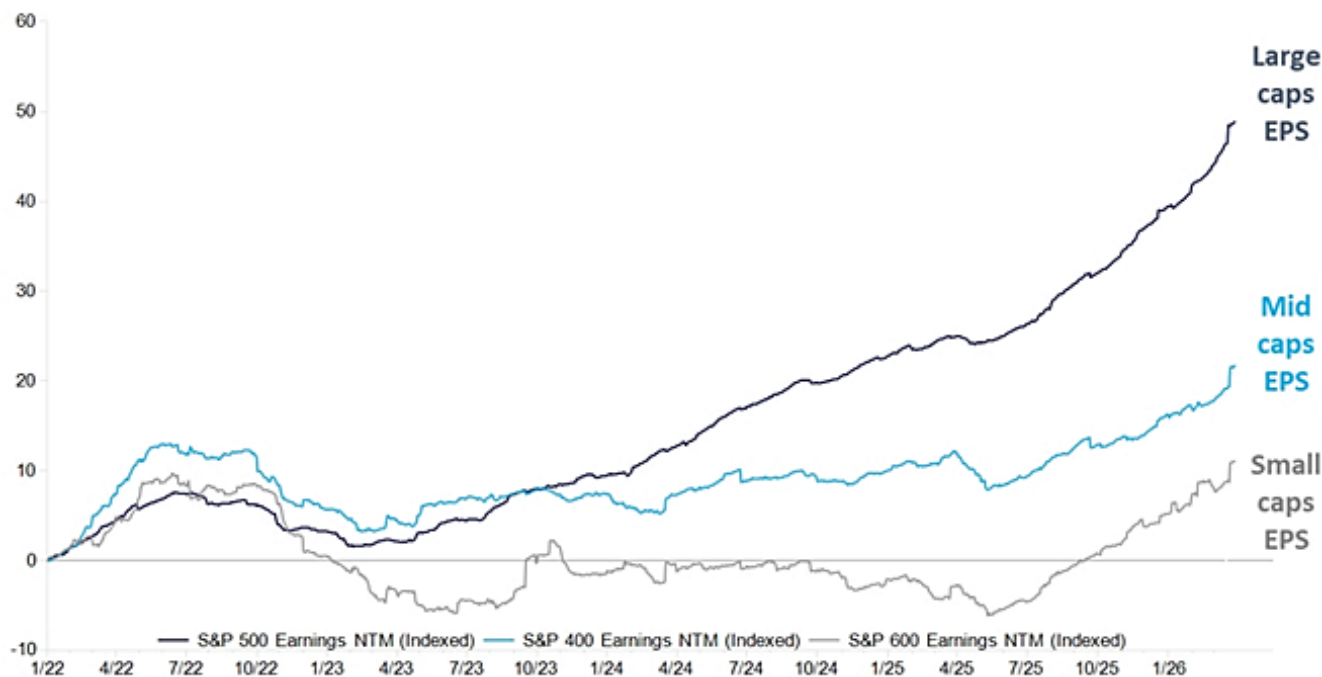


Sharing the Wealth

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Large, Mid, and Small Cap Earnings



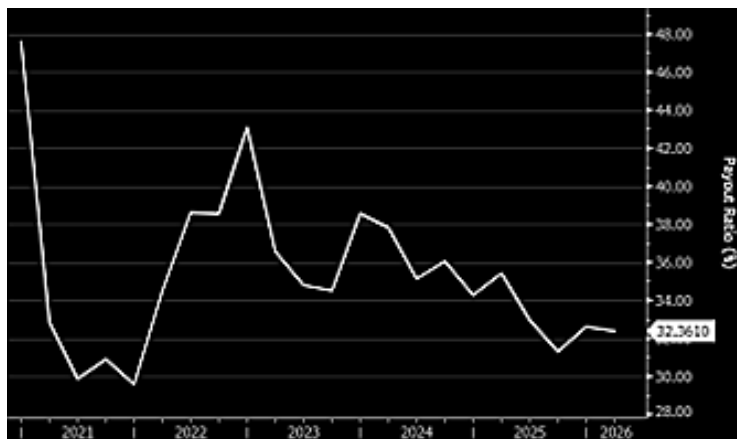
“This remains a highly fluid environment, and timing the market is inherently difficult. We will continue to provide updates as new information becomes available. Last week we hosted a webinar with Jan Stuart and Jake Oubina, where we discussed how we at Piper Sandler are approaching the outlook for markets, the economy, and oil, along with our recommendations for navigating uncertainty.” Source: Piper Sandler. EPS: earnings per share. NTM: next twelve months. Data is as of 04.07.2026. Y-axis indexed.

During our research meeting last week, the investment team was scrutinizing three of our equity investments. A topic that kept surfacing while determining which stock we believed had the best prospect for outperformance was capital allocation. How a company manages the capital we provide to them as equity investors provides us with insight into their business acumen, their priorities, and their ability to plan growth for their business. We believe one of the beauties of dividend growth investing is that companies with a history of sharing their earnings through dividend payments to their shareholders, and increasing those dividends, provides us with valuable insight into their priorities and their ability to pay amounts that may grow over time.

A function of this dynamic is the dividend payout ratio that measures the percentage of earnings that companies return to shareholders through dividend payments each period. As can be seen in the chart at the top of the page, the trend for earnings for companies large and small has been up and to the right. Have these growing earnings streams been shared with shareholders? Maybe not to their potential, in our view.

There are a number of possible value enhancing areas where company management may apply a portion of earnings, such as share repurchases, for example. But despite higher corporate earnings, the percentage shared with their shareholders appears to have been falling over the past several years.

S&P 500 Dividend Payout Ratio

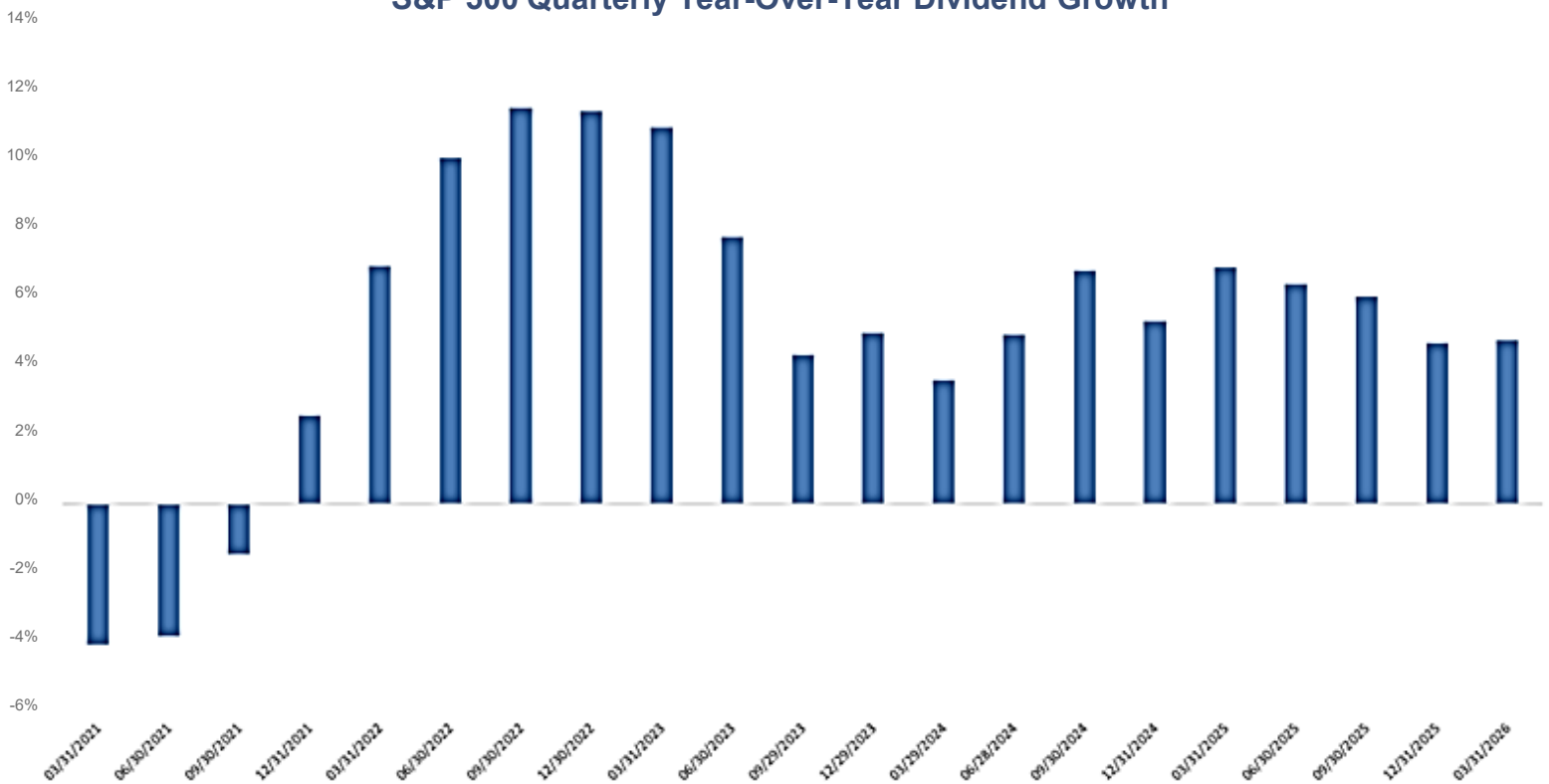


Source: Bloomberg L.P.

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

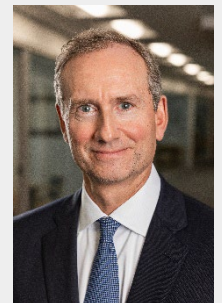


Source: Bloomberg L.P.

As a result of these lower dividend payout ratios, we believe this may be a situation where higher levels of corporate earnings are not translating into dividend growth in the market or the S&P 500, as seen in the chart above. We seek out quality companies that may not only grow earnings but generate returns on capital in excess of the demands to grow the business, so they may also deliver dividend growth commensurate with their earnings growth. If there is value in scarcity with dividend growth, companies that not only pay dividends but grow them faster than the market appear to have a valuable quality. We prefer companies that share wealth year in and year out.

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.



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. Charts are for illustrative purposes only.

Important Information

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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.