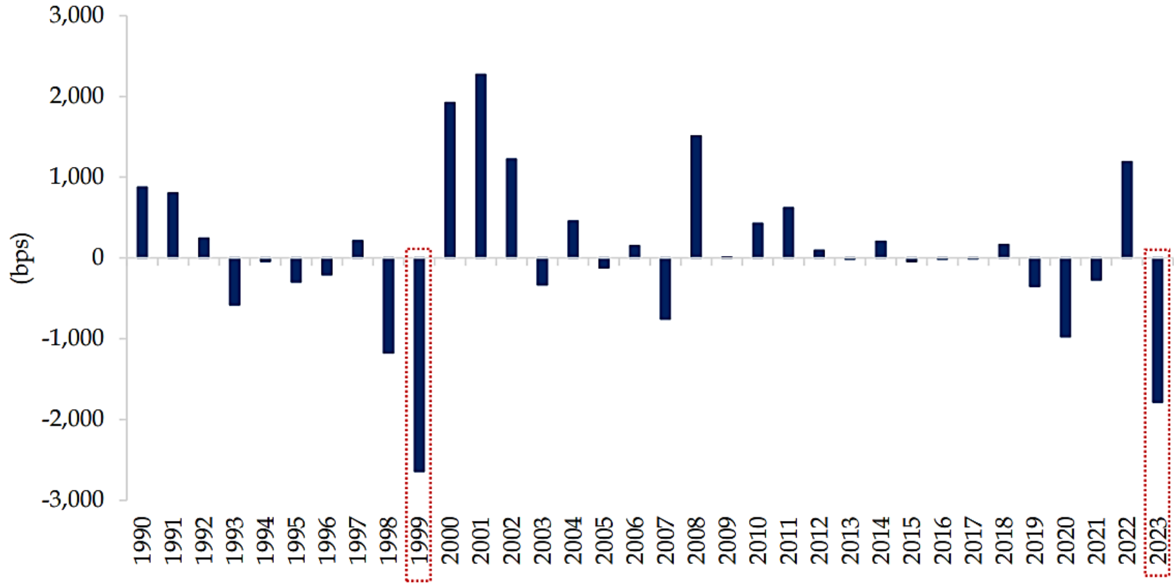
Actively Aware

The Lead | February 2024

Worst Relative Year for Dividend Aristocrats Since 1999

S&P 500 Dividend Aristocrats Relative to the S&P 500® Index



Source: Ned Davis Research.

As we embark on our ninth year of publishing The Lead, a consistent theme is our belief that active management can add value for our clients. Our goal is to communicate our investment philosophy and process as investment advisors in the context of changing markets. By utilizing our investment process and our investment team, we believe we can build portfolios different from the benchmark and provide an opportunity to generate returns above the benchmark over time. In our view, active managers are considered good if they outperform over time by doing well in good times, poorly in bad times, and vice versa. We believe very good managers outperform over time while also generating positive asymmetry (doing well in both falling and rising markets). We feel the benefit to clients is striving to generate positive returns in both market environments, not just one.

Because active managers are different than the benchmark, we seek to keep the periods of outperformance longer than the periods of underperformance as it can boost long-term relative performance. We believe clients who invest for the long term, who have the potential to generate higher returns than the index, are more likely to accept certain periods of underperformance for the opportunity to outperform.

Ironically, many passive indexes make active bets themselves. In 2023, the S&P 500 Dividend Aristocrats suffered its worst performance relative to the S&P 500® Index since 1999. While the Sterling Capital Equity Income strategy values stocks that have a long, demonstrated track record of paying rising dividends, we also believe in building portfolios on more than just one factor. For example, at year end, the Dividend Aristocrat Index had roughly half its exposure (48%) concentrated in two sectors (staples and industrials) rather than diversified across more economic sectors.

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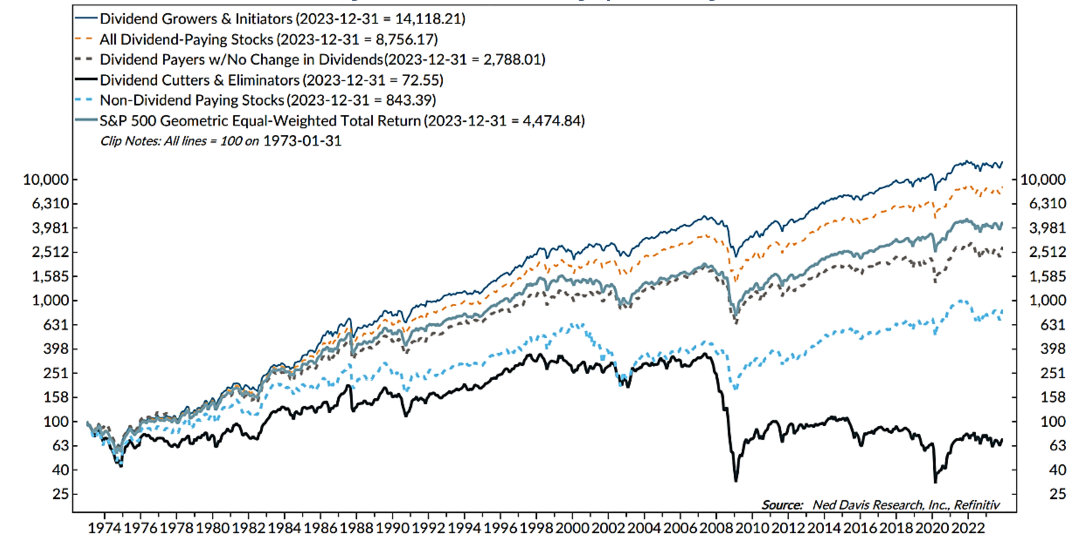
Returns of S&P 500 Stocks by Dividend Policy (Monthly Data 01.31.1979 - 12.31.2023)



Returns Based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly.

Portfolio Performance Statistics
Analysis Dates: 1973-01-31 - 2023-12-31

Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	10.2	14118.2
All Dividend-Paying Stocks	9.2	8756.2
Dividend Payers w/No Change in Dividends	6.8	2788.0
Dividend Cutters & Eliminators	-0.6	72.5
Non-Dividend Paying Stocks	4.3	843.4
S&P 500 Geometric Equal-Weighted Total Return	7.7	4474.8

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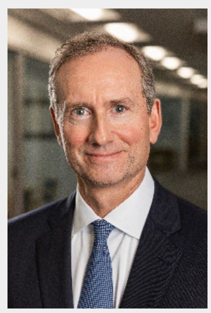
Source: Ned Davis Research.

Moreover, inclusion in the index is based on a single criterion: stocks that have increased their dividends for at least 25 years. Over time, dividend growth by itself performs well, as seen in the chart above. However, in a period that saw 11 rate hikes in 16 months, we believe the changing market environment warranted an active vigilance across several criteria in terms of managing client assets. We've believed for over 20 years that portfolio managers with material amounts of their net worth invested alongside clients incentivizes portfolio diversification and active adjustments, rather than a static index where there is no vested interest. Our mission is to generate above-average returns with below-average risk over time.

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. He holds the Chartered Financial Analyst® designation and served as President of CFA Society Virginia from 2012-2013.



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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.

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

Dividend-focused strategies may underperform strategies that do not limit their investment to dividend-paying stocks. Stocks held strategy may reduce or stop paying dividends, affecting the strategy's ability to generate income.

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 Dividend Aristocrats is a stock market index composed of the companies in the S&P 500 index that have increased their dividends in each of the past 25 consecutive years.

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 Risk:** Dividend yield is one component of performance and should not be the only consideration for investment. Dividends are not guaranteed and will fluctuate. This report should not be regarded by the recipients as a substitute for the exercise of their own judgment. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. **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.

Since we began publishing The Lead in 2015, our primary purpose has been to communicate our investment philosophy and process as an investment advisor in the context of changing markets. In creating portfolios that differ from our benchmarks by focusing on characteristics that have a long term history of attractive relative returns according to Ned Davis Research, the portfolios are different from the benchmarks and as a result there can be periods where results differ including below benchmark performance. Since strategies are oriented toward the long term characteristics, if those characteristics are out of favor over a period of time, the given strategy's performance could be challenged in terms of relative performance. While Sterling believes active professional investment management that employs a consistent process with a long term orientation and aligned with client interests offers benefits, management fees to support the active approach can be higher than certain alternatives. When hiring an investment manager we believe it is important to monitor the investment risks taken including sector concentrations, portfolio turnover, and the impacts of dividend policy changes.

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