Sterling Capital Real Estate SMA Commentary

4th Quarter 2023

In the fourth quarter of 2023, the Sterling Capital Real Estate SMA returned 16.36% (net of fees) versus 17.99% for the Bloomberg U.S. 3000 Real Estate Investment Trust (REIT) Index.

Market Commentary

- The fourth quarter of 2023 saw a bounce back for the REIT sector, which rose nearly 18% to deliver the strongest quarterly performance since the fourth quarter of 2009. REIT price action, in our view, was driven primarily by rapidly falling long-term interest rates. Several major inflation measures fell which, coupled with dovish commentary from several Federal Reverse (Fed) speakers, led to the widespread belief that the Fed would begin to lower rates in 2024. 10-yr U.S. Treasury rates fell precipitously from their October 19th closing high of 4.99% to end the year at 3.87%, sparking a rally amongst interest rate-sensitive assets including Real Estate. The REIT rally was widespread with all subsectors posting meaningfully positive returns in the quarter.
- Infrastructure was the top performing subsector as the cell tower owners long-term leases with high-credit quality tenants are among the most bond-like in the overall REIT sector. Self Storage also relatively outperformed, despite having one of the shorter lease durations in the sector. Subsector returns were buoyed by investor rotation into one of the larger constituents, which utilizes an above-average level of floating rate debt. Residential was the worst performer as concerns over the 2024 supply deliveries mounted, and falling interest rates may re-ignite the homebuying market. Health Care was also a poor performer as the tenant's cash flow weakness pervades the skilled nursing and hospital-focused REITs.

Performance	QTR	YTD	1YR	3YR	5YR	10YR
Sterling (Gross)	17.18%	13.94%	13.94%	5.72%	8.61%	9.05%
Sterling (Net)	16.36%	10.65%	10.65%	2.64%	5.46%	5.88%
Bloomberg U.S. 3000 REIT Index	17.99%	11.31%	11.31%	5.55%	7.61%	8.02%

Portfolio Commentary

- Quarterly underperformance versus the Bloomberg U.S. 3000 REIT Index was driven primarily by negative stock selection within the Retail, Specialty, and Industrial subsectors. Positive stock selection within the Self Storage, Health Care, and Office subsectors served as partial offsets.

Inception date is 01.01.2002. Data is as of 12.31.2023. Sources: Bloomberg L.P.; eVestement Alliance; Sterling Capital Management Analytics. Performance results prior to 08.01.2015 are considered "predecessor performance" and were achieved by the Relative Value team when they were part of the Stratton Management Company. 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..

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- Positive relative performance within Self Storage was driven by portfolio holding Extra Space Storage (EXR). The REIT carries an above-average level of variable rate debt on its balance sheet following a recent merger, and investors viewed the potential of coming Fed interest rate cuts beneficial to EXR's earnings outlook. Positive stock selection also drove relative outperformance within Health Care as portfolio holding Ventas (VTR) showed increasing occupancy and rental rates within its senior housing portfolio. Within the Office subsector, portfolio holding Hudson Pacific (HPP) rallied following the resolution of Hollywood strikes, which portends the restart of occupancy in the REIT's production studio assets.
- On the negative side, the portfolio's Retail returns were weighted down by the broad outperformance of malls (+34.4%), to which the portfolio has no allocation, versus shopping centers (+15.7%), which the portfolio is overweight. Portfolio holding Kite Realty Trust also underperformed peers. Negative selection within Specialty subsector driven by portfolio holding Vici Properties (VICI), which relatively underperformed other REITs in the diverse property type which includes document storage, billboards, and farmland. The portfolio's overweight allocation to Data Centers also negatively impacted performance as the subsector underperformed following multiple quarters of outperformance driven by artificial intelligence (AI)-related demand for space and power.

Top Ten Holdings[1]	
American Tower Corporation	9.54%
Prologis, Inc.	9.06%
Equinix, Inc.	7.14%
Welltower Inc.	4.71%
Digital Realty Trust, Inc.	4.29%
Extra Space Storage Inc.	4.04%
VICI Properties Inc	3.86%
SBA Communications Corp. Class A	3.82%
Invitation Homes, Inc.	3.66%
Essex Property Trust, Inc.	3.24%

Contributors and Detractors

Primary relative contributors to quarterly performance were:

- Positive stock selection within the Self Storage subsector driven by portfolio holding Extra Space Storage.
- Positive stock selection within the Health Care subsector driven by portfolio holding Ventas, Inc.
- Positive stock selection within the Office subsector driven by portfolio holdings Hudson Pacific Properties and Alexandria Real Estate.

[1]As a percentage of total net assets. Data is as of 12.31.2023. Attribution data is as of 12.31.2023. Sources: Bloomberg L.P.; FactSet. Attribution source: FactSet. Please refer to the performance disclosures on p.4 for additional information.

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Primary relative detractors to quarterly performance were:

- Negative stock selection within the Retail subsector as portfolio holding Kite Realty trailed peers. Additionally, malls to which the portfolio has no allocation, outperformed shopping centers which the portfolio is overweight.
- Negative stock selection within the Specialty subsector. Portfolio holding Vici Properties was a relative underperformer.
- An overweight allocation to the Data Center subsector.

Quarterly Activity

- There were no new positions started or full positions eliminated in the quarter. Portfolio turnover was 6.42% in 2023.

Summary and Outlook

- The fourth quarter of 2023 saw a bounce back for the REIT sector, which rose nearly 18% to deliver the strongest quarterly performance since the fourth quarter of 2009. REIT price action, in our view, was driven primarily by rapidly falling long-term interest rates. Several major inflation measures fell which, coupled with comments from Fed speakers that the market interpreted as dovish, led to the widespread belief that the Fed would begin to lower rates in 2024. 10-yr U.S. Treasury rates fell precipitously from their October 19 closing high of 4.99% to end the year at 3.87%, sparking a rally amongst interest rate-sensitive assets including Real Estate. The REIT rally was widespread with all subsectors posting meaningfully positive returns in the quarter.
- The conclusion of a Fed interest rate hiking campaign has traditionally marked the beginning of strong REIT returns. The market has interpreted recent Fed governor commentary as signaling rates are more likely to be cut than hiked, and REIT price performance reflected this change in outlook. If inflation remains subdued in 2024, we are hopeful the recovery in REIT shares will continue.
- We suspect interest rates will not return to the historically low levels of 2020-2021. Public REITs with strong balance sheets may see the opportunity to acquire good assets from private owners with flawed capital structures, setting the stage for longer-term earnings growth.
- We maintain an overweight exposure to Data Center REITs, which have durable demand drivers regardless of the economic environment. We also maintain an overweight to for-rent Residential. We expect the lack of for-sale inventory and high interest rates to keep prospective home buyers on the sidelines, continuing to rent at rates reflecting recent inflation.
- Regardless of the subsector, our holdings represent what we consider attractive relative values.
- Investing in REITs with quality properties, balance sheets, cash flow streams, and management teams remains a key part of our process. Those attributes have historically been rewarded through economic cycles.

Data is as of 12.31.2023. Attribution data is as of 12.31.2023. Attribution source: FactSet. Please refer to the performance disclosures on p.4 for additional information.

Important Information

Disclosures, Technical Terms & Indices

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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Concentration Risk: The risk that the strategies concentration in REITs and other real estate-related securities may produce a greater risk of loss than a more diversified strategy.

Artificial Intelligence (AI) refers to the simulation of human intelligence by software-coded heuristics.

Real Estate-Related Investment and REIT Risk: Real estate-related investments may decline in value as a result of factors affecting the real estate industry. Risks associated with investments in securities of companies in the real estate industry include decline in the value of the underlying real estate, default, prepayment, changes in value resulting from changes in interest rates and demand for real and rental property, and the management skill and creditworthiness of REIT issuers. The strategy will indirectly bear its proportionate share of expenses, including management fees, paid by each REIT in which the strategy invests.

Funds from Operations- without duplication for any period, Income from Operations, plus (i) Borrower's Share of Income from Operations of any Investment Affiliate (plus Borrower's Share of real estate depreciation and amortization expenses of Investment Affiliates), plus (ii) real estate depreciation and amortization expense for such period.

Net of fees performance returns are presented net of the investment management fees and trading expenses. 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. Portfolio attribution returns can differ from official returns due to attribution using holdings based analysis versus transaction based. Attribution information, including information pertaining to a manager's sector weighting and performance, is calculated based on a representative portfolio and therefore will not necessarily represent every client's portfolio. Individual account weightings and performance results will generally differ from the representative portfolio results due to such factors as client directives and/or constraints, the timing of an account's inception and subsequent cash inflows and outflow, and extreme market conditions. Performance is considered Supplemental Information to the GIPS Composite Report which is attached.

The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

The Bloomberg U.S. 3000 REIT Index is an unmanaged index (with no defined investment objective). The Index is a float market-cap-weighted equity benchmark that derives membership from the Bloomberg U.S. 3000 Index and includes companies with a Bloomberg Industry Classification System (BICS) level 3 industry classification of REIT. Indices are not securities that can be purchased or sold, and their total returns are reflective of unmanaged portfolios. The returns include reinvestment of interest, capital gains and dividends. The Index is the Real Estate composite's secondary benchmark.

S&P 500® Index, or simply the S&P, is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices, and many consider it to be one of the best representations of the U.S. stock market.

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.

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Sterling Capital Real Estate 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	-25.56%	-27.79%	-25.08%	21.87%	22.25%	n/a	1	74	62,842
2021	39.30%	35.34%	41.02%	17.22%	18.35%	n/a	1	111	75,309
2020	0.14%	-2.79%	-4.60%	17.09%	18.24%	n/a	1	92	70,108
2019	27.75%	24.10%	28.64%	11.41%	11.54%	n/a	1	105	58,191
2018	-2.10%	-4.96%	-4.08%	12.89%	12.81%	n/a	1	84	56,889
2017	8.70%	5.54%	8.86%	12.75%	12.56%	n/a	1	98	55,908
2016	9.04%	5.88%	8.59%	14.14%	14.10%	n/a	1	93	51,603
2015	2.70%	-0.29%	3.17%	13.72%	13.65%	n/a	1	96	51,155
2014	31.97%	28.20%	28.16%	12.41%	12.61%	n/a	1	94	2,984
2013	3.37%	0.35%	3.04%	15.60%	16.25%	n/a	1	79	2,635

Benchmark: Bloomberg U.S. 3000 REIT Index Composite Creation Date: 09.26.2023 Inception Date: 01.01.2002

1. Consists of all discretionary separately managed real estate portfolios managed in the REIT strategy. The strategy seeks total return through investment in real estate securities, which may be equity securities of issuers of any size and debt securities with any maturities. The strategy normally invests at least 80% of assets in securities of real estate and real estate related companies, or in companies which own significant real estate assets at the time of purchase and will include at least 25% in Real Estate Investment Trusts.
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. 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 1/1/22, composite returns are calculated by weighting the individual portfolio returns using beginning of period market values. From 8/1/15 to 1/1/22, composite returns were asset weighted using the average capital base method that reflects both beginning market value and cash flows and uses the aggregate method. Prior to 8/1/15 composite returns were calculated by weighting the individual portfolio returns using beginning of period market values. Performance results prior to August 1, 2015 are considered "predecessor performance" and were achieved by the Relative Value Team when they were part of the Stratton Management Company.
7. Gross of fees returns are presented before management fees but after all trading costs. Net returns are calculated by deducting the highest applicable wrap fee of 3.00% annually from the gross composite return. Since inception, the composite contains only the pooled vehicle account.
8. The appropriate benchmark is the Bloomberg U.S. 3000 REIT Index. This index is a float market-cap-weighted equity benchmark that covers companies classified as REIT per BICS level 3 sub-industry classifications and are of the 3000 most highly capitalized U.S. companies. Prior to 3/31/23, the benchmark was the FTSE NAREIT All Equity REITS Index, which contains all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria.
9. 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.