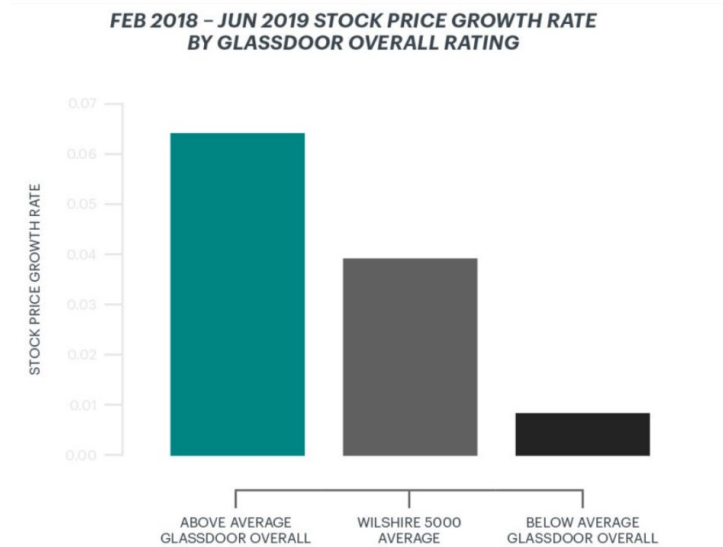




“Culture eats strategy for breakfast.”

- Peter Drucker, author and founder of modern management



Data Analysis: The above charts use data collected from the Nasdaq website and Glassdoor.com. Stock information and Glassdoor ratings were pulled from these websites for each company in the Wilshire 5000. Between the two datasets, Simplr Research was able to match data for over 2,000 of the companies in the Wilshire 5000. Displayed above are the average single-year stock price growth rates (Feb 2018 – June 2019) broken out by various Glassdoor ratings. The top-left chart shows the 2018-2019 stock growth for companies that had an above-average and below-average Glassdoor Overall rating. For companies with an above-average Glassdoor Overall rating, stock prices grew by over 6% on average, whereas companies with a below-average Glassdoor Overall rating, stock prices increased by a little less than 1%. A two-sided t-test of means shows that this difference is significant at the 0.01 alpha level, suggesting that these results could not have been observed by chance. The large sample gives these results reliable statistical power, and indeed, upon conducting a two-sided t-test of means with heteroskedasticity robust errors, we find that these groups are different at the 0.01 alpha level. This makes it unlikely that the results seen are spurious.

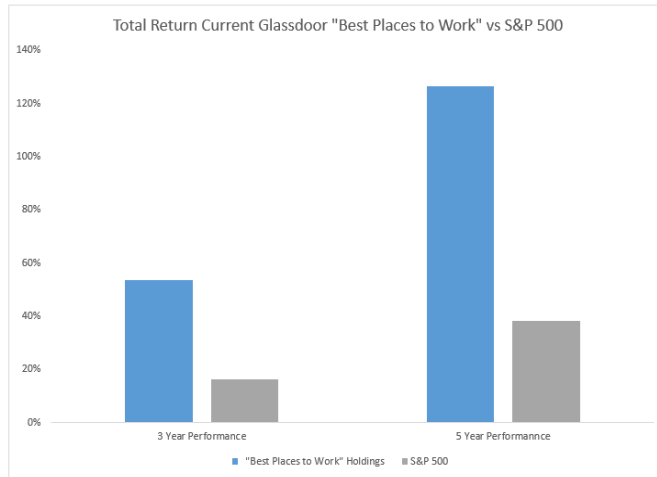
Source: Simplr

We view the companies we own as living, breathing organisms that must respond to challenges in the environment, and the first quarter of 2020 demonstrated that changes can be dramatic and organizations must adapt. As active managers, we spend time talking to the individuals charged with marshalling responses to these challenges, and we are aware that those responses may only be as good as the company’s culture. Do members of the organization see a higher purpose, in terms of the organization, and make adjustments for a “greater good?”

A key component when we interview management teams is to assess the quality of the organization. More specifically, we try to determine to what degree there is alignment of associates with the financial goals of the company. This month, one discussion stood out with the chief financial officer of a company owned in several of our strategies for a number of years. When asked about the firm’s culture, he pointed out they have been using an internal engagement tool, Glint, for several years to

assess and benchmark their organization. Moreover, he noted that all associates own shares of the company from the CEO down, and senior management is compensated in-part on engagement with fellow staff. To paraphrase, we spend a good bit of time on the road; after work, we spend our time at dinner with associates, not in the hotel room.

The ability to measure and benchmark employee engagement can be a strong internal tool that, in this case, has enabled the company to adapt and thrive in the current environment. As investors, we can employ external tools that we use to assess a company’s culture as part of our investment process. But, what tools lead to tangible results in terms of investment performance? Glassdoor is a tool we use, and they cite several academic studies that support their method of ranking companies based on a scorecard that assesses compensation, senior management, corporate values, and work and life balance.



Source: Bloomberg, Glassdoor 2020 Survey. Equally weighted current holdings as of 03.31.2020. Not reflective of one strategy.

A 2017 study by Norwich Business School found that companies with high scores on Glassdoor outperformed the market by over 100 basis points over their eight year period. Glassdoor ran their own study in 2015 that showed their “Best Places to Work” companies outperformed over a five year time period.

It may not be surprising that a number of the stocks in Glassdoor’s “Best Places to Work” can be found in Sterling portfolios. Above, we show how stocks held in Equity Opportunity strategies that were listed in the Glassdoor’s 2020 “Best Places to Work” have recently fared.

By building a mosaic through financial analysis, management interviews, and anonymous employee feedback, we seek to find if there is alignment between a company’s stated mission and ability to achieve those objectives. As active investment managers, we employ multiple, differentiated tools as we work to achieve clients’ investment goals.

As always, thank you for your interest and trust managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is an equity portfolio manager. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University’s Fuqua School of Business. He holds the Chartered Financial Analyst® designation.



The Chartered Financial Analyst® (CFA) charter is a graduate-level investment credential awarded by 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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