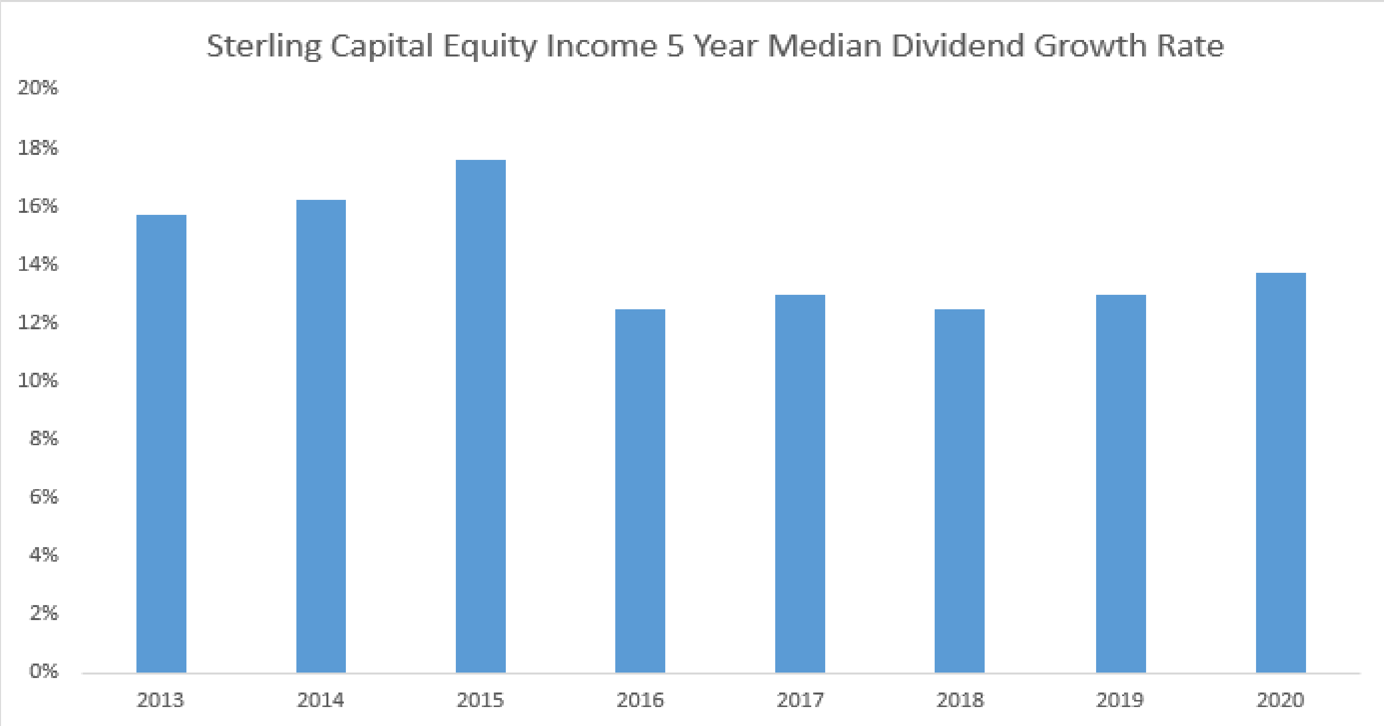
Time Tested

The Lead | December 2021



Source: FactSet, at year end date.

As many readers are aware, the Sterling Equity Opportunities Group has a particular fondness for University of Virginia athletics. This week, the men's basketball coach, Tony Bennett, earned his 300th win as the head coach of UVA. When Tony took over the team following its worst season since 1967, his stated goal was to build "a program that lasts." With four 30-win seasons and a 2019 NCAA Tournament Championship, he appears to be off to a good start. Tony Bennett's signature defensive strategy is the "pack line" defense designed to force opposing teams to pass and shoot well. As an investment team, we also believe in employing time-tested methods to build a franchise that lasts.

One of the fortunate aspects of managing client assets by using the same 20+ year process is the ability to go back and access our process and its consistency. Are we true to what we communicate and, in doing so, can we then attribute client outcomes to this process?

One consistent aspect of our process within the Equity Income strategy is its double-digit dividend growth over time. The chart above highlights the five-year average dividend growth rate for the strategy since 2013. We find this average growth rate tends to normalize the trend, and we use this metric in managing the strategy. We have long stated that we seek both growth and value in our investments, and owning a portfolio of stocks with double-digit dividend growers can help clients achieve their investment objectives, in our opinion. Not only do these company management teams demonstrate their confidence in the business by committing to strong dividend growth, but it also provides insight into the underlying strength of these businesses that tend to be industry leaders. Finally, in the current environment with concerns regarding inflation and potential interest rate increases, we believe a portfolio with double-digit dividend increases has the potential to stay ahead of published rates of inflation.

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.

Portfolio Characteristics - January 2001

	Forward P/E	EPS Growth	Debt/Cap	ROE
Equity Income	14.4x	13%	44%	31%
S&P 500	21.2x	12%	49%	19%

Portfolio Characteristics - October 2021

	Forward P/E	EPS Growth	Debt/Cap	ROE
Equity Income	17.2x	63%	44%	35%
S&P 500	22.8x	47%	49%	32%

Source: FactSet, portfolio averages, EPS growth one year estimated.

Looking back further, were we consistent with our investment process within Equity Income? We searched the archives to revisit our dividend growth rate in January 2001. While the strategy owned a few recognizable names today, such as 3M, Ford, and General Mills, several others were acquired, such as FleetBoston and Pall Corporation. We note that the average dividend growth rate for the holdings in January 2001 was 12%, slightly below the 13% that the strategy posted this past quarter, but consistent with the double-digit nature of the strategy. Above, we also note the characteristics of the strategy in 2001 and compare it to the end of last month for our four investment pillars. Here again, we found portfolio consistency with below-average valuations, above-average growth with strong balance sheets and return on capital. Whether a disciplined "packed line" defense or investment process, we believe executing a consistent process can provide winning results.

As always, thank you for your interest and trust in 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 Global Leaders strategy and associate 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.

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Important Information

Disclosures

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.

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