Real Estate SMA Commentary

1st Quarter 2024

In the first quarter of 2024, the Sterling Capital Real Estate SMA returned -1.71% (net of fees) versus -1.33% for the Bloomberg U.S. 3000 Real Estate Investment Trust (REIT) Index.

Market Commentary

- The REIT sector posted a -1.33% return in the first quarter of 2024, unable to maintain positive momentum from the prior quarter. REIT price action remains primarily driven by changes in long-term interest rates, which rose 32 basis points (bps) in the quarter as several major inflation measures remained above longer-term Federal Reserve (Fed) targets. The 18% return for REITs in 4Q 2023 came on the back of expectations for ~150 bps of Fed rate cuts in 2024, but stubborn inflation has reduced that outlook. At the end of 1Q, the market is now pricing-in 75 bps of cuts.
- Data Centers were the top performing subsector as demand from artificial intelligence (AI) and AI-related applications remained strong while power transmission challenges, both domestically and internationally, have slowed new construction deliveries. Lodging also relatively outperformed as strong economic data gave investors confidence that travel spending will continue to grow in both the leisure and business channels. Diversified was the worst performer. Subsector returns were weighed down by constituents with exposure to longer-term leases, which tend to decline most in value when interest rates rise. Infrastructure, which consists primarily of cell tower REITs, was also a poor performer. Cell tower leases are longer-term in nature and subsector valuations were hurt by rising interest rates.

Performance	QTR	YTD	1Y	3Y	5Y	10Y
Sterling (Gross)	-0.98%	-0.98%	8.88%	3.06%	5.23%	8.02%
Sterling (Net)	-1.71%	-1.71%	5.72%	0.05%	2.16%	4.88%
Bloomberg U.S. 3000 REIT Index	-1.33%	-1.33%	7.98%	2.35%	3.98%	6.96%

Portfolio Commentary

- Quarterly outperformance versus the Bloomberg U.S. 3000 REIT Index was driven primarily by positive stock selection within the Office, Industrial, and Retail subsectors. Negative stock selection within the Specialty and Infrastructure subsectors, as well as an underweight to Timber, served as partial offsets.

Inception date is 01.01.2002. Data is as of 03.31.2024. 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. Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are preliminary and are presented net of the investment management fees and trading expenses. Gross of fees performance returns reflect the deduction of 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. Net returns are calculated by deducting the highest applicable wrap fee of 3.00% annually from the gross composite return.

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- Positive relative performance within Office was driven by portfolio holding Highwoods Properties. The REIT's focus on higher population growth markets across the Southeastern United States has resulted in better-than-expected leasing results thus far in 2024. Positive stock selection also drove relative outperformance within Industrial as portfolio holdings First Industrial and EastGroup Properties delivered strong earnings results and forward guidance. Within the Retail subsector, portfolio holding Tanger, Inc. outperformed peers as recent accretive property acquisitions drove the REIT's earnings outlook higher.
- On the negative side, stock selection within the Infrastructure subsector was driven by portfolio holdings SBA Communications and American Tower as the cell tower owners' valuations contracted in the face of rising rates. Negative selection within the Specialty subsector was driven by portfolio holding Vici Properties, which relatively underperformed other REITs in the diverse property type which includes document storage, billboards, and farmland. The portfolio's underweight allocation to Timber also negatively impacted performance as the subsector advanced with lumber prices held steady in a surprisingly strong home building environment.

Top Ten Holdings[1]	
Prologis, Inc.	9.05%
American Tower Corporation	8.94%
Digital Realty Trust, Inc.	6.51%
Welltower Inc.	4.79%
Equinix, Inc.	4.79%
Invitation Homes, Inc.	3.91%
Extra Space Storage Inc.	3.79%
VICI Properties Inc.	3.60%
Essex Property Trust, Inc.	3.27%
Tanger Inc.	3.26%

Contributors and Detractors

Primary relative contributors to quarterly performance were:

- Positive stock selection within the Office subsector driven by portfolio holding **Highwoods Properties**.
- Positive stock selection within the Industrial subsector driven by portfolio holdings **First Industrial** and **EastGroup Properties**.
- Positive stock selection within the Retail subsector driven by portfolio holding **Tanger, Inc.**

[1]As a percentage of total net assets. Data is as of 03.31.2024. Attribution data is as of 03.31.2024. 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 from quarterly performance were:

- Negative stock selection within the Infrastructure subsector driven by portfolio holdings **SBA Communications Corp.** and **American Tower Corp.**
- Negative stock selection within the Specialty subsector, as portfolio holding **Vici Properties** was a relative underperformer.
- An underweight allocation to the Timber subsector.

Quarterly Activity

- There was one new position started and two full positions eliminated in the quarter.
- Portfolio turnover was an annualized 16.29% in the first quarter of 2024.
- In January we opened a new position in **Sabra Health Care REIT, Inc.** (SBRA). Sabra is an owner of health care properties, including skilled nursing facilities (SNFs), senior living communities, and behavioral health centers. Over the last six years, Sabra has broadened its health care focus from predominately SNF assets to a near-even mix of SNFs and other, higher margin property types. The shift has also resulted in greater tenant diversity and what we expect to be steadier revenue and cash flow growth, which will drive an improved relative valuation. Within the SNF portfolio, we look for tenant rent coverage levels to improve after nearly eight years of headwinds from Medicaid/Medicare rate increases that trailed expense increases. Patient rates have risen in recent quarters while operators have gotten a handle on expenses, aided by closures of lower-quality facilities that has resulted in lower overall supply. With an improving SNF tenant profile, an ongoing recovery in Senior Housing demand post-pandemic, and a balance sheet positioned for accretive acquisitions, we view Sabra's cash flow growth outlook positively while its valuation is attractive relative to peers.
- The acquisition of Sabra was partially funded by exiting our position in **Hudson Pacific Properties** (HPP), an owner of West Coast office and studio assets. Our initial purchase of HPP came with the identification of several potential catalysts – stabilized office leasing in California, the end of the Hollywood writers and actors strikes, and monetization of the REIT's One Westside asset. All three catalysts occurred in the final months of 2023 and the stock responded positively. However, we were unable to find additional reasons to own the stock at its improved relative valuation and elected to exit our full position.
- In March, we sold our remaining holdings of **Retail Opportunity Investments Corp.** (ROIC). The REIT's high-quality West Coast shopping center portfolio produced steady rental rate increases and maintained high occupancy levels, but ROIC's capital allocation practices held back earnings growth. Specifically, the growth plan built around acquisitions became difficult to execute as the share price fell, with management openly discussing potential dilutive transactions. Meanwhile the debt maturity schedule suggested coming dilutive re-financings, further dampening the earnings outlook. Our negative view on the company's earnings growth, coupled with a still-strong relative valuation, led us to exit our position.

Data is as of 03.31.2024. Attribution data is as of 03.31.2024. Attribution source: FactSet. Please refer to the performance disclosures on p.4 for additional information.

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Summary and Outlook

- The REIT sector posted a -1.33% return in the first quarter of 2024, unable to maintain positive momentum from the prior quarter. REIT price action remains primarily driven by changes in long-term interest rates, which rose 32 bps in the quarter as several major inflation measures remained above longer-term Fed targets. The 18% return for REITs in 4Q 2023 came on the back of expectations for ~150 bps of Fed rate cuts in 2024, but stubborn inflation has reduced that outlook. At the end of 1Q, the market is now pricing-in 75 bps of cuts.
- The conclusion of a Fed interest rate hiking campaign has traditionally marked the beginning of strong REIT returns. While Fed commentary continues to signal that rate increases are likely done, stubborn inflation is pushing back the timing of potential cuts and even casting doubt on the likelihood of fed funds rate reductions in 2024.
- We suspect interest rates will eventually fall, though not to the historically low levels of 2020-2021. As a result, 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 for-rent Residential. We expect the lack of for-sale inventory and high interest rates to keep prospective home buyers on the sidelines. Meanwhile, declining apartment construction starts foreshadow a lower supply environment by the second half of 2025, adding to pricing power. We also remain overweight Data Center REITs, which have durable demand drivers irrespective of the economic environment. 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.

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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. 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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Sterling Capital does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.

Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are preliminary and are presented net of the investment management fees and trading expenses. Net returns are calculated by deducting the highest applicable wrap fee of 3.00% annually from the gross composite return. Gross of fees performance returns reflect the deduction of 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.

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 below technical terms are sourced from Corporate Finance Institute.

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.

Price to Funds From Operations (P/FFO), is a measure of the value of a Real Estate Investment Trust (REIT). The P/FFO metric is calculated by adding amortization and depreciation to the net income and then deducting the gains on the sale of properties. FFO deducts any gains or losses from the sale of assets, but does not account for deductions of capital expenditures, such as the maintenance of properties in the existing portfolio.

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 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.

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.

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Sterling Capital Real Estate SMA

	Total Gross Return	Total Net Return	Benchmark Return	3Y Composite Std. Dev. (Gross)	3Y Benchmark Std. Dev.	Composite Dispersion	Number of Portfolios	Composite Assets (MM)	Total Firm Assets (MM)
2023	13.94%	10.65%	11.31%	21.14%	21.12%	Not Calculable	1	$70	$66,746
2022	-25.56%	-27.79%	-25.08%	21.87%	22.25%	Not Calculable	1	$74	$62,842
2021	39.30%	35.34%	41.02%	17.22%	18.35%	Not Calculable	1	$111	$75,309
2020	0.14%	-2.79%	-4.60%	17.09%	18.24%	Not Calculable	1	$92	$70,108
2019	27.75%	24.10%	28.64%	11.41%	11.54%	Not Calculable	1	$105	$58,191
2018	-2.10%	-4.96%	-4.08%	12.89%	12.81%	Not Calculable	1	$84	$56,889
2017	8.70%	5.54%	8.86%	12.75%	12.56%	Not Calculable	1	$98	$55,908
2016	9.04%	5.88%	8.59%	14.14%	14.10%	Not Calculable	1	$93	$51,603
2015	2.70%	-0.29%	3.17%	13.72%	13.65%	Not Calculable	1	$96	$51,155
2014	31.97%	28.20%	28.16%	12.41%	12.61%	Not Calculable	1	$94	$2,984

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.