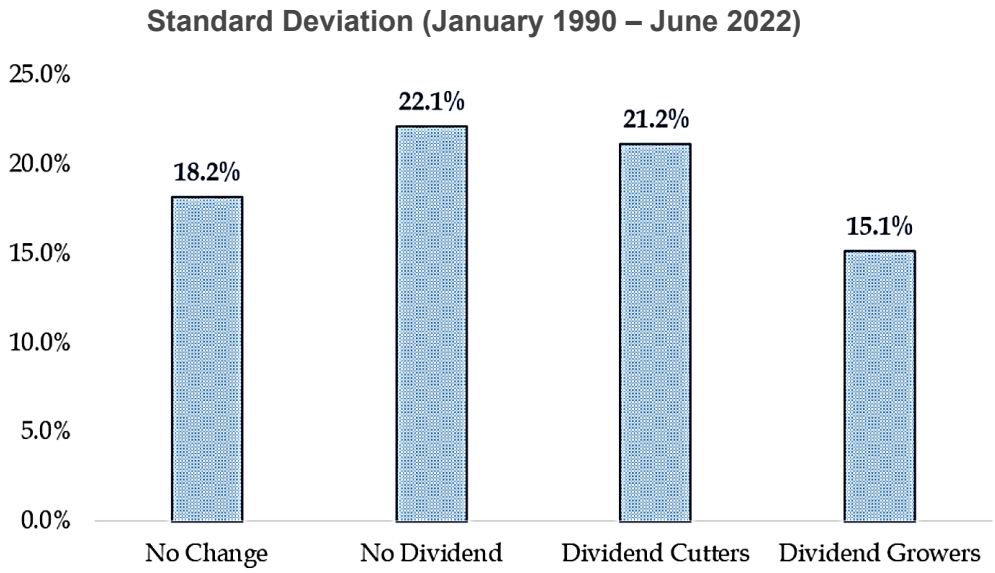
Know What You Own

The Lead | August 2022

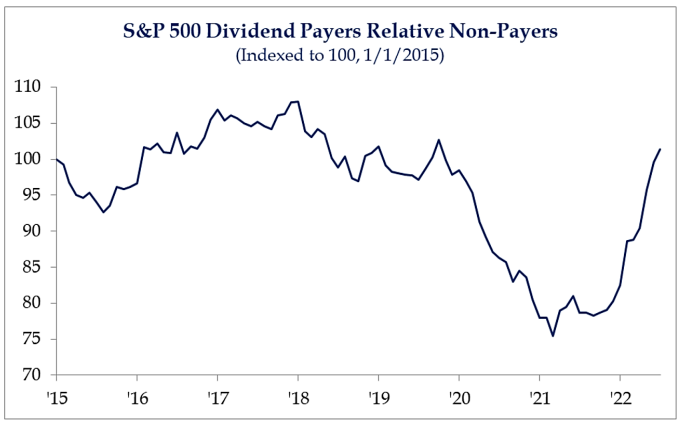


Source: Strategas.

Over the past 20 years, we've said "defense wins championships" and thus far in 2022, it's paid to play good defense. This year has been the most difficult year for stock investors since 1970, according to Barron's magazine. Credit Suisse states that it has been the most challenging year for stock and bond investors on record.

We believe in 2022 it has paid to take the advice of famed investor Peter Lynch, who said "know what you own and why you own it." When it comes to dividend stocks, it certainly pays to know why an investor may own them. Last month, Strategas research updated its analysis of dividend stocks and their performances. In the chart at the top of the page, they show how dividend growers have lower volatility over time as measured by standard deviation. We have long said that an important component of our four pillar investment process was to 'smooth the ride' for investors with the belief that owning quality companies with strong balance sheets and growing earnings at attractive valuations can help keep clients invested with us through market cycles. Certainly, adding the dividend growth component to our four investment pillars helps with that mission, and Strategas confirmed this attribute in June.

While the stock market year-to-date has been a challenge in absolute returns, Strategas observed that in 2022, dividend payers have been paying dividends to investors that own them, relative to non-dividend paying stocks. The chart below is an update to one we showed in March of this year. We discussed how short durations stocks that were returning cash to shareholders in the form of dividends provided value as investors could reinvest those dividends into current opportunities with higher current yields.



Source: Strategas.

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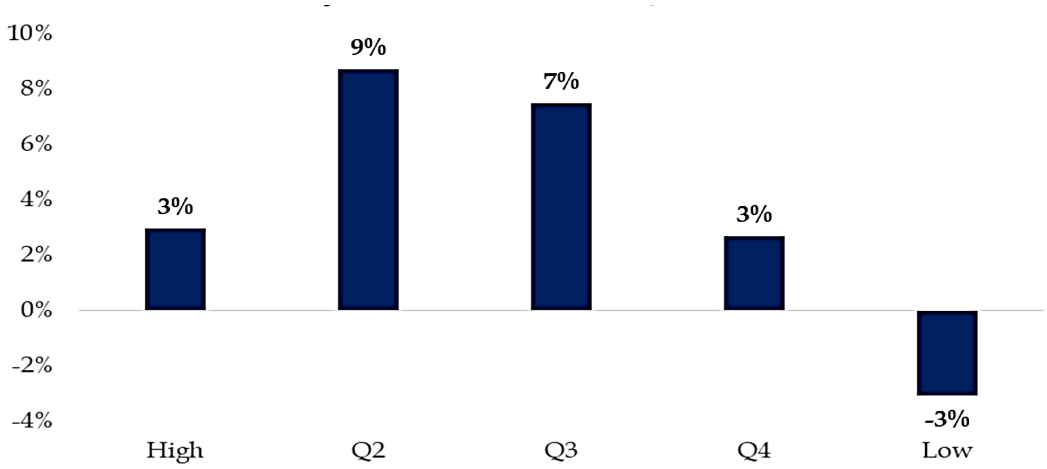
S&P 500® Index Year-to-Date Relative Performance By Shareholder Yield Quintile



Source: Strategas.

The benefit to owning companies that return cash to shareholders has not been limited only to dividend payers this year. Companies that have returned cash to shareholders through dividends and also share buybacks as measured by 'shareholder yield' have also been rewarded year-to-date. Within the Sterling Capital Equity Income strategy, we don't believe dividend growth and share buybacks are an either/or decision, as we're attracted to both. In fact, as of the end of last quarter, not only was the strategy growing dividends at a double-digit rate on a portfolio basis, but also on an individual basis. Over 70% of our strategy holdings had reduced their shares outstanding over the past year. It appears 'shareholder yield' can translate into attractive shareholder returns.

As always, thank you for your interest and trust managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is co-portfolio manager of the Equity Income strategy. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. Chip earned the Certificate in ESG Investing, which is developed, administered and awarded by the CFA Society of the United Kingdom. He holds the Chartered Financial Analyst® designation.

Important Information

Disclosures

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.

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

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.

Dividend Policies: Dividend Paying vs. Non-Paying: Each stock's dividend policy is determined by its indicated annual dividend. We classify a stock as a dividend-paying stock if the company indicates that it is going to be paying a dividend within the year. A stock is classified as a non-payer if the stock's indicated annual dividend is zero. Prior to July 2000, the indicated annual dividends were updated on a quarterly basis. Since July 2000, the indicated annual dividends are updated on a daily basis, so the most up-to-date information is used. The index returns are calculated using monthly equal-weighted averages of the total returns of all dividend-paying (or non-paying) stocks. A stock's return is only included during the period it is a component of the underlying index. The dividend figure used to categorize the stock is the company's indicated annual dividend, which may be different from the actual dividends paid in a particular month.

Dividend Growing, No-Change-in-Dividend, and Dividend Cutting: Each dividend-paying stock is further classified into one of the three categories based on changes to their dividend policy over the previous 12 months. Dividend Growers and Initiators include stocks that increased their dividend anytime in the last 12 months. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy. No-Change stocks are those that maintained their existing indicated annual dividend for the last 12 months (i.e., companies that have a static, non-zero dividend). Dividend Cutters and Eliminators are companies that have lowered or eliminated their dividend anytime in the last 12 months. Once a decrease occurs, it remains classified as a cutter for 12 months or until another change in dividend policy. (Source: Ned Davis Research).

Technical Terms: **Dividend Yield**: a financial ratio that measures the annual value of dividends received relative to the market value per share of a security. In other words, the dividend yield formula calculates the percentage of a company's market price of a share that is paid to shareholders in the form of dividends. (Technical definitions are sourced from Corporate Finance Institute and Investopedia.)

The **Chartered Financial Analyst® (CFA)** charter is a graduate-level investment credential awarded by 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.

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