# Special Opportunities SMA Commentary

3rd Quarter 2024

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

Although it may be an understatement, we believe there are a lot of moving parts in the market as we get closer to year end.

- What will happen in the U.S. elections?
- When (*or will*) the conflicts end in the Middle East, Ukraine, and China/Taiwan?
- How will inflation shake out, unemployment, and thus Federal Reserve (Fed) policy?
- What are the near-term impacts and long-term implications of Hurricane Helene and Hurricane Milton?
- Where are consumer confidence, housing, construction, durable goods, manufacturing, and federal and state spending headed?
- What are the latest industry trends and how are enterprise budgets shaping up for next year?
- What inning are we in with artificial intelligence (AI)?
- What’s the volatility, direction, and outlook of the overall market?

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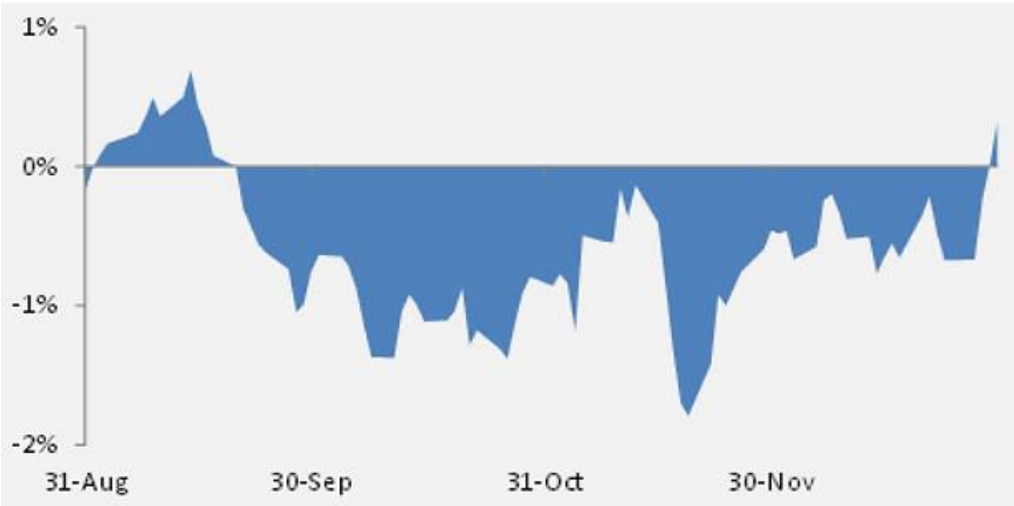
As a reminder, we claim to be market and macro aware yet have no crystal ball to forecast these factors with perfect accuracy. What we observed is that there are many market risk variables leading to quite a bit of uncertainty. So, how do we manage the Special Opportunities portfolio with regards to these concerns?

What we can say is such variables, though different in makeup and magnitude, have typically been key considerations in our portfolio management. Perhaps the size and shape may vary, but public equity investing typically includes market and macro risk. Yet for the Equity Opportunities Group (EOG) we remain steadfast in our philosophy and process and ultimately fall back on historical patterns, our experience and track record, and most importantly, company fundamentals. Moreover, in addition to managing market risks with a consistent approach over time, we believe that volatility and uncertainty can lend itself to opportunity. So, we continue our search and believe potential hidden gems could be hiding in plain sight if you know when and where to look.

For example, the following chart may illuminate a tax-loss selling dynamic or stocks that investors sell (*and perhaps continue to sell*) before year end to take advantage of the tax losses. Some of these carefully chosen stocks (*i.e. those with only transitory concerns*) may lead to good tax-loss sale bounce candidates for the following year.

**Year-to-date Worst-Performing Stocks (2005 to Date)**




Note: Average performance of the bottom 10% of YTD-performing stocks relative to the remainder of 1,000 largest market capitalization universe. Non-sector-neutral. The data shows YTD averages from 2005-2023 and 2024 data is from 01.01.2024-10.10.2024.
Sources: Wolfe Research Portfolio Strategy; Bloomberg L.P.

As far as timing goes, the chart on the top of the following page shows market seasonality. It displays the returns of the S&P 500® Index by month over the last ten years. There are no perfect rules but certain times of year show more weakness than others, such as the late summer doldrums, and some show more strength, such as spring, early summer, and year end.

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### S&P 500 Index Returns (2014-2024)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10 Yr Avg | .36 | .22 | .02 | 1.61 | .67 | 1.14 | 2.96 | .26 | -2.40 | 1.46 | 3.94 | .09 |
| 2024 | 1.02 | 5.25 | 3.11 | -4.47 | 4.57 | 2.97 | 1.78 | 2.04 | 1.95 | -1.18 | | |
| 2023 | 6.79 | -2.50 | 2.51 | .97 | .21 | 6.69 | 3.49 | -2.10 | -4.87 | -2.74 | 9.12 | 5.18 |
| 2022 | -5.96 | -2.65 | 3.11 | -9.05 | -.31 | -8.50 | 9.28 | -3.89 | -9.40 | 8.10 | 5.02 | -5.99 |
| 2021 | -.54 | 2.99 | 3.45 | 5.07 | .32 | 2.35 | 1.60 | 2.72 | -4.59 | 6.68 | -1.65 | 3.82 |
| 2020 | -.22 | -8.35 | -13.91 | 13.12 | 5.13 | 2.14 | 5.56 | 7.07 | -3.76 | -2.26 | 11.99 | 4.37 |
| 2019 | 8.45 | 3.30 | 1.30 | 3.88 | -6.68 | 6.86 | 1.37 | -2.25 | 1.60 | 2.04 | 3.59 | 2.73 |
| 2018 | 5.18 | -3.88 | -2.16 | .28 | 2.60 | .52 | 3.21 | 3.30 | .03 | -7.46 | 1.77 | -9.46 |
| 2017 | 1.78 | 3.49 | -.09 | .95 | .80 | .75 | 1.77 | -.04 | 2.30 | 2.08 | 2.80 | .86 |
| 2016 | -5.74 | -.29 | 6.85 | .51 | 1.55 | .03 | 3.85 | .02 | .01 | -2.27 | 4.21 | 1.79 |
| 2015 | -2.87 | 5.56 | -1.18 | .36 | 1.17 | -1.84 | 1.56 | -6.24 | -3.08 | 7.78 | .33 | -2.23 |
| 2014 | -3.25 | 4.51 | .38 | .02 | 1.96 | 2.34 | -2.09 | 3.99 | -2.23 | 2.64 | 2.21 | -.16 |

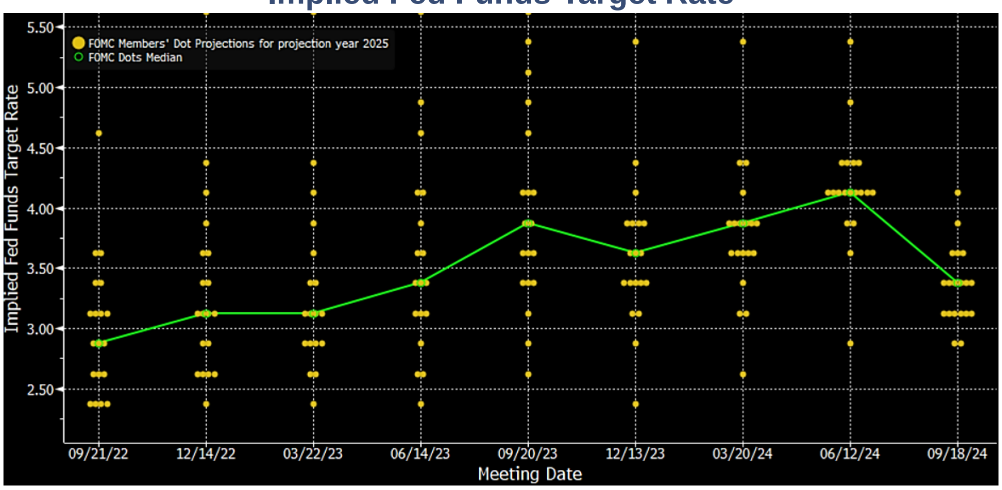
Source: Bloomberg L.P. Data is as of 10.01.2024.

Regarding the previous two charts, opportunities may present themselves this time of year. As such, our analysts have presented an elevated number of ideas (*radars*) for us to compare and analyze.

We would also note our boots on the ground approach to fundamentals. Sterling's recent meetings and conversations with other management teams have led to considerations of economic pause. Relating to the listed variables described on the first page, C-suites are noting considerable deliberation in customer decision making until political outcomes are clearer. Clarity around interest rates, geopolitical events, and weather are also significant concerns, in our view.

The recent Fed decision to lower rates by 50 basis points was perhaps an upside surprise to the market, but we are still at a restrictive level, so what does the progression look like? As noted in the chart below, rate expectations have been rising for a few years and Fed members have only recently coalesced to declines.

### Implied Fed Funds Target Rate




Source: Bloomberg L.P. Data is as of 10.01.2024.

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The fed funds rate is considered neutral at 3%, so persistent restrictive rates through 2025 and perhaps beyond may continue to constrain growth and normalize inflation. Noting the chart below (a composite of macro analysts contributing to Bloomberg), the current aggregate expectation is for both gross domestic product (GDP) and inflation to normalize near 2% sometime in the next year or two. Considering these estimates, the market expectation persists for a soft landing with a 30% chance of recession, as noted on the upper right corner of the chart.

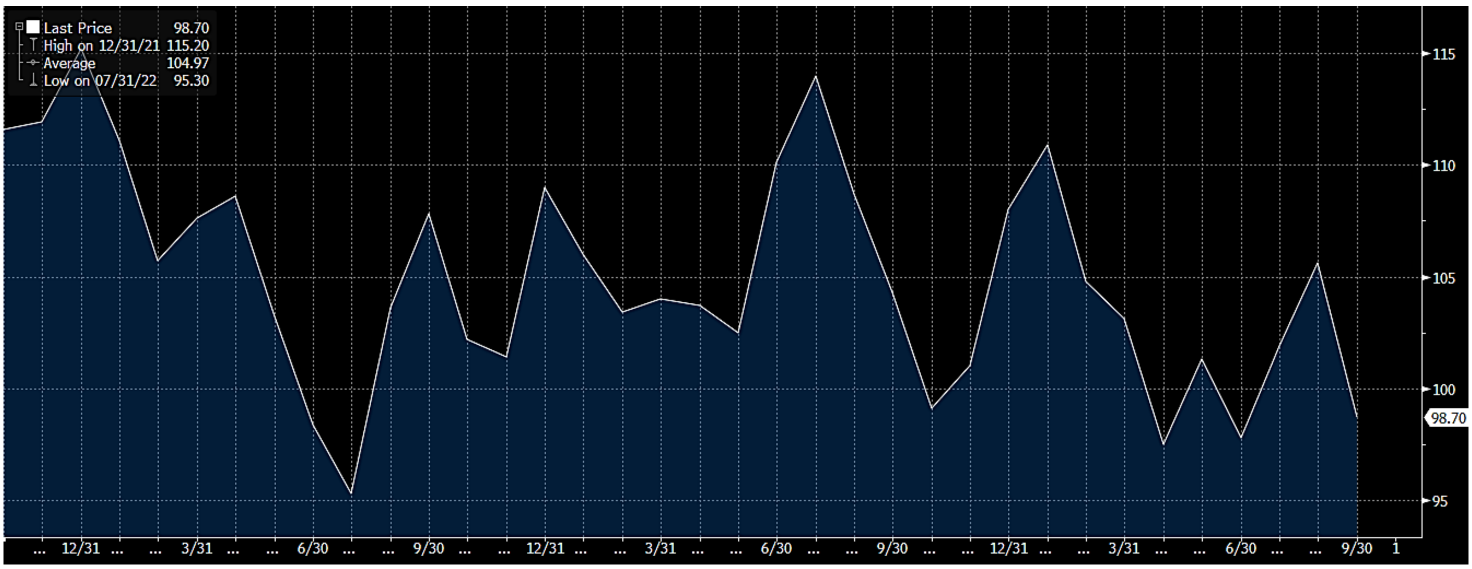
Country/Region/World: United States | Contributor: Contributor Composite | Yearly / Quarterly | Browse | Private / Official

Actual / Forecasts — Probability of Recession 30.0%

| Indicator | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| Economic Activity | | | | | | | | | | |
| Real GDP (YoY%) | 2.5 | 3.0 | 2.5 | -2.2 | 6.1 | 2.5 | 2.9 | 2.6 | 1.8 | 2.0 |
| Consumer Spending ... | 2.6 | 2.7 | 2.1 | -2.5 | 8.8 | 3.0 | 2.5 | 2.4 | 1.9 | 2.0 |
| Government Spendin... | 0.6 | 2.0 | 3.9 | 3.4 | -0.3 | -1.1 | 3.9 | 2.9 | 1.3 | 1.1 |
| Private Investment ... | 4.4 | 5.8 | 3.2 | -4.5 | 8.8 | 6.0 | 0.1 | 4.1 | 2.9 | 3.4 |
| Exports (YoY%) | 4.1 | 2.9 | 0.5 | -13.1 | 6.5 | 7.5 | 2.8 | 2.1 | 2.6 | 3.3 |
| Imports (YoY%) | 4.7 | 4.0 | 1.2 | -9.0 | 14.7 | 8.6 | -1.2 | 3.9 | 3.2 | 3.0 |
| Industrial Production (Yo... | 1.3 | 3.2 | -0.7 | -7.1 | 4.7 | 3.5 | 0.2 | 0.1 | 1.3 | 1.8 |
| Price Indices | | | | | | | | | | |
| CPI (YoY%) | 2.1 | 2.5 | 1.8 | 1.2 | 4.7 | 8.0 | 4.1 | 2.9 | 2.2 | 2.3 |
| PCE Price Index (YoY%) | 1.8 | 2.1 | 1.4 | 1.1 | 4.1 | 6.6 | 3.8 | 2.4 | 2.1 | 2.0 |
| Core PCE (yoy%) | 1.6 | 1.9 | 1.7 | 1.3 | 3.6 | 5.4 | 4.2 | 2.7 | 2.2 | 2.1 |

Source: Bloomberg L.P. Data is as of 10.01.2024.

**Conference Board Consumer Confidence Index 10.03.2021-10.01.2024**




Source: Bloomberg L.P. Data is as of 10.01.2024.

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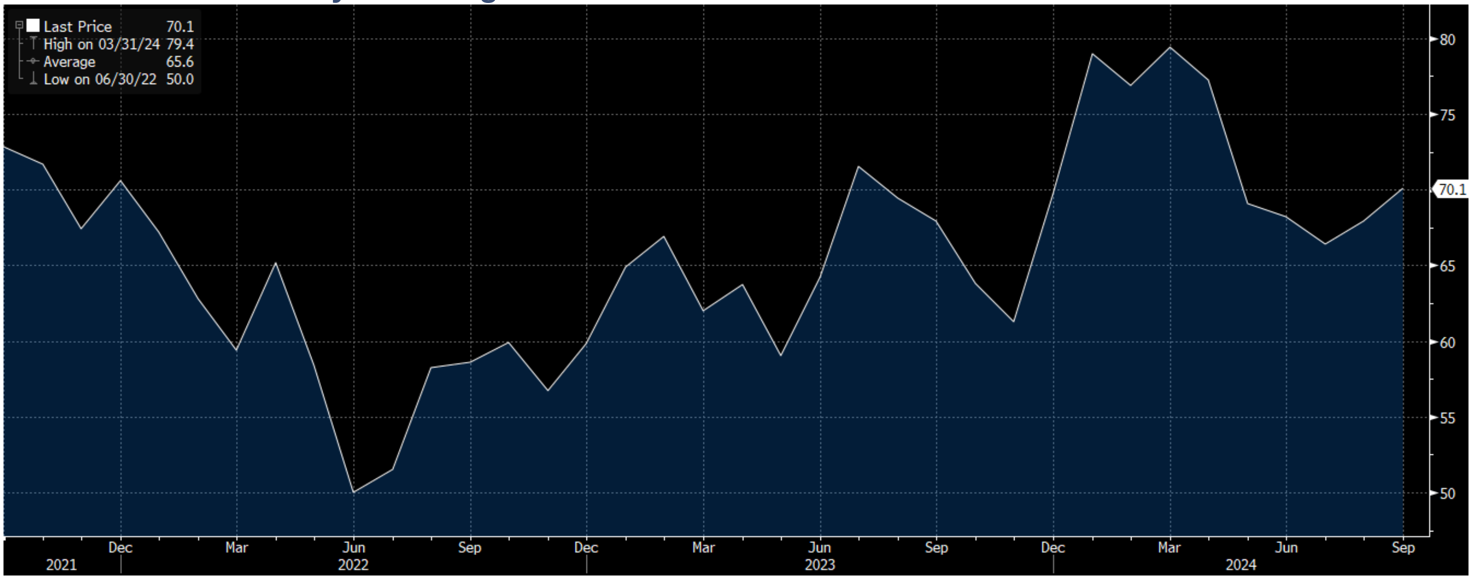
**University of Michigan Consumer Sentiment Index 09.30.2021-09.30.2024**




Source: Bloomberg L.P. Data is as of 10.01.2024.

Per the Conference Board chart, consumer confidence has languished, yet per the Michigan Consumer Sentiment chart, the consumer, whose spending accounts for over two thirds of the nation's GDP, is perhaps showing an improving trend line at a five-month high in September. The surveys may present conflicting findings. Yet, the Conference Board is more influenced by employment, while the University of Michigan survey focuses more on pricing perception (inflation) and personal finances.

## Quarterly Review

| Performance | QTR | YTD | 1YR | 3YR | 5YR | 10YR | Since Inception[1] |
|---|---|---|---|---|---|---|---|
| Sterling (Gross) | 7.59% | 14.58% | 28.43% | 7.93% | 13.18% | 11.62% | 11.62% |
| Sterling (Net) | 6.81% | 12.10% | 24.75% | 4.79% | 9.90% | 8.39% | 8.39% |
| Russell 3000® Index | 6.23% | 20.63 % | 35.19% | 10.29% | 15.26% | 12.83% | 8.51% |

[1]Inception date is 06.30.2004. Data is as of 09.30.2024. The benchmark is the Russell 3000. Performance results prior to 01.01.2013 are considered "predecessor performance" and were achieved by the Equity Opportunities team when they were known as CHOICE Asset Management, a division of Scott & Stringfellow. 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 SCM'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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In the third quarter, the portfolio generated gross returns of 7.59% and 6.81% net of the maximum fee versus the Russell 3000® Index's 6.23% total return. All sectors were positive within our benchmark except for energy, while all sectors were positive in the portfolio except for consumer discretionary and consumer staples. We outperformed the benchmark in healthcare and technology while underperforming in consumer discretionary and industrials. Two of our five best-performing stocks in the third quarter were from the materials sector while three were from different sectors. Meanwhile, two of our top five detractors came from technology while three came from different sectors. Overall, 23 of our holdings within the quarter advanced while 12 declined. 18 of our holdings advanced by double-digits while only three declined by double-digits. The top ten benchmark constituents we do not own or are underweight accounted for over a 1.0% relative headwind during the quarter.

## 3Q24 Attribution

| Leading Contributors | Portfolio Weight | Gross Contribution to Return | Net Contribution to Return |
|---|---|---|---|
| Coherent Corp. | 4.30 | 0.94 | 0.91 |
| Oracle Corporation | 3.86 | 0.79 | 0.76 |
| HCA Healthcare Inc | 2.64 | 0.65 | 0.63 |
| UnitedHealth Group Incorporated | 4.71 | 0.66 | 0.62 |
| CBRE Group, Inc. Class A | 1.79 | 0.61 | 0.60 |

Sources: FactSet; Sterling Capital Management Analytics.

- **Coherent** posted solid results in the company's most recent quarter, led by strength in Networking. The segment was driven by 16% sequential growth in datacom, which is experiencing strong demand for Coherent's transceivers as investment continues to grow ahead of data proliferation driven by AI. Furthermore, the new Chief Executive Officer, Jim Anderson, outlined his plans for a strategic review of the company's various businesses in their most recent earnings call, which may result in divestitures that allow for a shortened timeline for deleveraging the balance sheet.
- **Oracle** reported a beat on both the top and bottom line for its most recent quarter. Oracle also inked its third strategic hyperscaler partnership with Amazon Web Services (AWS) for Oracle's database which helped propel the stock higher. It is worth noting that Oracle Cloud Infrastructure is currently in more locations than any other hyperscaler, driven by its advantages in speed, cost, scale, and unique AI capabilities.
- **HCA** kept momentum with a second quarter beat versus consensus estimates as well as 2024 guidance raise. Results were driven by strong, broad-based volume growth as adjusted admissions were up 5.2%, led by inpatient admissions growth of 5.8%. This growth was coupled with admirable cost containment, in our view, and an unexpected increase in supplemental payments. We believe HCA continues to deliver on most metrics and with that, surprised to the upside.

- **UnitedHealth** experienced a strong second quarter print with both a top- and bottom-line beat, and the company reiterated its current year earnings per share (EPS) guide. Utilization patterns appear to be stabilizing and the UnitedHealth management team stated comfort with plan pricing entering 2025 in a recent earnings call. The company could continue to leverage its high fixed-cost base with strong member growth coupled with fewer incremental hires. This may continue to provide for solid earnings growth and meaningful free cash flow generation.
- **CBRE Group** quietly moved higher throughout the third quarter of 2024 as the company reported earnings for the second quarter that were higher than sell-side expectations and company management raised full-year EPS guidance. All three business segments reported results that were higher than expectations. Importantly, its more cyclical business segments, which include sales and leasing, posted results that appear to indicate that the worst for the commercial real estate industry might be behind us.

| Leading Detractors | Portfolio Weight | Gross Contribution to Return | Net Contribution to Return |
|---|---|---|---|
| Okta, Inc. Class A | 2.59 | -0.65 | -0.67 |
| Charles Schwab Corp | 3.78 | -0.51 | -0.54 |
| Alphabet Inc. Class C | 4.17 | -0.45 | -0.49 |
| NXP Semiconductors NV | 2.48 | -0.29 | -0.30 |
| Amazon.com, Inc. | 4.83 | -0.22 | -0.26 |

Sources: FactSet; Sterling Capital Management Analytics.

- **Okta** underwhelmed for its second fiscal quarter of 2024, in our view. The market appeared to expect a stronger reacceleration in the company's business, which was not the case. Company management attributed much of the problems to the macroeconomic backdrop, which includes cost optimization spending and a weak environment for small- to medium-sized businesses. We are monitoring the situation closely, especially related to net new customer additions, new product offerings, and success in the company's cross-selling initiatives.
- **Schwab** reported disappointing results for its recent quarter, in our view, due to cash sorting and elevated short-term funding versus an expected continuation of paydowns. Yet after speaking with company management, we believe our thesis remains solid. Schwab’s losses continue to decline and we believe the stock presents a positive, asymmetric risk/reward profile.
- Expectations were elevated for **Alphabet**'s second quarter and the actual results exceeded Wall Street forecasts. Search and Cloud (Cloud profitability is inflecting) were strong, while YouTube (the most-watched streaming service according to Nielsen and is growing double-digits) was below expectations in the quarter due to lapping certain Asian-based advertising spend. Capital expenditures were also above estimates as Alphabet (and the other hyperscalers) aggressively build out AI infrastructure. Meanwhile, other bets such as Waymo, Alphabet’s robotaxi initiative, continue to expand rapidly. Otherwise, Alphabet’s antitrust concerns persist with us, yet we believe the business quality and overall market opportunity remain strong, and this investment remains a core holding.

Please refer to the Performance Disclosure found on page 12.

- **NXP Semiconductors** reported an in-line quarter but guidance disappointed. Specifically, company management called for a bottom in automotive while simultaneously stating the outlook for auto has deteriorated. Inventory challenges persisted due to this deterioration as well. We will continue to carefully monitor to the situation, yet remain confident in this industry leader.
- Although **Amazon** reported solid results in the AWS segment, the company was not immune to a weakening consumer spending backdrop. In relation to this, Amazon missed on the topline, which put pressure on the stock. We believe our thesis remains intact, and the market seems to share our belief, as the stock has rebounded since their September earnings report.

## Portfolio Changes

We added four new holdings to our portfolio during the third quarter of 2024, including **Deere & Co**. (DE), **Dexcom Inc.** (DXCM), **NVIDIA** (NVDA) and **Apollo** (APO). During the quarter, we sold three of our holdings: **Dollar Tree** (DLTR), **Aptiv PLC** (APTV), and **Genpact** (G).

We added **Dexcom Inc.** in July. Dexcom is a medical device company that develops Continuous Glucose Monitoring systems for Type 1 and Type 2 diabetics. The company is the market leader in the U.S. with a market share of ~55%, led by its most recent G7 device. Internationally, the company is second only to Abbott with a ~37% share. We believe this is a high-quality med tech company that could grow the top line ~20% over the next several years with adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) margins approaching 30%. At Dexcom's scale, we believe this level of growth within the medical devices industry stands out amongst its peers. However, in the past valuation has been rich, especially within EOG's four investment pillars framework. Yet, a 40% drawdown in late July piqued our interest. We believe the market overreacted due to what appears to be transitory issues. We were able to avail ourselves of this large price dislocation and purchase shares in this potential high-quality compounder.

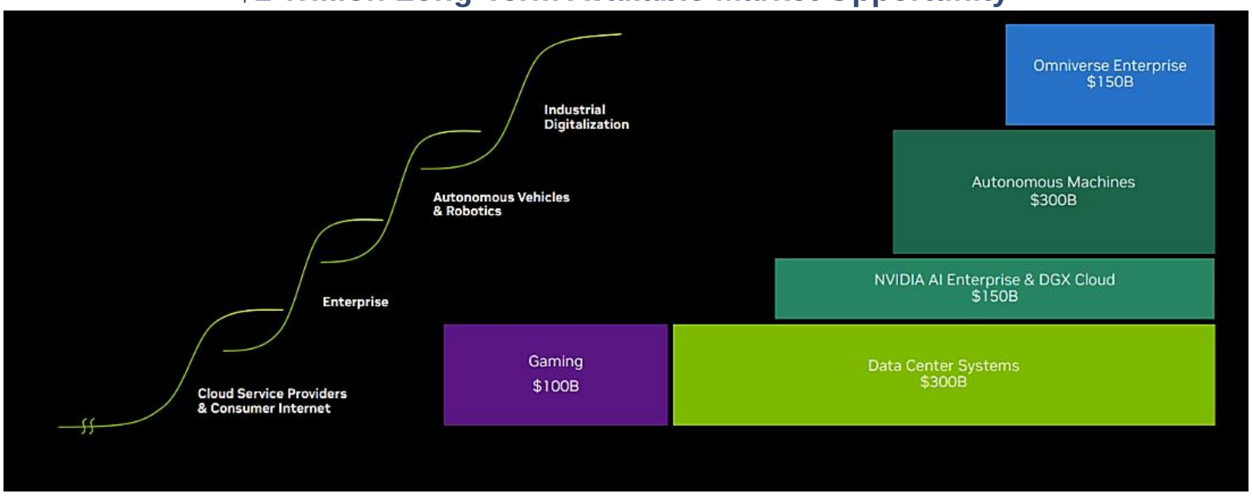
We added shares of **Deere & Co.** to Special Opportunities portfolios in August. We see DE as a global leader among agricultural original equipment manufacturers (OEM). DE is the only OEM with a fully integrated suite of hardware and software solutions, termed "Precision Ag Technology" by management, that can meet the needs of even the largest and most sophisticated farming operations around the world. Precision Ag uses both farm-specific historical data and data from tens of thousands of other acres within the broader DE universe to provide highly detailed recommendations on almost every aspect of farming, which results in lower costs and higher yields. In our opinion, DE's technological advantage is head and shoulders above its peers. DE is also a solid four for four EOG pillars company. However, the company has highly cyclical end-markets. While we do not claim to have an advantage predicting agricultural cycles, we do believe that a clean balance sheet, proactive production cuts, and profitability could allow the company to navigate through the current downcycle and fully participate when the cycle re-inflects.

Please refer to the Performance Disclosure found on page 12.
For a full discussion of portfolio changes, please refer to our stock writeups issued in the month after the activity.


Source: Company Reports.

We added shares of **NVIDIA** in August. NVIDIA is the largest semiconductor company in the world by market capitalization and is a leader in accelerated computing solutions for data center, gaming, automotive, and other enterprise end markets. NVIDIA has a strong competitive moat and leading market share that we believe positions the company to continue to capture the upside from this current era of AI-driven business transformation. We believe the upside remains bright as NVIDIA's total addressable market continues to grow and that NVIDIA is a dominant player in perhaps a generational market opportunity. Note the market potential from the following chart:

**$1 Trillion Long-Term Available Market Opportunity**




Source: Nvidia 2024 Investor Presentation.

We added shares of **Apollo** in late September. Apollo is a high growth financial services company that offers a broad array of asset classes within the alternative investment space. We feel Apollo has a commanding presence within investment-grade private credit, which is due in large part to its Athene business, the company's legacy, its values, and its acumen with originations. We feel that these factors provide Apollo with an edge to grow into large, underpenetrated, nascent markets by leveraging its Retirement Services, Capital Solutions, and Wealth businesses. During recent calls with company management and at the company's Investor Day, we learned Apollo could double their size as an asset manager with their natural progression into its large addressable markets.

We sold **Genpact** in August. Genpact is a global Business Process Outsourcing (BPO) and information technology services company with over 115,000 employees and $4.5B in annual revenue. Genpact's stock has been heavily pressured by the resignation of the chief executive officer, macroeconomic headwinds, and the threat of AI displacement. In recent quarters, Genpact has narrowly beat substantially lowered expectations and we believe that those beats were attributable to lower value-add contract wins. Moving down the value chain runs counter to Genpact's growth goals and our investment thesis and, as a result, we believed it was an opportune time to move to the sidelines.

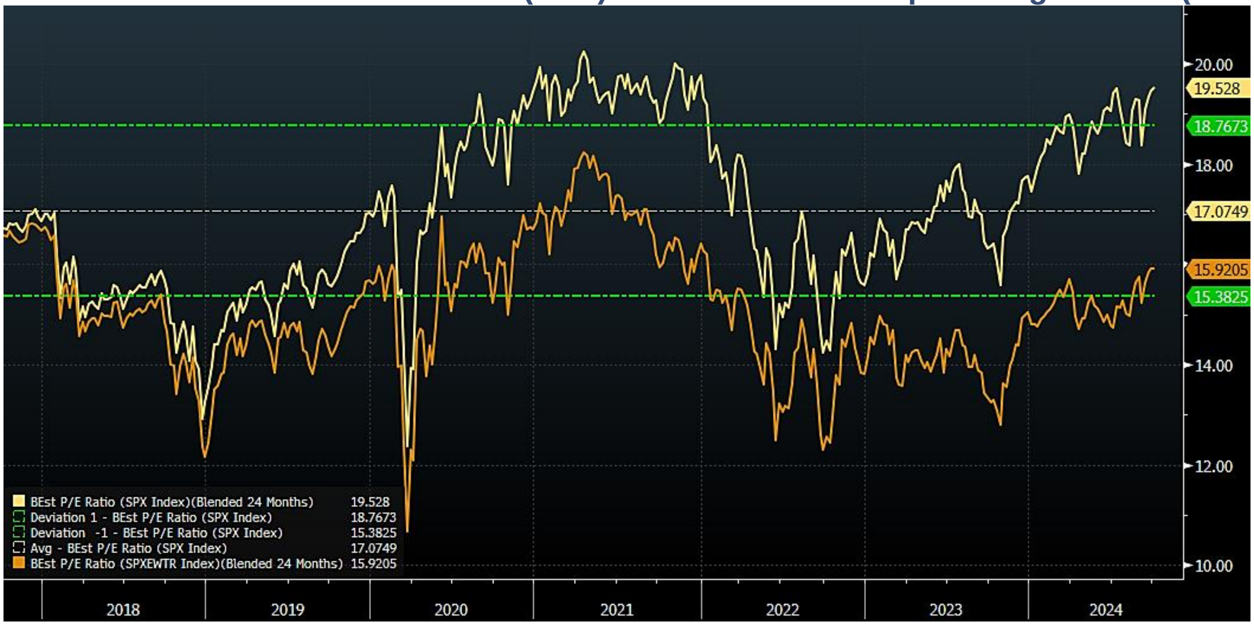
We sold **Dollar Tree** in August. Dollar Tree is a leading discount retailer in the U.S. In recent quarters, Dollar Tree has been pressured by a weakening low- and middle-income consumer, performance pressures across its Family Dollar banner, and other headwinds including shrink, ocean freight rates, and the risk of tariffs on Chinese-sourced goods. These challenges have clouded the company's outlook for us and we believe that makes it very difficult for the company to achieve its medium-term guidance. As a result, we decided to exit the position.

## Outlook

There are certainly risks and uncertainties in the market, yet we believe with risk comes opportunity. As we think about how the market is presently discounting those risks and evaluating opportunities, we peel back the onion in market multiples to discern. Note the chart on the top of the following page, which compares the S&P 500 cap-weighted index two-year forward multiple to the equal-weighted index multiple:

For a full discussion of portfolio changes, please refer to our stock writeups issued in the month after the activity.

**Forward P/E Ratios of the S&P 500 Index (SPX) and the S&P 500 Equal Weight Index (SPXEWTR)**




Source: Bloomberg L.P. Data is as of 10.01.2024.

As we have alluded to in recent commentaries, the S&P 500 performance has been concentrated over the last few years, most notably and recently driven by the "Magnificent 7". Yet by evaluating the S&P 500 Equal Weight Index multiple above, most of the market has not drifted to unreasonable levels, in our opinion.

Therefore, we are encouraged there are still plenty of potential high-quality stocks trading at attractive valuations. By sticking to our knitting, we believe we have a diversified portfolio of special opportunities to weather ever-changing variables. Oftentimes, those same variables present transitory dislocations to discover new quality ideas to perpetuate a virtuous cycle of fresh, additive, and complementary holdings. We believe this repetitive process and stable philosophy has historically driven consistent returns with below-average risk for our clients. We trust it could continue to do so in the future, regardless of the market and macro environment. Noting the chart below, which highlights EOG's four investment pillars, the portfolio displays above benchmark growth, profitability, balance sheet strength, and still-attractive multiples.

| | EPS Growth | | | 2026E Multiple | | | Profitability/Returns | | | Balance Sheet | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2025E | 2026E | 24-26E CAGR | P/E | EV/EBITDA | FCF Yield | ROE | ROIC | EBITDA Mgn | Coverage | Leverage |
| Special Opportunities | 12.2% | 13.1% | 13.2% | 17.1x | 12.6x | 4.4% | 17.9% | 10.1% | 28.4% | 9.1x | 1.8x |
| Russell 3000 | 15.2% | 10.4% | 12.8% | 18.8x | 12.4x | 4.5% | 7.6% | 5.0% | 13.7% | 2.6x | 2.1x |
| % Better / Worse vs Bench | -20.0% | 25.2% | 2.8% | (9.1%) | 1.5% | -1.8% | 134.7% | 101.6% | 106.8% | 244.4% | (16.2%) |

Source: Bloomberg L.P. Data is as of 09.30.2024.

As we invest alongside our clients, rest assured our primary objective is to make sure our shared investment goals come to fruition over the long term.

As always, thank you for your confidence and support in the Special Opportunities team.

Dan Morrall
Co-Portfolio Manager

Jim Curtis, CFA®
Co-Portfolio Manager

The "Magnificent Seven" (M7) stocks represent the seven largest tech companies in the S&P 500: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

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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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**Performance Disclosure:** 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 SCM'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.

Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

**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.

**The S&P 500® Equal Weight Index (EWI)** is the equal-weight version of the widely-used S&P 500®. The index includes the same constituents as the capitalization-weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

Technical Terms: **The compound annual growth rate (CAGR)** is the rate of return (RoR) that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment’s life span. **The Conference Board Consumer Confidence Index (CCI)** is a survey that measures consumers' attitudes and confidence in the economy, business conditions, and labor market. It's based on the idea that when consumers are optimistic, they spend more and stimulate the economy, while pessimistic consumers may lead to economic slowdown or recession.

**The Consumer Price Index (CPI)** measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. **Earnings per share (EPS)** is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution. **EBITDA**, or earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income. By including depreciation and amortization as well as taxes and debt payment costs, EBITDA attempts to represent the cash profit generated by the company's operations. **The EBITDA/EV** multiple is a financial valuation ratio that measures a company's return on investment (ROI). The EBITDA/EV ratio may be preferred over other measures of return because it is normalized for differences between companies. Using EBITDA normalizes for differences in capital structure, taxation, and fixed asset accounting. **The federal funds rate** is the interest rate that banks charge each other to borrow money overnight. It's a key tool used by the Federal Reserve to control the money supply, inflation, and other interest rates. **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**. Gross domestic product (GDP)** is the total monetary or market value of all the finished goods and services produced within a country’s borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country’s economic health. **The Michigan Consumer Sentiment Index (MCSI)** is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan. The survey is based on telephone interviews that gather information on consumer expectations for the economy. **A non-sector neutral strategy** is one that has a stronger bias towards certain sectors and a weaker bias towards others. For example, a non-sector neutral strategy might have a positive bias towards utilities, financials, and consumer staples, and a negative bias towards information technology. **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**). Return on equity (ROE)** is a measure of a company's financial performance. It is calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company’s assets minus its debt, ROE is a way of showing a company's return on net assets. **Return on invested capital (ROIC)** assesses a company’s efficiency in allocating capital to profitable investments. It is calculated by dividing net operating profit after tax (NOPAT) by invested capital. **The price-to-earnings (P/E) ratio** measures a company's share price relative to its earnings per share (EPS). Often called the price or earnings multiple, the P/E ratio helps assess the relative value of a company's stock. (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.

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.

STERLING CAPITAL

# Sterling Capital Special Opportunities SMA

| | Total "Pure" Gross Return | Total Net Return | Benchmark Return | 3Y Composite Std. Dev. (Gross) | 3Y Benchmark Std. Dev. | Composite Dispersion | Number of Portfolios | Composite AUM (MM) | Total Firm AUM (MM) |
|---|---|---|---|---|---|---|---|---|---|
| 2023 | 25.81% | 22.20% | 25.96% | 18.67% | 17.46% | 0.12% | 245 | $189 | $66,746 |
| 2022 | -19.27% | -21.67% | -19.21% | 22.54% | 21.48% | 0.22% | 252 | $166 | $62,842 |
| 2021 | 27.82% | 24.16% | 25.66% | 19.35% | 17.94% | Not Calculable | 3 | $289 | $75,309 |
| 2020 | 15.23% | 11.89% | 20.89% | 20.36% | 19.41% | Not Calculable | 3 | $419 | $70,108 |
| 2019 | 27.22% | 23.57% | 31.02% | 12.31% | 12.21% | Not Calculable | 4 | $525 | $58,191 |
| 2018 | -3.32% | -6.15% | -5.24% | 10.99% | 11.18% | Not Calculable | 4 | $453 | $56,889 |
| 2017 | 20.55% | 17.09% | 21.13% | 9.85% | 10.09% | Not Calculable | 4 | $493 | $55,908 |
| 2016 | 5.72% | 2.64% | 12.74% | 10.35% | 10.88% | Not Calculable | 4 | $721 | $51,603 |
| 2015 | 9.59% | 6.41% | 0.48% | 9.67% | 10.58% | Not Calculable | 4 | $901 | $51,155 |
| 2014 | 15.93% | 12.58% | 12.56% | 9.33% | 9.29% | Not Calculable | 4 | $927 | $47,539 |

Benchmark: Russell 3000® Index    Composite Creation Date: 12.31.2000    Inception Date: 01.01.2001

1. Consists of all discretionary separately managed wrap Special Opportunities portfolios. SCM'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.
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 U.S. Securities & Exchange Commission (SEC). Registration does not imply a certain level of skill or training. SCM manages a variety of equity, fixed income and multi-asset portfolios. Prior to January 2001, SCM was a wholly owned subsidiary of United Asset Management (UAM). In January 2001, SCM 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 (BB&T) purchased a majority equity ownership stake in SCM. In October 2010, the management group of SCM entered into an agreement with BB&T that reduced and restructured management's interest in SCM. Additionally, BB&T Asset Management merged into SCM. In January 2013, CHOICE Asset Management merged into SCM. In August 2015, eight new employees joined SCM via Stratton Management Company following the close of BB&T's purchase of Susquehanna Bancshares. In December 2019, BB&T and SunTrustBanks, Inc. Holding Company merged as equals to form Truist Financial Corporation. SCM was then a wholly-owned subsidiary of Truist Financial Corporation. In August 2020, eight new employees joined SCM via the Investment Advisory Group of SunTrust Advisory Services. In July 2024, Guardian Capital LLC, a wholly-owned subsidiary of Guardian Capital Group Limited (Guardian), completed the acquisition of SCM from Truist.
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 1/1/21, composite returns are calculated by weighting the individual portfolio returns using beginning of period market values. Prior to 1/1/21, composite returns were calculated monthly by weighting the aggregate SMA/Wrap sponsor returns using beginning of period market values.
7. "Pure" gross of fees returns are presented as supplemental information and do 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 maximum bundled external platform fee of 2.82%. Prior to 1/1/21, the net of fees returns reflect 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.
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 3000® Index. The Russell 3000® Index measures the performance of the largest 3,000 U.S. companies, representing approximately 98% of the investable U.S. 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 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.
11. Effective 1/1/22, number of portfolios is based on underlying accounts at the wrap sponsors. Prior to 1/1/22, number of portfolios was reported as the number of wrap platforms.