Mid Cap Value SMA Commentary

4th Quarter 2023

In the fourth quarter of 2023, Sterling Capital's Mid Cap Value SMA composite returned 9.79% net versus 12.11% for the Russell Mid Cap Value® Index. For the year, it returned 9.45% net versus 12.71% for the Russell Mid Cap Value Index.

Performance	QTR	YTD	1YR	3YR	5YR	10YR	Since Inception[1]
Sterling (Gross)	10.58%	12.71%	12.71%	7.02%	11.38%	7.40%	11.01%
Sterling (Net)	9.79%	9.45%	9.45%	3.91%	8.15%	4.28%	7.80%
Russell MidCap Value® Index	12.11%	12.71%	12.71%	8.36%	11.16%	8.26%	9.38%

Market Commentary

During 2023, the Federal Reserve (Fed) once again dominated the investment landscape, in our view. It seems that unprecedented monetary stimulus does not happen without some unpleasant aftershocks. Initially, these took the form of excessive price movements and speculation in the financial markets. 2023 had the highest inflation rate in decades and an unusually aggressive round of monetary tightening. Notably, the 10-year Treasury careened from roughly a 3.8% yield to 5.0%+ in the fall before returning to its starting point.

Entering 2023, many economic forecasters appeared to believe that a recession was inevitable. We did not disagree. However, we were reluctant to reposition the portfolio in order to reflect that macroeconomic outlook. We believe that was the correct decision, as the economy remained surprisingly resilient. That said, since both monetary tightening and stricter lending standards typically impact the economy with a 12-18 month lag, we continue to believe that a recession is probable mid-year 2024.

In this context, it is worth revisiting the portfolio's financial sector exposure, particularly our exposure to commercial banking. Coming into this past year, the portfolio carried a modest overweight to commercial banks through investments in M&T Bank, South State and Pinnacle Financial. Each of the three ranked above-average as measured by the quality of their deposit base, their balance sheet, or their history of credit losses. We were confident in their respective abilities to weather the storm and added to our positions. In hindsight, we believe we should have added to our positions more aggressively. Our risk-averse approach reflected the likelihood of a recession in the coming year. In our experience, the shares of companies with substantial credit exposure do not bottom until the unemployment rate peaks.

Just as significant, in our view, was the portfolio's exposure to gyrating interest rates this past year. At the beginning of 2023, our internal analytics team estimated that the portfolio was structured to benefit modestly from higher interest, and that proved to be the case. We believe that this is due primarily to our longstanding underweights to utilities and real estate, which tend to be interest rate-sensitive. Other company-specific and sector exposures played a role as well. It should be noted that the aggregate exposure to interest rates is a result of our bottom-up approach to investing rather than any conviction in a macroeconomic forecast.

[1]Inception date is 04.01.1999. Data is as of 12.31.2023. Yields are subject to market conditions and are therefore expected to fluctuate. The benchmark is the Russell Midcap Value. Effective 06.30.2023, the net of fee performance reflects the deduction of the maximum SMA bundled fee of 3.00% annually for all periods presented. 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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Given the significant imbalances in the federal budget deficit, a still tight labor market, ongoing upward pressure on the budget from entitlement spending and retrenchment in the global supply chain in response to geopolitical events, we remain comfortable with the portfolio's bias to higher interest rates.

The takeout (i.e., acquisition) of portfolio holdings, an activity which we believe has historically driven a substantial portion of the portfolio's alpha, remained subdued as a result of higher interest rates and the general economic uncertainty. The sole acquisition during the year was of Pioneer Natural Resources, exploration and production (E&P) company focused on the Permian Basin. Our initial investment premise was that the company's unusually long reserve life, low drilling costs and low-risk acreage were underappreciated. It turned out that Exxon Mobil, which agreed to buy Pioneer last fall, appeared to agree with us.

Portfolio Commentary

While overall stock selection was positive for the year, it was more than offset by adverse sector selection. With regards to stock selection: positive contributions within the health care and financial sectors were offset by weak performance by our industrial holdings. Sector selection was impacted primarily by the portfolio's overweight within the poor performing health care sector. Specific companies are discussed below.

2023 Contributors

2023 Contributors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return
Take-Two Interactive Software, Inc.	2.71%	1.32%	1.24%
Radian Group Inc.	1.84%	1.03%	0.97%
Global Payments Inc.	3.17%	0.88%	0.78%
Hilton Worldwide Holdings Inc	2.10%	0.84%	0.78%
SLM Corp	2.99%	0.72%	0.63%

Take-Two Interactive released the first trailer of Grand Theft Auto 6 and confirmed a 2025 release date. The trailer did not disappoint in terms of content, graphics, scope, and gameplay. For the past several years, Take-Two has invested heavily in its pipeline. We believe the company should start to benefit from these investments in the next year or so, which could lead to a meaningful step-change in earnings.

Radian Group announced an accelerated capital return strategy in January and reported better-than-expected earnings during the year. In addition, resilient home prices appeared to allay concerns about future credit losses.

Global Payments reported Merchant Solutions volume growth that exceeded broader market growth rates. The results provided a strong counterpoint to fears of market share loss to new entrants.

Hilton Worldwide performed well as global travel continued to recover in 2023, especially in China. We believe the pipeline remains strong, and the core business is healthy.

SLM Corp. reacted positively to strong loan origination and moderating loan losses. Pressure in late 2022 due to changes in forbearance policies and pandemic-specific hiring challenges appear to be behind the company. In addition, the resumption of federal student loan payments in September did not appear to meaningfully impact loan losses.

Attribution data is as 12.31.2023. Source: Factset. Please refer to the performance disclosures on p.5 for additional information.

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2023 Detractors

2023 Detractors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return
Corteva Inc	3.36%	-0.72%	-0.82%
Dollar General Corporation	1.05%	-0.37%	-0.40%
Cigna Group	2.32%	-0.31%	-0.38%
Sensata Technologies Holding	2.45%	-0.29%	-0.36%
Centene Corporation	3.39%	-0.29%	-0.39%

Falling corn and soybean prices put pressure on farm incomes and therefore on **Corteva**'s profits. Additionally, dealers found themselves with excess inventories of crop protection chemicals.

Dollar General reported weaker-than-expected results in response to increasing wages and lower pricing. With expectations reset lower, supply chain pressure easing, and inventory declining, we believe the company is well-prepared if management's expectation of positive traffic in 4Q23 becomes a reality. The return in October of CEO Todd Vasos underscored our conviction in the company's turnaround.

Sensata Technologies posted weaker-than-expected end market outgrowth, which management blamed on launch pushout, inventory de-stocking and weak industrial end markets. We believe these issues are transitory and that recent investments have positioned the company to gain share as the shift to electric vehicles accelerates.

Centene came under pressure from uncertainty over the impact of redetermination, the annual process used to determine Medicaid eligibility. Redeterminations were suspended during the pandemic, thereby inflating participation. Centene has provided a detailed and manageable assessment of the financial impact, but investors appear to remain skeptical.

Cigna Corp. was impacted by several developments. In March, the Senate passed the Pharmacy Benefit Manager (PBM) Transparency Act, which seeks to increase transparency on various pricing strategies. PBMs have routinely been in the political crosshairs in the past, each time emerging relatively unscathed. In November, the company was reported to be in discussions to acquire Humana, a leader in the Medicare market. Shares reacted poorly before partially recovering once deal talks were suspended. There seems to be latent concern that a merger may still transpire later, in our view.

New purchases

Columbia Sportswear is a an outdoor-focused clothing and shoe company whose major brands include Columbia Sportswear (83% of sales), SOREL (10%), prAna (4%) and Mountain Hardware (3%). The company's valuation reflects concerns about the health of the U.S. consumer, excess inventory, and the transition away from polyfluoroalkyl substances (PFAS) which are known as "forever" chemicals. We believe that these issues are transitory, namely that excess inventory will clear, PFAS products will be updated, and consumer demand will eventually recover.

We re-initiated a position in **Portland General**, an Oregon electric utility, after visiting onsite with their senior management. We believe the company is making progress on reducing the impact of regulatory drag. Their power cost-sharing agreement (PCAM) imposes asymmetric penalties for power volatility and appears to be a key reason shares trade at a discount to peers. We believe PCAM progress should help close the valuation gap.

Attribution data is as of 12.31.2023. Source: Factset. Please refer to the performance disclosures on p.5 for additional information.

Paycom Software (PAYC) provides human capital management (HCM) software to small businesses. The company recently launched a new product which allows employees to approve payroll before it is processed, resulting in more accurate paychecks.

Sales

Allete was sold when the shares performed strongly in response to news that the management was investigating a sale of the company. Proceeds were recycled into Portland General.

Encompass Healthcare was sold when it reached our estimate of fair value.

Laboratory Corporation of America was sold to consolidate our position in Fortrea, the clinical research organization which Labcorp spun off earlier in the year.

Summary

Geopolitical events are likely to continue to make headlines this year, in our opinion. We are optimistic, however, that the Fed will fade into the background as it seems to be winning the battle to reduce inflation and has historically been less active during presidential election years. If this proves to be the case, it should allow the equity markets to return to some semblance of normality following several turbulent years.

We believe that the portfolio is well-positioned with holdings that have a significant amount of unrecognized value. We look forward to updating you on their progress in the year ahead.

Patrick W. Rau, CFA®	Will C. Smith, CFA®
Managing Director	Executive Director
Co-Portfolio Manager	Co-Portfolio Manager

[1]Sources: FactSet; Gartner; Stream; Multiple Employer Websites. Note: as part of our research process to fully develop a mosaic view informed by multiple inputs, we rely on our research provider, Stream, along with multiple corroborating sources to uncover information that informs our investment thesis. In this case we were able to derive employee feedback on this new product via various employer websites. Please refer to the performance disclosures on p.5 for additional information. On occasion, our communications may mention companies or industries in which we do not have current holdings. In these instances, the information is for illustrative or comparative purposes and does not constitute an investment recommendation to purchase or sell a particular security.

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. Economic charts are provided for illustrative purposes only. The information provided herein is subject to market conditions and is therefore expected to fluctuate.

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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. 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.

A Note on Indices: The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

The **Russell Midcap® Value Index** measures the performance of the midcap value segment of the U.S. equity universe. It includes those Russell Midcap® Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap® Value Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap value market. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true midcap value market.

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Sterling Capital Mid Cap Value SMA

	Total Gross Return AWR	Total Net Return AWR	Benchmark	3Yr Ex-Post Std Dev Composite Gross	3Yr Ex-Post Std Dev Benchmark	Internal Asset Wtd. Dispersion	Number Of Portfolios	Composite Assets (MM)	Total Firm Assets (MM)
2022	-11.72%	-14.33%	-12.03%	26.34%	24.44%	n/a	14	575	62,842
2021	23.20%	19.66%	28.34%	25.22%	21.95%	0.10%	6	2	75,309
2020	8.10%	4.94%	4.96%	26.35%	22.62%	0.52%	7	3	70,108
2019	29.33%	25.63%	27.06%	15.83%	12.79%	1.33%	41	21	58,191
2018	-16.73%	-19.20%	-12.29%	14.79%	11.96%	0.49%	76	28	56,889
2017	14.74%	11.42%	13.34%	13.78%	10.32%	0.36%	83	43	55,908
2016	18.17%	14.76%	20.00%	14.14%	11.30%	0.63%	178	97	51,603
2015	-0.89%	-3.78%	-4.78%	12.69%	10.71%	0.56%	384	175	51,155
2014	6.45%	3.35%	14.75%	11.80%	9.81%	0.36%	409	192	47,539
2013	47.31%	43.14%	33.46%	15.94%	13.69%	0.65%	416	205	45,638

Benchmark: Russell MidCap® Value Index   Composite Creation Date: 12.31.2005   Inception Date: 04.01.1999

1. Consists of all discretionary separately managed wrap mid capitalization equity portfolios. SCM's mid capitalization equity accounts invest primarily in companies similar to the market capitalization of the Russell MidCap® Index. Prior to 12/31/04, portfolios were not tax-managed. Beginning 1/1/05 tax management strategies can be employed per individual account request.
2. 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 01/01/2001 to 12/31/2022. 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. Benchmark returns are not covered by the report of the independent verifiers. 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.
3. 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 merged into Sterling Capital 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.
4. The performance presented represents past performance and is no guarantee of future results. Market and economic 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 slide titled "Performance" for the one-, five-, and ten-year returns of the composite.
5. 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.
6. 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. Effective 1/1/05, composite returns are calculated by weighting the individual portfolio returns using beginning of period market values. Prior to 1/1/05, composite returns were asset weighted using the aggregate method that reflects both beginning market value and cash flows.
7. Gross of fees returns are presented as supplemental information and may not reflect the deduction of any fees including trading costs. Net returns are calculated by deducting the highest applicable wrap fee of 3.00% annually from the pure gross composite return. As of 6/30/23, the composite model fee was updated to 3.00% annually for all periods presented. Prior to this change, the net of fees returns reflected the highest equity wrap fee schedule of 2.82%. Prior to 1/1/21, the net of fees returns reflected the actual SMA fee of the individual accounts. From 9/30/06 through 12/31/19 the gross and "pure" gross of fees returns include commissions. The SMA fee includes charges for trading costs, portfolio management, custody, and other administrative fees. The maximum SMA or bundled external program fee for Mid Cap Value is 1.45% annually and includes Sterling's actual management fee of 0.45%. An actual fee charged to an individual portfolio may vary by size and type of portfolio. Sterling's actual management fees are 45 basis points annually or less. From 4/1/99 to 12/31/04 the composite was comprised 100% of separate accounts. Beginning 1/1/05 through 6/1/22 the composite was comprised 100% of wrap fee portfolios. Beginning 6/1/22 the composite contains both separate accounts and wrap fee portfolios. As of 12/31/22 the % of wrap fee portfolios was 0.3% of the composite.
8. Effective 1/1/22, portfolios are removed from the composite for flows 10% or greater of prior month portfolio market value. Portfolio remains out of the composite for the month of the flow and for one additional period. Prior to 1/1/22, portfolios were not removed from the composite for flows.
9. The appropriate benchmark is the Russell MidCap® Value Index which consists of stocks from the Russell MidCap® Index with a less than average growth orientation and lower price-to-book ratios. It represents the universe of stocks from which value managers typically select. The index is reconstituted annually. Total return includes price appreciation/depreciation and income as a percent of original investment.
10. 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 when a full three years of composite performance is not yet available.