Special Opportunities SMA Commentary

4th Quarter 2022

"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 argue instead 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 suggest 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 these 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 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 strive to achieve 95% of the diversification of a 500-stock portfolio while eliminating expensive, poorly-financed, or strategically vulnerable companies from our holdings.

Market Commentary

The headline for 2022 was accelerating inflation, which led to the highest level in decades. The Consumer Price Index (CPI) peaked at 9.1% in June, prompting the Federal Open Market Committee (FOMC) to raise overnight interest rates from near zero at the start of the year to 4.5%. In the fall of 2021, Fed Fund Futures projected just one 25 basis point hike in 2022. The steepest rate hike cycle in four decades shocked equity and fixed income investors, resulting in the third-worst blended portfolio returns since 1930 (a standard blended portfolio is 60% equities and 40% bonds). Equities suffered their seventh-worst year since 1930, declining -19%. Stocks were down -25% at the lowest point, yet rallied in the fourth quarter. Typically, during equity market slumps, investors see their returns cushioned by a flight to safety that drives up bond prices. In this instance, higher inflation resulted in higher rates (lower bond prices). Long duration 30-year Treasury bonds slipped by a third, the worst year on record. Investment-grade bonds lost -15%. The rapid transition from multi-decade low interest rates had a disproportionate impact on excessively valued growth stocks, which fell nearly -30%. As a result, growth stocks trailed value by 22%, the widest margin since 2000 and the second most in four decades.

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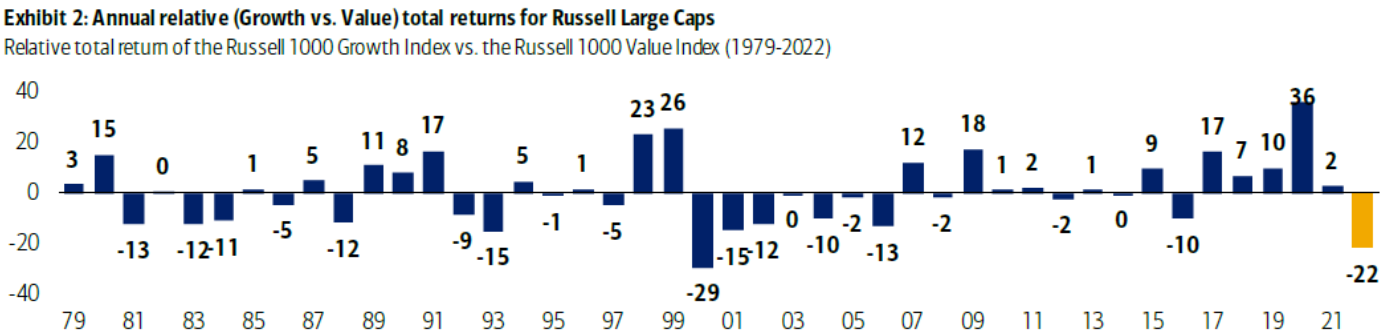
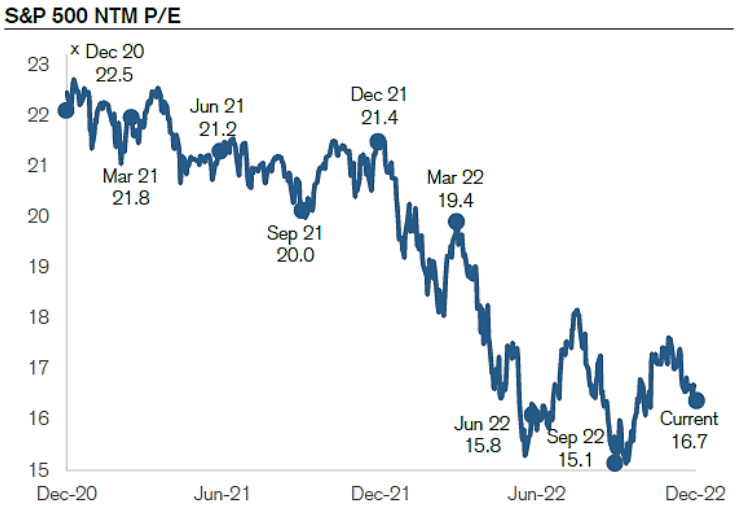


Sources: BofA Global Research; Bloomberg L.P.

As we head into 2023, inflation has likely peaked, with the CPI expected to end the year up 6.7%. The combination of a decline in equities and a modest but positive earnings growth left equity valuations far more attractive at year-end 2022 than they were a year ago at a level that's closer to the long-term average.



NTM: next twelve months. P/E: price over earnings. Source: Credit Suisse.
Data is as of 12.30.2022.

Meanwhile, further downward revisions to earnings for the S&P 500® Index seem likely, despite already being revised lower from $252/share mid-year to $230/share at year end. The low single-digit growth forecast for 2023 includes flattish expectations in the first half before inflecting to double-digit growth by the fourth quarter. Without the hockey stick effect late in the year, we could be facing flat to down earnings, making an upside valuation case a bit harder to justify. Fortunately, we don't own the index. Beneath the surface, we see plenty of companies with attractive growth opportunities trading at a discount to our assessment of fair value. In other words, it may well be a 'stock pickers' market.

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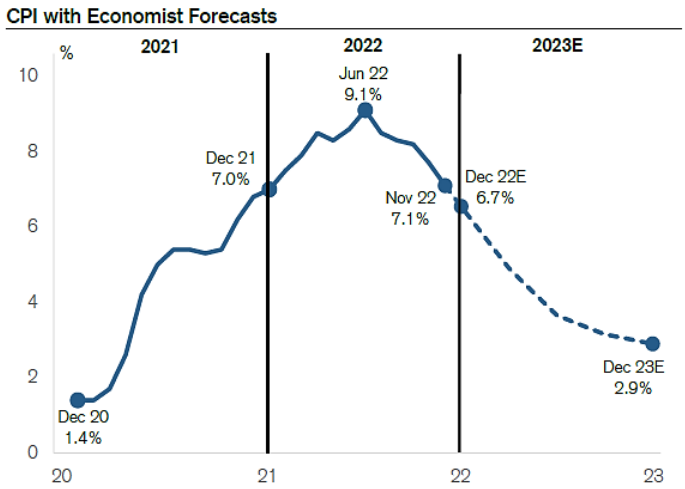

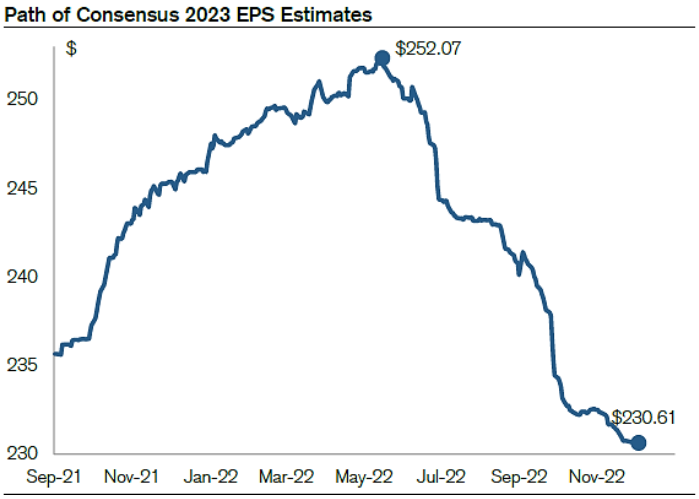

CPI: Consumer Price Index. EPS: earnings per share. Source: Credit Suisse. Data is as of 01.04.2023.

Performance Summary

Performance[1]	QTR	YTD	1YR	3YR	5YR	10YR	Since Inception[2]
Sterling (Gross)	6.32%	-19.28%	-19.28%	5.94%	7.90%	11.60%	10.75%
Sterling (Net)	5.58%	-21.57%	-21.57%	3.56%	5.94%	9.81%	9.03%
Russell 3000® Index	7.18%	-19.21 %	-19.21%	7.07%	8.79%	12.13%	7.16%

In the fourth quarter, the Special Opportunities portfolio's 6.3% return gross of fees and 5.6% net of the maximum fee trailed the Russell 3000® Index's 7.2% return. For 2022, the Special Opportunities portfolio's -19.3% gross of fees was in-line with the Russell 3000's -19.2% drop, while the portfolio trailed -21.6% net of the maximum fee. Based on Russell's Industry classification on the next page, all but one industry, Consumer Discretionary, posted positive results, with Energy continuing to lead and Technology continuing to lag. As we discuss later, we decreased our exposure in Industrials and Healthcare and added to Technology.

[1]Effective 01.01.2021 the maximum bundled external platform fee is 2.82%. Actual fees may vary by size and type of portfolio. [2]Inception date is 06.30.2004. Data is as of 12.31.2022. The benchmark is the Russell 3000®. Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the SMA bundled fee, which includes all charges for trading costs, advisory services, portfolio management, custody and other administrative fees. "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. Please refer to the attached GIPS Composite Report for additional disclosures. Sources: Russell Investments; eVestment Alliance; Sterling Capital Management Analytics.

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Russell 3000 4Q22 Sector Total Returns

Source: Bloomberg L.P.

The portfolio's zero weight in the three best sectors, Energy (+60%), Staples (+3%), and Utilities (-2%), combined for a 366 basis point headwind to performance. Energy outperformed the market by +79%, the largest outperformance by a sector since 1970. We continue to search for attractive risk/reward opportunities, including within these three sectors, despite little secular growth to justify elevated valuations and/or volatile, unpredictable cash flow streams.

Russell 3000 2022 Sector Total Returns

Source: Bloomberg L.P.

Fortunately, our stock picking added 352 basis points, as our holdings outperformed their respective sectors. Our four investment pillars philosophy aided performance as valuation, profitability, and growth were positive factors, while lower-quality factors that we try to avoid, such as short interest and excessive leverage, were negative alpha generators.

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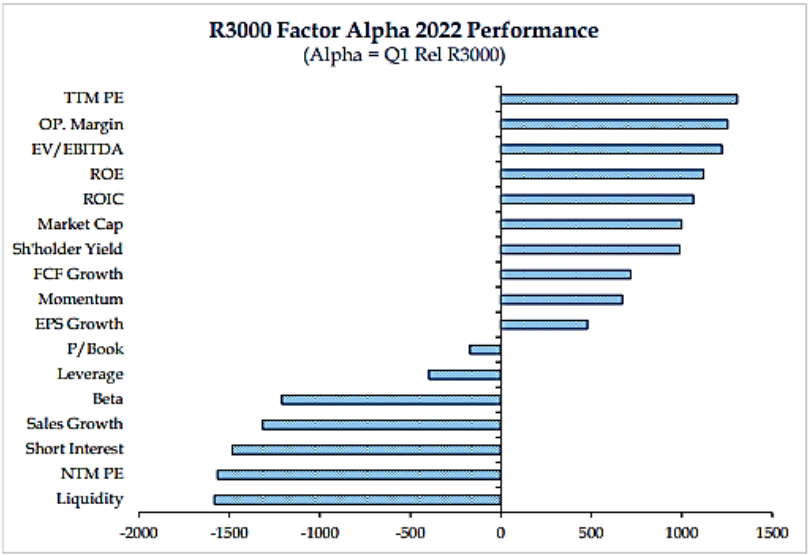

TTM: trailing twelve months. EV/EDBITDA: enterprise value/earnings before interest, taxes, depreciation, and amortization. ROE: return on equity. ROIC: return on invested capital. FCF: free cash flow. Source: Strategas.

Quarterly Attribution

Leading Contributors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return[1]
HCA Healthcare Inc	5.47	1.43	1.40
Charles Schwab Corp	5.03	0.75	0.71
Comcast Corporation Class A	3.76	0.70	0.67
PTC Inc.	3.73	0.63	0.61
Visa Inc. Class A	4.14	0.63	0.60

- **HCA** saw accelerating non-COVID-19 patient volumes in the third quarter and continued to make progress on reducing elevated labor costs, citing a 19% sequential reduction in contract nursing expense. In November, management indicated fourth quarter trends were consistent with guidance, while in mid-December, third-party data showed in-patient activity picked up in the prior few weeks, which could be a source of potential upside to consensus expectations.
- **Schwab's** third-quarter revenues growth was driven by an increase in net interest income due to higher interest rates. The impact of higher rates on Schwab's bottom line remains in the early stages as it will take several years for its interest-earning assets to roll to investments with higher yields, informing consensus expectations for mid-teens earnings growth through 2025. Schwab continues to offset equity and fixed income market turbulence with net new account growth. In early December we spoke with Jeff Edwards, head of investor relations, who said, "We couldn't be happier with how the business is performing."
- **Comcast** added 330,000 wireless lines in 3Q22, its best quarter ever, and delivered a modest increase in net new high-speed data subscribers. Later in the quarter, the stock got a bump after Wells Fargo's analyst raised his rating to a buy, noting fears of pricing declines hadn't materialized. In addition, the analyst conceded that capital expenditures are likely to stay low, even as its network is upgraded, resulting in higher than previously forecast free cash flows (FCF).

[1]Effective 01.01.2021 the maximum bundled external platform fee is 2.82%. Actual fees may vary by size and type of portfolio.
Please refer to the Performance Disclosure found on page 12.

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- **PTC** reported strong quarterly results and delivered a better-than-feared forecast. CEO James Heppelmann said, “Despite the scary headlines we continue to read every day, we saw record demand for our offerings.” At the November Investor Day, management highlighted the company’s leading position in Product Lifecycle Management (PLM), an addressable market that’s expected to grow at a 12% annualized rate through 2025.
- **Visa** reported better-than-expected payment volume growth last quarter and October trends remained steady. Management guided high single-digit revenue growth in fiscal 2023, including nine points of headwinds from currency and Russia. A new $12 billion buyback was authorized.

Leading Detractors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return[1]
Amazon.com, Inc.	3.57	-1.00	-1.03
PayPal Holdings, Inc.	3.62	-0.65	-0.68
Alphabet Inc. Class C	4.86	-0.36	-0.40
Take-Two Interactive Software, Inc.	3.44	-0.10	-0.13
F5, Inc.	3.32	-0.02	-0.04

- **Amazon’s** stock pulled back as its cloud services business, Amazon Web Services (AWS), decelerated. Revenue growth in the segment dipped into the high-20s and the exit rate was in the mid-20s. With a discounted enterprise value-to-forward earnings before interest, taxes, depreciation, and amortization (EBITDA) multiple relative to the S&P 500 and a long growth runway for cloud penetration, we continue to believe the stock is attractive.
- **Paypal** guided 2022 revenues below management’s prior view and prevailing consensus estimates. Still, the company forecast high single-digit revenue growth in the fourth quarter and, in December, CFO Blake Jorgensen said he remained confident in the company’s ability to reach that revenue target and that earnings per share (EPS) should come in above expectations. For 2023, he reiterated confidence in delivering mid-teens EPS growth, even if e-commerce declines.
- **Alphabet’s** advertising revenues decelerated, with both YouTube and Network experiencing declines. Search revenues remained positive, but slowed, while cloud revenue accelerated. Margins disappointed, impacted by aggressive hiring that has been put on pause for the time being.
- **Take-Two** reduced its outlook due to the macro slowdown, which impacted advertising sales. In addition, a shift in its pipeline and larger currency headwinds contributed to the revised outlook.
- **F5’s** software revenue growth fell short of expectations. Management attributed the slowdown to budget pressure and a worsening macro, with sales cycles elongating and close rates slowing. While slower software growth caused a reset, guidance for fiscal 2023 EPS growth of low-to-mid teens seems attractive for a stock trading at less than 13x fiscal 2023 estimates.

Portfolio Changes

Souring sentiment, increased fears of a recession, and negative earnings revisions resulted in a number of attractive opportunities beneath the surface. We attempted to capitalize on two such opportunities in the fourth quarter, adding exposure to secular growth markets in data infrastructure, 5G, cloud services, enterprise networking productivity software, cybersecurity, and auto technology. We also sold two names that became less attractive on a risk/reward basis following recent relative outperformance.

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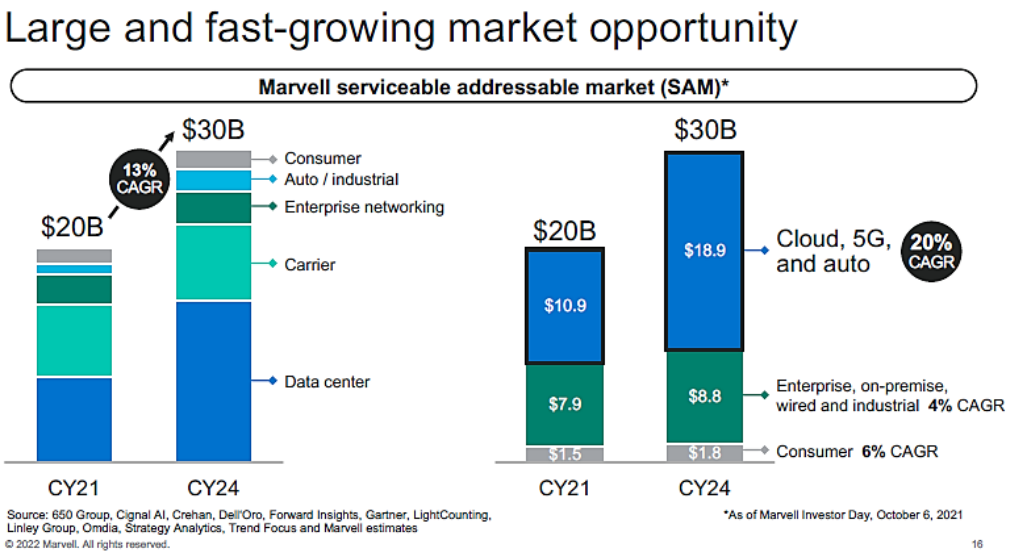
We added **Microsoft** following relative underperformance in 2022, returning the mission-critical software provider to a more attractive valuation at 13.3x the enterprise value-to-2024 EBITDA estimates, down from 20x. Microsoft's Office suite boasts the world's most used consumer and enterprise productivity tools, including Excel, Word, and Outlook. Office 365 (O365) is a software as a service (SaaS) offering, providing a higher mix of recurring revenue and greater lifetime customer value. Heretofore, seat growth drove revenue growth in O365, including double-digit constant currency growth in enterprise last quarter. Microsoft announced the first ever price increase last April, which should lead to continued double-digit revenue growth, even if an economic slowdown pressures seat growth. Importantly, price increases impact customers as they renew, and typical enterprise contracts are for three years (i.e., a pricing tailwind should flow through over a multi-year period).

Microsoft's other large growth platform is Azure, the #2 cloud services provider. Last quarter's decelerating growth contributed to the pullback in the stock, yet revenues still grew in the mid-30s. According to Gartner, public cloud computing spend is expected to increase at a 19% compound annual growth rate (CAGR) from 2021 to 2026, only then reaching 31% penetration of the addressable market. Over time, we believe customers will look to consolidate workloads with proven cloud vendors such as Azure, creating a flywheel effect that will compliment organic growth as on-premise workloads shift to the cloud. Moreover, we believe Microsoft also has the ability and competitive advantage to package additional 'as a service' enterprise offerings with Azure to expand market share.

We also added **Marvell**, a global fabless semiconductor supplier. Over the past six years, CEO Matt Murphy transformed the company from a consumer-centric business to a leading provider of silicon to commercial industries with an increasing demand of data infrastructure. Key end markets today include data centers, carriers, enterprises, and auto/industrial suppliers and manufacturers. Consumer markets tend to be more fickle and competitive, and customers must be re-won each year. Recently in consumer markets, unit growth declines are occurring, such as personal computers and mobile devices. On the other hand, enterprise data infrastructure markets have a much longer life cycle, with five-to-seven-year lead times, more sustainable growth, sole source proprietary products, and complex qualification processes, all of which make these markets more predictable and easier to sustain longer-term competitive advantages. The company estimates its served addressable markets (SAM) are growing at a low-teens rate, faster than any of its semiconductor peers. Management expects company revenues to outpace the market, growing mid-to-high teens, driven by cloud, 5G, and auto.



Source: Marvell Company Reports.

We sold **Hologic**, a medical device provider and leader in women's health. During our ownership, the company successfully transformed from a capital equipment provider of mammography machines to more of a consumables and service-oriented business, led by its rapidly growing molecular diagnostics segment. Hologic's Panther diagnostic machines were one of the first devices capable of providing rapid results of COVID-19 tests. As a result, the installed base of Panthers nearly doubled during the pandemic, providing the opportunity for a long runway of recurring revenues as customers transition from COVID-19 testing to other assays in Hologic's menu. We believed COVID-19 testing would naturally subside and that the company's strong outlook was discounted in the stock's valuation, so we chose to redeploy client capital elsewhere.

We also exited aerospace and defensive contractor **General Dynamics** on similar valuation-based concerns. The stock traded at a rare premium to the market on enterprise value to 2024 EBITDA estimates compared to a ten-year average discount of 10%. Sentiment turned favorable following news of the war in Ukraine, contributing to the company's higher multiple. At the same time, its industry-leading private jet business, Gulfstream, was just hitting its stride. The backlog was building, and the book-to-bill continued to outpace billings. Demand surged during the pandemic and supply chain disruptions limited the company's ability to meet demand, but that was expected to change in 2023 and 2024 as deliveries and profits accelerate. While we appreciate the positive business momentum, the prospects of a consumer recession combined with the stock's elevated valuation led to our decision to move on.

Conclusion

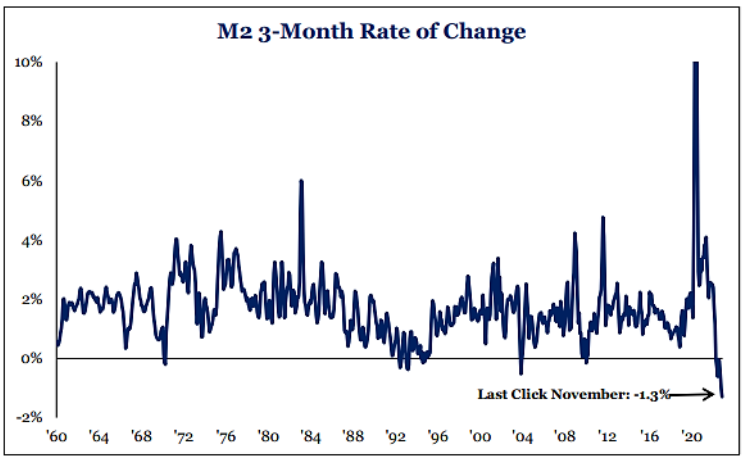
J.P. Morgan's early December survey showed nearly 45% of economists expect a recession in the next year, the highest number in more than five decades. The yield curve is inverted. The Institute for Supply Management (ISM) manufacturing index fell below 50, marking contraction territory. Historically, when jobless claims increase 10% compared to the three-month moving average, the economy has ended up in a recession with no false signals. This occurred in November. The signs are all there, and we believe a recession is likely on the horizon.

Source: JP Morgan Equity Strategy Note. Data is as of 12.05.2022.

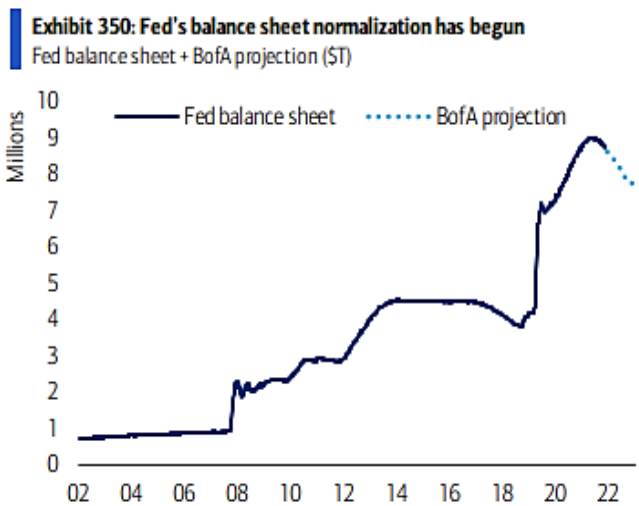
Interestingly, when jobless claims increase 10% versus the three-month average, stocks increased 11% on average over subsequent 12-month periods, according to J.P. Morgan Research. That anecdote supports our view that economic growth (or weakness in this case) and equity performance can diverge over shorter intervals. We believe consumers are in a far better financial position than in 2008 considering financial leverage is the lowest in four decades compared to record highs heading into the financial crisis, and debt service remains below average.

Excessive stimulus in response to the pandemic doubled the Federal Reserve (Fed)'s balance sheet to $9 trillion. As a result, the three-month growth in money supply topped 10% for the first time. However, that tailwind has become a headwind, with the decline in the three-month change in money supply the steepest on record dating back to 1959. While the FOMC may be approaching peak overnight rates for this cycle, the Fed still has a long way to go to shrink its balance sheet.

The Fed is Draining the System of Inflation for the 1st Time in 40 Years, Money Worth Collapsing



Source: BofA. Data is as of 11.30.2022.



Source: BofA. Data is as of 11.22.2022.

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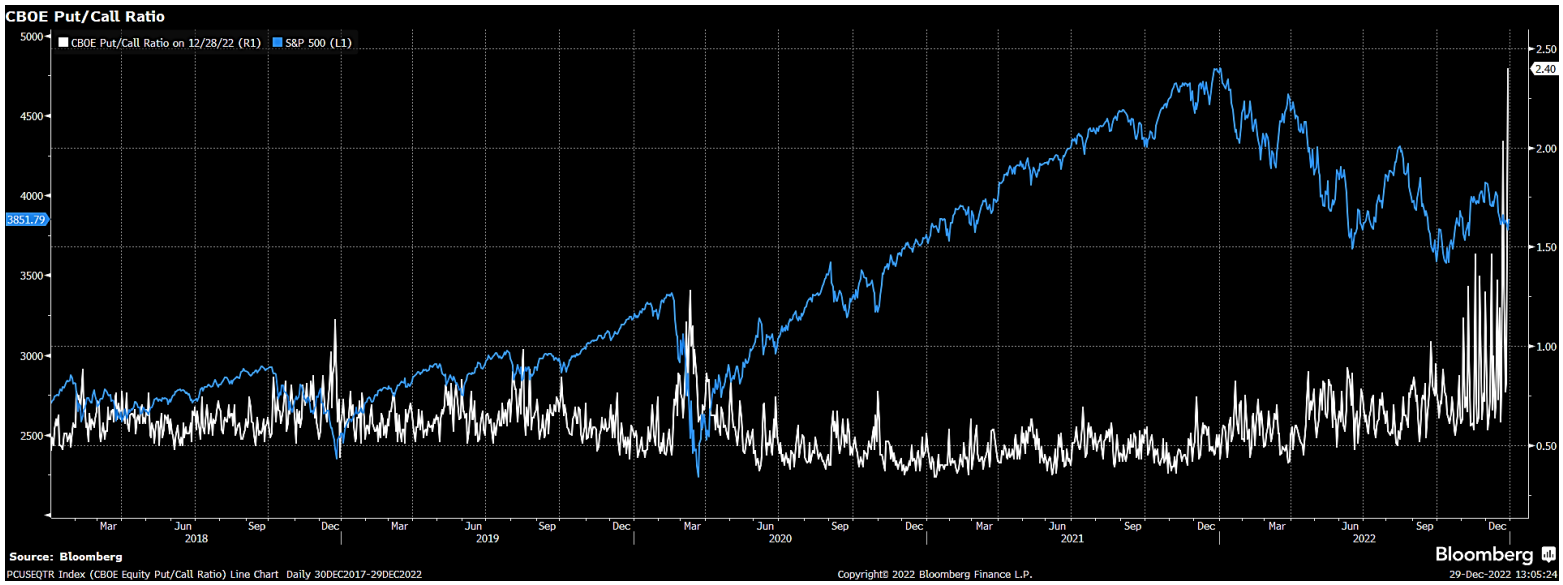
As inflation moderates, the Fed is expected to slow, pause, or potentially even lower rates. The jury is still out. However, the FOMC met in mid-December and raised its forecast for unemployment at year-end 2023 to 4.6% versus 3.7% currently, implying 1.6 million job losses. Unfortunately, loosening the jobs market may be necessary to tame inflation. That in turn should lower corporate earnings as consumers and enterprises spend less and save more. Consensus estimates for 2023 are around $231 for the S&P 500. Morgan Stanley's strategist recently said he's leaning toward his bear case of $180/share. Investors already appear to be positioning for a negative outcome, purchasing a record amount of S&P 500 puts versus calls, shown in the white line in the chart below. Downward revisions to earnings estimates appear nearly as certain as the prospects of a consumer recession, therefore betting against the S&P 500 doesn't represent a differentiated view. As the blue line in the chart shows, the S&P 500 tends to bottom as the Put/Call ratio spikes (investors are purchasing more downside protection, resulting in bearish sentiment). We believe taking a contrarian view provides better risk-adjusted returns.

CBOE Put/Call Ratio (white line) Versus the S&P 500 (blue line)



CBOE: The Chicago Board Options Exchange. Right axis is the S&P 500 Index. Source: Bloomberg L.P.

Stocks fell around 19% in 2022 while earnings grew an estimated 3% . Therefore, it's possible stocks already discounted recession-related earnings weakness. We choose to avoid making near-term predictions and take a longer-term view, aligning our portfolio with holdings characterized by secular growth themes, strong balance sheets, high returns on capital, and reasonable valuations, per the Equity Opportunity Group's four investment pillars.

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At quarter end, the Special Opportunities portfolio was not only cheaper than the benchmark with better financial flexibility, but we also continue to believe it's positioned to benefit from secular trends that include the following: the transition to debit and credit over checks, cash, and e-commerce in favor of brick-and-mortar; increasing content per vehicle of active safety and electrification components; businesses digitizing and utilizing data and analytics to become more efficient; greater healthcare utilization stemming from an aging population; and the expansion of broadband, cybersecurity, 5G and hybrid/multi-cloud/edge IT infrastructure. These are just a few examples of rapidly-growing end markets that we believe will contribute to faster revenue, earnings, and cash flow growth for our companies relative to the overall market.

The portfolio also ended the year well-positioned with respect to our four investment pillars metrics. Relative to the median Russell 3000 constituent, we believe the median Special Opportunities holding trades cheaper, is far more profitable, has a more conservative balance sheet, and is expected to deliver faster and more consistent earnings growth, as depicted in the table below:

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

	Growth/Stablity				Valuation			Profitability		Balance Sheet	
	22y EPS Growth	23y EPS Growth	24y EPS Growth	'19-'24 EPS CAGR	24y P/E	24y EV/ EBITDA	24y EV FCF Yld	ROE	EBITDA Mgn	Interest Coverage	Leverage
SO Median	5%	7%	15%	13%	14.3	10.5	5.7%	16.4	25.3	13.8	1.5
R3000 Median	6%	3%	9%	8%	15.8	11.1	4.7%	9.7	14.5	3.4	2.1
% Above/Below Bench	-7%	103%	70%	78%	-9%	-6%	21%	68%	75%	309%	-31%

Source: Bloomberg L.P. Data is as of 01.04.2023.

As always, thank you for your interest and support.

Josh Haggerty, CFA®
Co-Portfolio Manager

Dan Morrall
Co-Portfolio Manager

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Important Information

Disclosures

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful.

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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 3000® Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000® Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are included.
The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.

Technical Terms: **The Consumer Price Index (CPI)** is a measure of the aggregate price level in an economy. The CPI consists of a bundle of commonly purchased goods and services. The CPI measures the changes in the purchasing power of a country’s currency, and the price level of a basket of goods and services. **Return on Equity (ROE)** is the measure of a company’s annual return (net income) divided by the value of its total shareholders’ equity, expressed as a percentage (e.g., 12%). Alternatively, ROE can also be derived by dividing the firm’s dividend growth rate by its earnings retention rate (1 – dividend payout ratio). **CAGR** stands for the Compound Annual Growth Rate. It is 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. **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). **EV/EBITDA** is a ratio that compares a company’s Enterprise Value (EV) to its Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA). The EV/EBITDA ratio is commonly used as a valuation metric to compare the relative value of different businesses. **The put-call ratio (PCR)** is an indicator used by investors to gauge the outlook of the market. The ratio uses the volume of puts and calls over a determined time period on a market index to determine market sentiment. It can additionally be used for individual securities by looking at the volume of puts and calls on a security over a determined time period. A high PCR is indicative of bearish sentiment while a low PCR is indicative of bullish sentiment. **ROIC** stands for Return on Invested Capital and is 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. Benchmarking companies use the ROIC ratio to compute the value of other companies. **Free cash flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets. Unlike earnings or net income, free cash flow is a measure of profitability that excludes the non-cash expenses of the income statement and includes spending on equipment and assets as well as changes in working capital from the balance sheet. (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.

STERLING CAPITAL

Sterling Capital Management – Special Opportunities SMA Composite
January 1, 2012 – December 31, 2021

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 ($MM)	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 3000	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2021	27.82	24.33	3	288	75,308	Not Meaningful	25.66	19.35	17.94
2020	15.23	13.92	3	419	70,108	Not Meaningful	20.89	20.36	19.41
2019	27.22	25.74	4	525	58,191	Not Meaningful	31.02	12.31	12.21
2018	-3.32	-4.46	4	453	56,889	Not Meaningful	-5.24	10.99	11.18
2017	20.55	19.08	4	493	55,908	Not Meaningful	21.13	9.85	10.09
2016	5.72	4.31	4	721	51,603	Not Meaningful	12.74	10.35	10.88
2015	9.59	8.00	4	901	51,155	Not Meaningful	0.48	9.67	10.58
2014	15.93	14.23	4	927	47,540	Not Meaningful	12.56	9.33	9.29
2013	26.61	24.72	4	850	45,638	Not Meaningful	33.55	13.49	12.71
2012	15.45	13.68	4	718	4,422	Not Meaningful	16.42	15.75	15.95

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 12/31/21. 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.

Please refer to the slide titled "Performance" for the one-, five-, and ten-year returns of the composite.

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. 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 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.
3. 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.
4. "Pure" gross of fees returns are presented as supplemental information and do not reflect the deduction of any fees including trading costs. Effective January 1, 2021, the net of fee return reflects the maximum bundled external platform fee of 2.82%. Prior to January 1, 2021, 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. The maximum SMA or bundled external platform fee is 2.82% annually and includes Sterling's actual management fee of 0.32%. Sterling's actual management fees are 50 basis points annually or less. Since inception, the composite is comprised 100% of wrap fee portfolios.
5. 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.
6. 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.