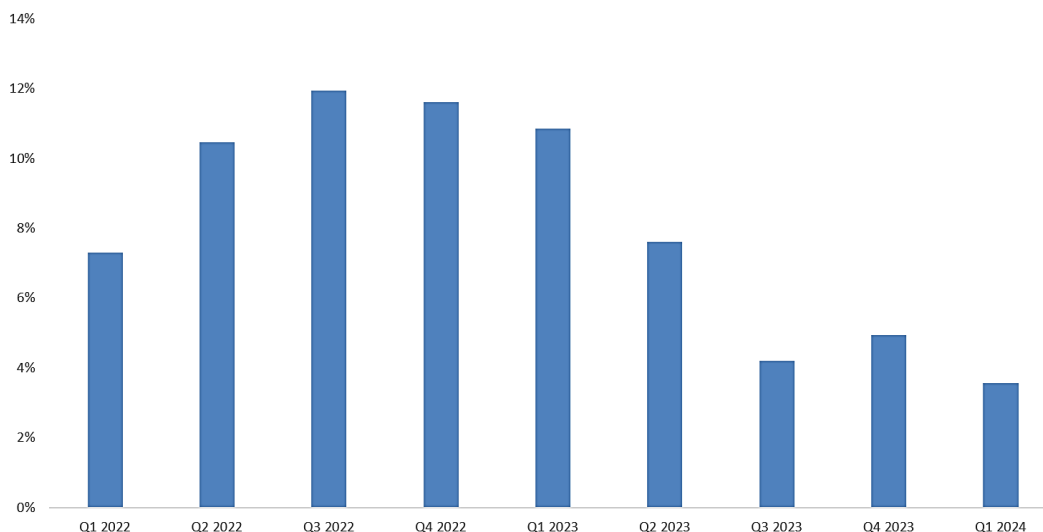


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S&P 500 Index Year-Over-Year Dividend Growth

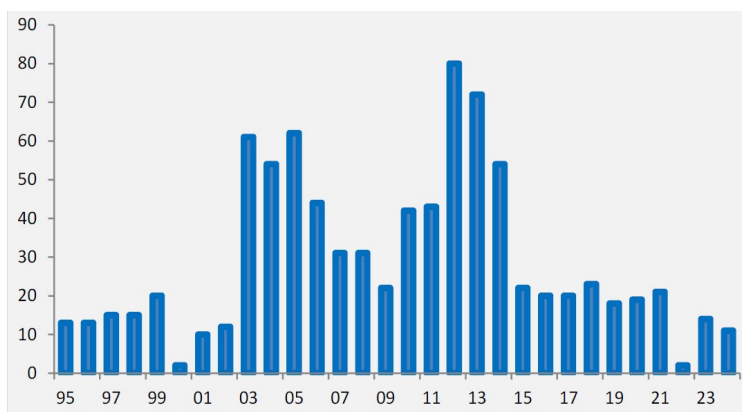


Source: Bloomberg L.P.

Several notable companies have elected to inaugurate a quarterly dividend this year. These companies pointed to the strength of their financial position as a reason for initiating a dividend. We would contrast their decision to the 47 companies in the U.S. that stopped paying a dividend in 2020 during COVID-19 but have not reinstated one. Most of the 187 companies that suspended or cancelled their dividends to preserve cash during COVID-19 are reviving them, while the 47 remaining COVID-19 dividend cutters are still holding out on restarting their dividends. Why are certain companies initiating dividends? We would suggest it comes down to the ability to pay an ever-increasing dividend alongside their confidence in their business's future. In sum, we believe the stated commitment to paying increasing dividends can be a measure of the quality of the business. In accessing many of the companies that cut their dividends during COVID-19 and have yet to resume them, there may be a concern about committing to a dividend if there is a downturn in the economy, which could drain their cash flow for years to come.

We find that companies that choose to pay dividends to shareholders tend to have visibility into their future earnings and have the ability to allocate capital efficiently to cover future dividend payments. The charts on this page show the number of companies that raise their dividends at a certain rate (above) or initiate dividends (below). As one can see, they are increasingly in short supply.

Number of Dividend Initiations



Sources: Wolfe Research; Company Filings; Standard & Poor's; FactSet.

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Recent Dividend Cuts

Ticker	Company	Sector	Market Cap. (\$ in millions)	Divi Cut Date	Cut / Discontinue	Dividend Yield	2024E P/E	2024E FCFY Yield	Net Debt (Cash) / 2024E EBITDAR
CBRL	Cracker Barrel Old Country Store, Inc.	Cons. Disc.	1,266	5/16/2024	Cut	2.0%	12.1x	6.8%	3.2x
MMM	3M Co.	Industrials	55,131	5/14/2024	Cut	2.8%	12.8x	5.6%	1.6x
LEG	Leggett & Platt, Inc.	Cons. Disc.	1,674	4/30/2024	Cut	1.6%	12.1x	6.7%	3.5x
FIS	Fidelity National Information Svcs.	Financials	42,136	2/26/2024	Cut	1.9%	14.9x	7.0%	4.4x
IFF	Int. Flavors & Fragrances Inc.	Materials	24,646	2/20/2024	Cut	1.7%	24.4x	2.2%	4.5x
CRK	Comstock Resources, Inc.	Energy	3,027	2/13/2024	Discontinue	0.0%	NA	0.1%	3.0x
NYCB	New York Community Bancorp Inc.	Financials	3,045	1/31/2024	Cut	1.0%	NA	NM	NA
WBA	Walgreens Boots Alliance, Inc.	Cons. Staples	15,632	1/4/2024	Cut	5.5%	5.3x	3.8%	3.8x
AMR	Alpha Metallurgical Resources, Inc.	Materials	3,780	11/2/2023	Discontinue	0.0%	10.5x	-7.3%	-0.4x
HE	Hawaiian Electric Industries Inc.	Utilities	1,212	8/25/2023	Discontinue	0.0%	4.8x	3.7%	3.9x
FL	Foot Locker, Inc.	Cons. Disc.	2,149	8/23/2023	Discontinue	0.0%	14.9x	0.7%	1.9x
CWH	Camping World Holdings, Inc.	Cons. Disc.	1,883	8/1/2023	Cut	2.3%	22.5x	6.6%	8.3x
AAP	Advance Auto Parts Inc.	Cons. Disc.	4,489	5/31/2023	Cut	1.3%	19.2x	3.6%	2.8x
NWL	Newell Rubbermaid Inc.	Cons. Disc.	3,421	5/16/2023	Cut	3.3%	13.0x	5.7%	4.7x
PARA	Paramount Global	Comm. Svcs.	9,043	5/8/2023	Cut	1.6%	10.5x	3.8%	5.0x
NEM	Newmont Mining Corp.	Materials	48,963	2/23/2023	Cut	2.4%	17.6x	3.1%	0.9x
INTC	Intel Corp.	Info. Tech.	129,877	2/22/2023	Cut	1.6%	27.1x	-7.5%	2.1x
MGM	MGM Resorts Int.	Cons. Disc.	12,839	2/8/2023	Discontinue	0.0%	15.3x	3.9%	4.1x
VVV	Valvoline	Materials	5,389	2/7/2023	Discontinue	0.0%	27.4x	2.7%	2.8x
VFC	V.F. Corp.	Cons. Disc.	4,985	2/2/2023	Cut	2.8%	9.8x	7.8%	3.9x
HBI	Hanesbrands Inc.	Cons. Disc.	1,737	2/2/2023	Discontinue	0.0%	10.4x	12.7%	4.2x
VNO	Vornado Realty Trust	Real Estate	4,997	1/18/2023	Discontinue	4.6%	11.5x	NM	10.9x

Market data through 05.20.2024. Estimates based on consensus. P/E: price-to-earnings ratio. FCFY: free cash flow to the firm.

EBITDAR: earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs.

Sources: Wolfe Research; Company Filings; Standard & Poor's; FactSet.

Beyond slower dividend growth in the market, we are also seeing many household names eliminating or reducing their dividends. We believe there are two lessons from the table above, where we see a number of stocks our portfolios previously held. The first is the importance of active management to analyze the earnings and dividend paying capacity of an enterprise before their dividend is cut or eliminated. The second is a focus on owning a high conviction portfolio of holdings

that not only pay dividends, but also strive to grow them consistently, in many cases at a sustainable double-digit rate. By maintaining a portfolio with faster-growing dividends than the market regardless of the market outlook, the strength and quality of our portfolios could increase.

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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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.

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-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.

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. **Earnings before interest, taxes, depreciation, amortization, and restructuring or rent costs (EBITDAR)** is a non-GAAP tool used to measure a company's financial performance. Although EBITDAR does not appear on a company's income statement, it can be calculated using information from the income statement. **Free cash flow to the firm (FCFF)** represents the amount of cash flow from operations available for distribution after accounting for depreciation expenses, taxes, working capital, and investments. FCFF is a measurement of a company's profitability after all expenses and reinvestments. **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 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.