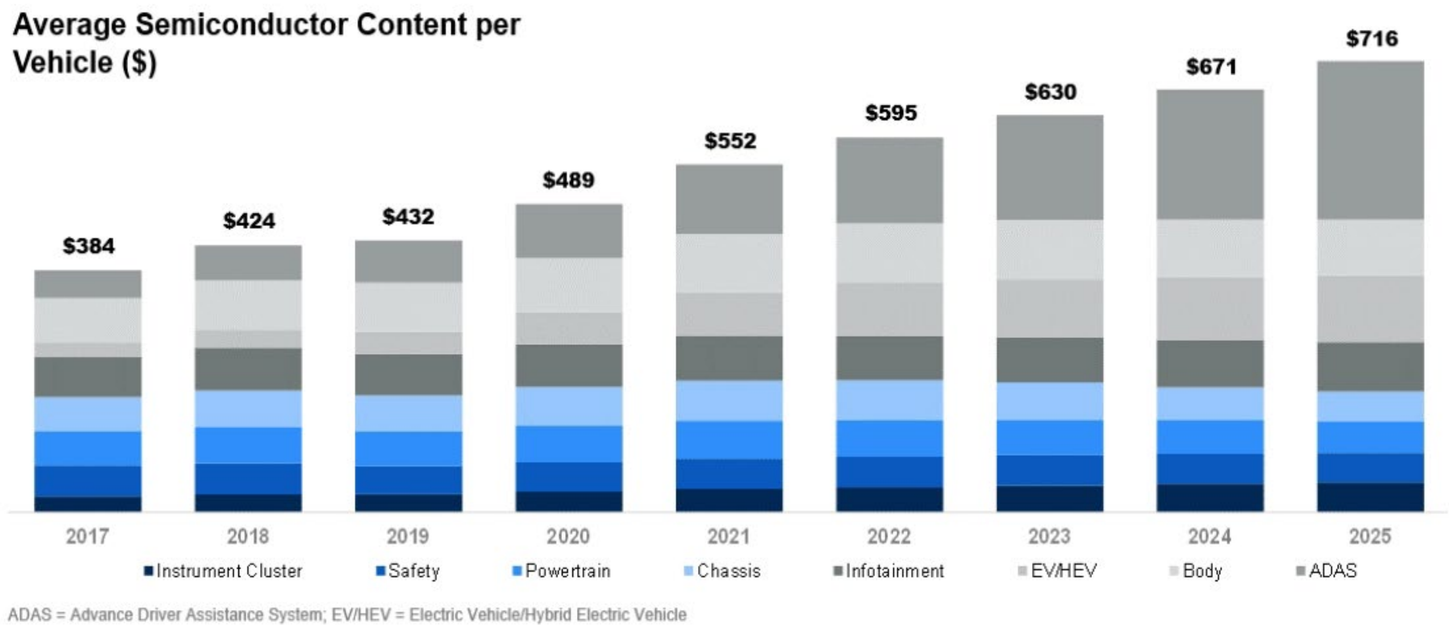
That same phenomenon – a lack of spending on travel and other experiences – was a key culprit in **Fidelity National's** -10% pullback and **Global Payments**' -14% quarterly decline. Still, credit and debit continue to take share from cash and check, and travel is recovering, albeit more gradually than initially anticipated. **Medtronic** (-17%) is a victim of the same conditions that benefited UnitedHealth and Anthem: fewer elective surgeries. The company also received an FDA warning letter about a prior-generation diabetes product that may push out the recovery of its diabetes franchise. Growing surgical backlogs point toward a bolus of cases to be addressed in the near term and, eventually, we think Medtronic will deliver on its new product platform such that the company should get back into beat-and-raise mode.

Purchases & Sales

During the quarter, we added one new investment, while selling five existing holdings. Our sales included three stocks that generated significant gains and achieved our price objective: cheers to you, **Carmax, PNC**, and **Thomson Reuters**. **Church & Dwight** generated a modest gain, and amid significant inflationary headwinds and insider selling, we elected to move on. Finally, in the case of **Activision**, we monetized a short-term loss. News reports revealed a hostile work environment that eventually saw employees stage walkouts, which ultimately contributed to a delay in the delivery of key games. The company's response to the situation seemed tone deaf. Said another way, our investment thesis changed.

Our sole new purchase was **Analog Devices (ADI)**, a provider of analog semiconductors to a wide variety of end markets. We're particularly intrigued by the company's opportunities in two distinct areas:

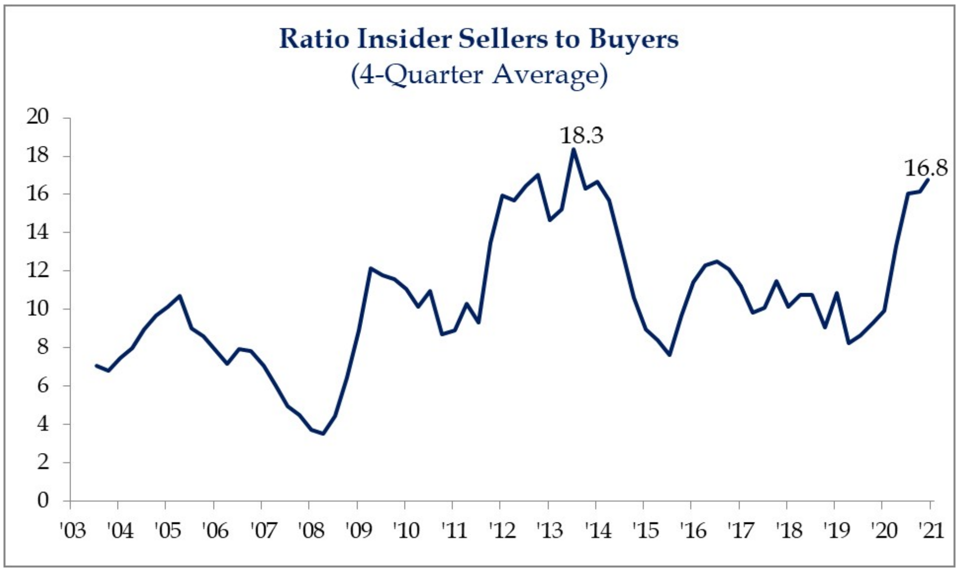
1. Its ability to integrate and extract synergies from its now-completed acquisition of Maxim Semiconductor. This appears to be occurring across several dimensions. For example, Raymond James observes that "the recently announced consolidation to a single global distributor was one of the cost savings contemplated in the original synergy target. But the business was put out for competitive bid, and it appears the cost savings was more than originally contemplated." Separately, amid a tight supply chain, the combined company is passing through price increases approaching 10%, including to existing backlog – "an exceptional development." While it "often takes several quarters for price increases to impact the income statement, we don't believe price increases are reflected in consensus" estimates.
2. The combined company's leading position in battery management and related technologies for electric and autonomous vehicles. As Credit Suisse stated in a research note: "Wireless Battery Management Systems could double content per electric vehicle. Battery Management Systems remove up to 90% of wiring and 15% of battery volume, saving significant weight and space. Every 10% reduction in weight improves miles per gallon by 5%, thereby providing significant economic benefits to auto OEMs [Original Equipment Manufacturers] and consumers."



Source: Wells Fargo

A $1.3 million purchase by Board member Bruce Evans seemed noteworthy, not just for its magnitude, but also for Mr. Evans' "solid track record," in the view of InsiderScore. "The overall rarity of buying at the company as well as Evans' track record makes his latest purchase a strong positive signal. [He] joined the Board in 2015, has never sold, and has now injected $6.5 million into the stock across six buys. Evans has served on other boards and ADI is the only spot where he's shown a buy bias, one which has proven to be fruitful over time."

While insider buying at Analog Devices stood out, the same can't be said market wide. According to CNBC, insider selling totaled $170B in 2021, almost double the prior year's $94B and nearly triple 2019's $65B. "Insider buyers peaked in March 2020, and have been dropping since," said Strategas Research. "Clearly, insiders are finding fewer bargains as the market enjoys [a] meteoric rise off major market lows."



Source: Strategas

Conclusion

As far back as the 14th century, Geoffrey Chaucer recognized that "all good things must come to an end." Such is the case for our Insight portfolio, which we've stewarded for more than a decade through conception, launch, and growth. It's been a professional honor, privilege, and highlight. During that time, total assets in the strategy grew to nearly $150 million.

Given demands elsewhere within our team's franchises, the Insight portfolio is scheduled to sunset on January 31, 2022. Rather than farewell, please consider this "until we meet again."

Best wishes for a happy, healthy, and prosperous New Year.

Adam Bergman, CFA®
Portfolio Manager

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Important Information

Disclosures

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 GIPS Composite Report which is attached.

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 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.

The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

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Sterling Capital Management – Insight SMA Composite
August 31, 2011 – December 31, 2020

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 ($MM)	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 1000	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2020	6.90	5.66	34	18	70,108	0.52	20.96	18.18	19.10
2019	34.77	33.19	49	21	58,191	0.71	31.43	11.28	12.05
2018	-4.10	-5.26	51	16	56,889	0.38	-4.78	10.79	10.95
2017	25.37	23.78	57	18	55,908	0.35	21.69	9.18	9.97
2016	10.39	8.88	146	33	51,603	0.30	12.05	9.92	10.69
2015	5.14	3.69	116	29	51,155	0.25	0.92	9.35	10.48
2014	7.41	5.88	134	29	47,540	0.24	13.24	9.42	9.12
2013	28.48	26.64	121	27	45,638	0.24	33.11		
2012	17.74	16.17	74	14	4,422	0.08	16.42		
2011 (Inception 8/31/11)	4.86	4.62	2	0	3,932		3.50		

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. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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 SCM's broad distribution pooled funds and their descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Composite Reports are available upon request.
4. Performance reflects reinvested interest income and dividends and realized and unrealized capital gains and losses. All portfolios utilize trade-date and accrued income accounting. Valuations and performance are reported in U.S. dollars. Periodic time weighted returns are geometrically linked. Returns are not calculated net of non-reclaimable withholding taxes due to immaterial dollar amounts. Beginning July 1, 2020, portfolio performance is calculated daily including cash flows. Daily calculations are geometrically linked to create time weighted returns. Composite returns are asset weighted using the beginning market value and time weighted return of the portfolios. Prior to July 1, 2020, portfolio returns were calculated using the Modified Dietz Method and 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.
5. "Pure" gross of fees returns are presented as supplemental information and do not reflect the deduction of any fees including trading costs. "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, administrative fees, and foreign withholding taxes. The maximum SMA or bundled external platform fee is 2.57% annually and includes Sterling's actual management fee of 0.32%. Sterling's actual management fees are 32 basis points annually. Since inception, the composite is comprised 100% of wrap fee portfolios.
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, and is calculated using gross of fee returns. It is not meaningful when there have been less than six portfolios in composite for entire calendar year. The three year annualized standard deviation measures the variability of the composite and benchmark returns over the preceding 36 month period. The composite 3-year standard deviation is calculated using gross of fee returns. 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.