



## Sterling Capital Management LLC

Form ADV 2A  
Firm Brochure

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September 12, 2019

This Brochure provides information about the qualifications and business practices of Sterling Capital Management LLC ("Sterling", "we" or "us").

If you have any questions about the contents of this Brochure, please contact us at (704) 927-4175 and/or [scmcompliance@sterlingcapital.com](mailto:scmcompliance@sterlingcapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Although Sterling may use the term "registered investment adviser" or use the term "registered" throughout this Form ADV Part 2A, the use of these terms is not intended to imply a certain level of skill or training.

Additional information about Sterling is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

In addition to certain routine updates, Sterling has made the following material changes since our last Annual Amendment dated March 29, 2018:

### September 12, 2019 changes:

- **Item 4, Advisory Business and Item 5, Fees and Compensation**, were revised to clarify Sterling's Outsourced Chief Investment Officer ("OCIO") services are provided by Sterling's Advisory Solutions Team.
- **Item 5, Fees and Compensation**, was revised to reflect the fee schedule for Sterling's Intermediate Government Credit Total Return Fixed SMA. In addition, to provide clarity on fees related to client investments in affiliated mutual funds and to disclose details related to the share classes when investing in mutual funds for client accounts.

### March 29, 2019 changes:

- **All Items**, The primary objective of the Brochure is to promote effective communication between Sterling and clients in an easy to read format. In our latest version of the Brochure, Sterling has adjusted existing language and the format in each section in an effort to make the content easier to read and understand.
- **Item 4, Advisory Business**, was revised to provide enhanced descriptions of the investment management services Sterling provides to clients.
- **Item 5, Fees and Compensation**, was revised to reflect the current fee schedules for investment strategies and services offered to clients, to provide clarity on fees related to client investments in affiliated mutual funds and to disclose details related to the share classes when investing in mutual funds for client accounts.
- **Item 8, Methods of Analysis Investment Strategies and Risk of Loss**, was revised to provide enhanced descriptions of the investment strategies Sterling provides to clients and the risks associated with the strategies.
- **Item 10, Other Financial Industry Activities and Affiliations**, was revised to provide additional information regarding related persons and associated activities for which Sterling has a material relationship.
- **Item 11, Code of Ethics**, was revised to provide additional information regarding Sterling's Code of Ethics and Conflicts of Interests.
- **Item 12, Brokerage Practices**, was revised to add additional disclosure regarding the use of research and brokerage soft dollar arrangements and enhanced the description regarding the processes for trade allocations, rotation, and aggregation.

- **Item 15, Custody,** was revised to provide additional information regarding custody of client's assets.
  - **Sterling's Privacy Notice and ERISA 408(b)(2) Notice** is now available at the end of the brochure.
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Pursuant to SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary. We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Copies of our Brochure may be requested by contacting Sterling's Compliance Department at [scmcompliance@sterlingcapital.com](mailto:scmcompliance@sterlingcapital.com). Additional information about Sterling is also available via the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4 – Advisory Business

### Our Firm

Sterling Capital Management LLC (“Sterling”, “we” or “us”) is a registered<sup>1</sup> investment adviser with the U.S. Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940 (the “Advisers Act”). The firm was founded in 1970. Sterling is an independently-operated subsidiary of BB&T Corporation (NYSE: BBT), one of the nation’s largest financial services holding companies. Sterling has over 150 employees and is headquartered in Charlotte, NC, with additional offices in Raleigh, NC; Washington, DC; King of Prussia, PA; Richmond and Virginia Beach, VA; and San Francisco, CA.

### Assets Under Management

As of December 31, 2018, Sterling’s assets under management totaled \$56,888,940,831. Of that total, we managed, on a discretionary basis, \$50,447,186,448 in client assets. Non-discretionary client assets totaled \$6,441,754,383.

### Our Services

#### *Investment Management Services*

Sterling provides investment management services to a broad range of individual and institutional clients, including open-end investment companies registered under the Investment Company of 1940. Sterling provides its services in a broad array of fixed income, equity or other investment strategies including in the broad categories of municipal bonds, taxable fixed income, value, growth and core equities and asset allocation.

Sterling provides investment management services to clients through separate account management under both direct advisory and sub-advisory mandates (“Separately Managed Accounts”). In addition, Sterling provides management services to clients through managed account programs sponsored by broker-dealers and other financial intermediaries (“Wrap Programs”). When providing investment management services, we enter into a written agreement with the applicable client or sponsor depending on the nature of the advisory services being provided by Sterling.

#### *Non-Discretionary Services*

In addition to discretionary management services, Sterling also provides non-discretionary investment management services to certain clients. Some clients may grant Sterling limited discretion with respect to the assets in their portfolio e.g., the client may require that Sterling seek the client’s approval prior to any buy or sell transaction in the client’s portfolio. In these instances, Sterling’s ability to transact on behalf of the client will be limited.

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<sup>1</sup> Registration does not imply a certain level of skill or training.

### ***Separately Managed Accounts***

Sterling provides investment management services to a diversified group of clients, including institutional and high net worth clients through separately managed accounts. Clients typically retain Sterling to manage their accounts pursuant to an investment management agreement between Sterling and the client. Sterling's investment management services are provided generally based on the strategy selected by the client, subject to agreed-upon investment guidelines. Clients can specify investment guideline restrictions on investing in certain securities or types of securities. Clients should be aware that certain restrictions can limit Sterling's ability to act and, as a result, the portfolio's performance may differ from and may be lower than that of the other client portfolios that have not limited Sterling's discretion.

### ***Wrap Programs***

Sterling provides investment management services to wrap fee programs and dual contract managed account programs ("Wrap Program") that are sponsored by banks, broker-dealers or other investment advisers, each, a sponsor. Sterling provides these services pursuant to an advisory agreement with the Wrap Program sponsor. Sterling receives a portion of the Wrap Program fees paid by the client for our services. In a dual contract managed account program, Sterling provides its investment management services pursuant to an advisory agreement directly with the client, as well as one with the program sponsor.

In a Wrap Program, Sterling is appointed to act as an investment adviser through a process generally administered or assisted by the program sponsor. Clients participating in a program, generally with assistance from the sponsor, may select Sterling to provide investment management services for their account (or a portion thereof) for a particular strategy. Sterling provides investment management services in accordance with one or more of our investment strategies. In a typical Wrap Program, clients enter into an agreement with a sponsor who provides or arranges for the provision of an array of services, including some or all of the following: assistance with establishing client goals and objectives, asset allocation analysis, security selection and other portfolio management services, selection of investment advisers, sub-advisers, custodians and/or broker-dealers, trade execution and providing ongoing monitoring, reporting and client support, which may be covered by a single "Wrap" fee.

There are certain differences between how we manage accounts in a Wrap Program versus how we manage other client portfolios. For example, in Wrap Programs, the sponsor is generally responsible for determining the suitability of the Wrap Program, including the use of a Sterling investment strategy for the client. Sterling is typically only responsible for managing the client's assets in accordance with the selected investment strategy and any reasonable restrictions imposed by the client and agreed upon by Sterling. In certain Wrap Programs, the sponsor may limit the information available to us. In addition, we may be restricted by sponsors from communicating directly with Wrap Program clients.

Sterling may make available through Wrap Programs the same or similar strategies that are available to other Sterling clients. However, not all of Sterling's strategies are available through Wrap Programs and not every Sterling strategy is available through a particular Wrap Program will be available through other Wrap Programs. Further, the manner in which Sterling executes a strategy through a Wrap Program may differ from how that same, or similar, strategy is executed through another Wrap Program. Accordingly,

the performance of a strategy available through a Wrap Program may differ from the performance of the same or similar strategy executed through another Wrap Program or client.

Typically, the investment management services Sterling provides in connection with these Wrap Programs are discretionary. Sterling is generally responsible for causing the portion of each discretionary Wrap Program account managed by Sterling to engage in transactions that are appropriate for the selected strategy. Wrap Program accounts within a particular strategy are generally managed similarly, subject to a Wrap Program client's ability to impose reasonable restrictions (such as a prohibition on holding the securities of a particular issuer). Because Sterling's advisory services to these accounts are strategy-dependent, Sterling will not accept a restriction that we believe would be inconsistent with the investment strategy.

Sterling may participate in Wrap Programs sponsored by unaffiliated, third-party sponsors as well as Wrap Programs sponsored by an affiliate of Sterling. Affiliated sponsors may have an incentive to recommend Sterling's services over the services of unaffiliated managers, which may not be known to Sterling. Sponsors may apply different methods of analysis, use different types of information, or apply different thresholds in determining whether to recommend an affiliated manager than are applied when recommending an unaffiliated manager.

In addition to the investment management services we provide for Wrap Programs, Sterling may also provide non-discretionary services to the sponsor who exercises investment discretion. Sterling will typically provide a model portfolio to the sponsor who will be responsible for reviewing, implementing, and executing the orders for the client. Where Sterling participates in a model-based managed accounts program, the model-based program sponsor or overlay manager is generally responsible for investment decisions and performing many other services and functions typically handled by Sterling in a traditional discretionary managed account program. In these model-based programs, Sterling does not have an advisory relationship with clients of the sponsor or overlay manager of the model-based program, and Sterling generally does not have the investment discretion or trading responsibilities. Similarly, in these programs, Sterling does not manage model portfolios on the basis of the financial situation or investment objectives of individual clients. In certain cases, Sterling provides model portfolios to an overlay manager, and Sterling affects the trades resulting from the model portfolio changes.

All Wrap Program clients and prospective Wrap Program clients should carefully review the terms of the agreement with the sponsor and the relevant Wrap Program brochures and disclosure documents to understand the terms, services, minimum account size and any additional fees or expenses that may be associated with a Wrap Program account. In evaluating a Wrap Program arrangement, the client should consider the amount of portfolio activity and the value attributed to monitoring, custodial and any other services provided.

### ***Investment Companies***

Sterling also provides investment management services to investment companies. Investment companies are pooled investments registered under the Investment Company Act of 1940 and are also called mutual funds. Sterling is the investment adviser to the Sterling Capital Funds (the "Affiliated Funds"). Sterling manages and supervises the investment of the Affiliated Funds' assets on a discretionary basis, subject to oversight by the Affiliated Funds' independent Board of Trustees. In addition, Sterling may act as sub-adviser to other mutual funds.

Sterling, where appropriate and consistent with client guidelines, may purchase for client portfolios shares of the Affiliated Funds as part of the portfolios' investment strategy. Clients should note that Sterling has a conflict of interest and financial incentive to choose Affiliated Funds because Sterling receives investment management and other fees from the Affiliated Funds. Sterling reduces our investment management fees with respect to investments in Affiliated Funds in client portfolios with the exception of Affiliated Funds in Sterling's Private Client portfolios or Sterling's Advisory Solution's Outsourced Chief Investment Officer ("OCIO") services. However, this reduction in fees does not eliminate the conflict of interest, as there are other incentives such as increasing Sterling's assets under management or providing support to the Affiliated Funds. Clients have the right, at any time, to prohibit us from investing any of their managed assets in the Affiliated Funds.

### ***Other Services – OCIO Services***

For clients seeking comprehensive asset allocation and investment selection solutions, Sterling's Advisory Solutions Team provides Outsourced Chief Investment Officer ("OCIO") services by offering to clients an asset allocation framework with a comprehensive investment manager search and selection methodology to create unique, client-specific portfolios. These open architecture multi-asset class portfolios are constructed using specific investment objectives, risk tolerance, goals and circumstances of the client with a goal of delivering consistent, long-term, risk-adjusted performance.

While the asset allocation ranges included in a portfolio's investment objectives will provide a guide for Sterling's asset allocation services, the portfolio's actual asset allocation may, at any time, vary from the client's investment objectives for various reasons, including, but not limited to, fund flows into or out of the portfolio, market movements, and asset allocation decisions.

## **Item 5 – Fees and Compensation**

### **General Information**

Sterling is compensated for providing investment management services by charging an investment management fee. Generally, the investment management fee is based on an annual rate on total assets under management (or advisement for model-based or other non-discretionary services). Occasionally, Sterling may consult on a small percentage of portfolios that are not actively managed by Sterling. Fixed fees may be set when the amount of work involved is not directly related to the assets under management or advisement. Sterling does not receive compensation from the sale of securities or other investment products.

Investment management fees may be negotiated under certain circumstances. These negotiations are entered into only when such factors as portfolio size, type of investments and activity are taken into consideration. The negotiations may result in a reduced, higher, or fixed fee.

The specific manner in which fees are charged by Sterling is established in a client's written agreement with Sterling. Clients may be billed in advance or arrears depending on the specific client relationship. Sterling will generally bill its fees on a quarterly basis. Clients may elect to be billed directly for fees or to authorize Sterling to debit fees from the client's managed account(s). In some instances, clients calculate their own fee and initiate payment to Sterling.



Typically, Sterling's investment management agreement may be cancelled by either party upon written notice. For clients that pay fees in advance, in the event of a termination, fees are refunded on a pro-rata basis for the portion of the quarter (or applicable billing period) during which the portfolio is no longer under management. For clients that pay in arrears, any earned unpaid fees in the event of a termination will be billed on a pro-rata basis payable and due to Sterling.

The minimum portfolio size generally varies by the type of portfolio. Under certain circumstances, Sterling may waive the stated minimum investment; however portfolios with less than the statement minimum investment may be charged a higher asset-based fee, or a flat quarterly fee, which may result in a higher asset-based fee.

### **Additional Costs**

There are a number of other fees that can be associated with holding and investing in securities. In addition to the investment management fees paid to Sterling, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions. These additional charges may include brokerage commissions, transaction fees, custodial fees, fees charged by other managers, margin costs, charges imposed directly by a mutual fund or exchange traded funds ("ETFs") in a client's account, as disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer, and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Sterling may include mutual funds and ETFs in our investment strategies. Mutual funds and exchange traded funds also charge operating expenses, which are disclosed as "other expenses" in the fund's prospectus. When Sterling purchases a mutual fund in a client portfolio, Sterling will, on a best efforts basis, select the lowest cost share class of such mutual fund in which the client is eligible to invest at the time of initial purchase. Sterling will periodically review advisory client mutual fund holding to determine if a lower cost mutual fund share class is available to the client. Sterling will take into account associated conversion fees, tax consequences and other relevant factors when determining if a client would benefit from the lower cost share class. If Sterling determines that a client would benefit from the lower cost share class, then Sterling will convert the client's mutual fund holdings.

Please refer to Item 12 – Brokerage Practices for the factors that Sterling considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

### **Performance-Based Fee Schedules**

Performance-based fee schedules may be available. These fee schedules are customized and individually negotiated. Please refer to Item 6 – Performance-Based Fees and Side-by-Side Management.

### **Wrap Programs**

Wrap Programs typically pay a fee to the sponsor based on assets managed through the program. The sponsor generally pays Sterling a fee based on the assets management by Sterling in the Wrap Program. Therefore, Sterling receives a portion of the wrap fee paid by each client in the Wrap Program.

## Investment Companies

Sterling provides investment management services to registered investment companies, including the Affiliated Funds. Each registered investment company's offering document will include information about the fees and expenses paid by the investment company. Sterling may receive compensation for portfolio management and administrative services as outlined in the fund's prospectus.

Sterling, where appropriate and consistent with client guidelines, may purchase for client portfolios shares of the Affiliated Funds as part of the portfolios' investment strategy. Clients should note that Sterling has a conflict of interest and financial incentive to choose Affiliated Funds because Sterling receives investment management and other fees from the Affiliated Funds. Sterling reduces our investment management fees with respect to investments in Affiliated Funds in client portfolios with the exception of Affiliated Funds in Private Client portfolios or Outsourced Chief Investment Officer services. However, this reduction in fees does not eliminate the conflict of interest, as there are other incentives such as increasing Sterling's assets under management or providing support to the Affiliated Funds. Clients have the right, at any time, to prohibit us from investing any of their managed assets in the Affiliated Funds.

## Fee Schedules

Below are Sterling's standard fee schedules. The fee schedules are subject to change and are negotiable; therefore existing and future clients of Sterling may have different fee arrangements or minimum investments from those stated below.

### FEE SCHEDULE – PRIVATE CLIENT

Investment management fees are based on the following annual rate on total assets under management. Fees may be paid in advance or arrears depending on the client relationship. Minimum investment required is \$10 million in the aggregate.

#### Equity

|                    |          |
|--------------------|----------|
| First \$5,000,000  | 1.00%    |
| Next \$10,000,000  | 0.75%    |
| Next \$10,000,000  | 0.65%    |
| Over \$25,000,000  | 0.50%    |
| Minimum Annual Fee | \$10,000 |

#### Fixed Income

|                    |          |
|--------------------|----------|
| First \$5,000,000  | 0.50%    |
| Next \$5,000,000   | 0.40%    |
| Over \$10,000,000  | 0.25%    |
| Minimum Annual Fee | \$10,000 |

**Additional Services:** From time to time, Sterling may charge a flat fee for services rendered other than investment management. This fee is negotiable and will be determined at the time of service.

## FEE SCHEDULE – WRAP PROGRAMS

### Wrap Programs

Fees charged by Sterling to affiliated and unaffiliated Wrap Program sponsors for Sterling's portfolio management service.

**Fees:** range from 0.30%-0.60% on all program assets depending on selected strategy

**Minimum Investment:** \$100,000

### Investment Models

Fees charged by Sterling to affiliated and unaffiliated model program sponsors do not include underlying manager fees. Sterling's fees are charged directly to individual clients or the external investment platform sponsors.

**Fees:** range from 0.20%-0.50% on model-based assets depending on selected strategy

## FEE SCHEDULE – ADVISORY SOLUTIONS OUTSOURCED CHIEF INVESTMENT OFFICER (OCIO)

### Multi-Strategy

|                     |          |
|---------------------|----------|
| First \$100 million | 0.20%    |
| Next \$100 million  | 0.10%    |
| Over \$200 million  | 0.05%    |
| Minimum Annual Fee  | \$50,000 |

## FEE SCHEDULE – INSTITUTIONAL SEPARATELY MANAGED ACCOUNTS

### Small Cap Value, Stratton Small Cap Value, Small-Mid Value Equity

|   |              |
|---|--------------|
| First \$25 million                        | 1.00%        |
| All incremental assets above \$25 million | 0.75%        |
| Minimum Initial Investment                | \$10 million |

### Mid Cap Value Equity, Stratton Mid Cap Value, Stratton Real Estate

|   |              |
|---|--------------|
| First \$10 million                        | 0.85%        |
| Next \$15 million                         | 0.70%        |
| All incremental assets above \$25 million | 0.60%        |
| Minimum Initial Investment                | \$10 million |

### Large Cap Value Focused Factor

|  |              |
|--|--------------|
| First \$250 million                        | 0.45%        |
| Next \$250 million                         | 0.35%        |
| All incremental assets above \$500 million | 0.25%        |
| Minimum Initial Investment                 | \$10 million |

### Special Opportunities, Equity Income, Insight, Global Leaders, SMID Opportunities, Focus, Focus Equity, Enhanced Equity

|   |              |
|---|--------------|
| First \$25 million                        | 0.70%        |
| Next \$25 million                         | 0.60%        |
| Next \$25 million                         | 0.50%        |
| All incremental assets above \$75 million | 0.40%        |
| Minimum Initial Investment                | \$10 million |

### Cash/Enhanced Cash Fixed Income

|  |              |
|--|--------------|
| First \$100 million                        | 0.15%        |
| Next \$100 million                         | 0.125%       |
| All incremental assets above \$200 million | 0.10%        |
| Minimum Initial Investment                 | \$50 million |

### Small Cap Value Focused Factor

|  |              |
|--|--------------|
| First \$50 million                         | 0.60%        |
| Next \$50 million                          | 0.55%        |
| All incremental assets above \$100 million | 0.50%        |
| Minimum Initial Investment                 | \$10 million |

### International Focused Factor

|  |              |
|--|--------------|
| First \$250 million                        | 0.60%        |
| Next \$250 million                         | 0.50%        |
| All incremental assets above \$500 million | 0.40%        |
| Minimum Initial Investment                 | \$10 million |

### Intermediate, Core or Long Duration Fixed Income

|   |              |
|---|--------------|
| First \$50 million                        | 0.25%        |
| All incremental assets above \$50 million | 0.20%        |
| Minimum Initial Investment                | \$20 million |

### Intermediate or Core Fixed Income Municipal

|   |              |
|---|--------------|
| First \$10 million                        | 0.35%        |
| Next \$40 million                         | 0.25%        |
| All incremental assets above \$50 million | 0.15%        |
| Minimum Initial Investment                | \$20 million |

### High Yield Portfolios

|   |              |
|---|--------------|
| First \$50 million                        | 0.50%        |
| All incremental assets above \$50 million | 0.45%        |
| Minimum Initial Investment                | \$20 million |

### Short Term Fixed Income

|  |              |
|--|--------------|
| First \$100 million                        | 0.15%        |
| Next \$100 million                         | 0.125%       |
| All incremental assets above \$200 million | 0.10%        |
| Minimum Initial Investment                 | \$25 million |

## FEE SCHEDULE – MANAGED LADDER SEPARATELY MANAGED ACCOUNTS

|  |             |  |             |
|--|-------------|--|-------------|
| Short Term Government Ladder Short Term Corporate Ladder, Short Term Government/Credit Ladder        |             | Muni Enhanced Cash Ladder  |             |
| Fee  | 0.20%       | Fee  | 0.20%       |
| Minimum Initial Investment   | \$250,000   | Minimum Initial Investment   | \$1,000,000 |
| Enhanced Cash Ladder, Enhanced Cash Government Ladder  |             | Muni Short Term Ladder   |             |
| Fee  | 0.20%       | Fee  | 0.20%       |
| Minimum Initial Investment   | \$1,000,000 | Minimum Initial Investment   | \$500,000   |
| Minimum Initial Investment   | \$1,000,000 | Muni Limited Term Ladder   |             |
| Intermediate Government Ladder, Intermediate Corporate Ladder, Intermediate Government/Credit Ladder |             | Fee  | 0.20%       |
| Fee  | 0.20%       | Minimum Initial Investment   | \$250,000   |
| Minimum Initial Investment   | \$250,000   | State Specific Limited Term Ladder, State Specific Intermediate Tax Free |             |
| Core Ladder  |             | Fee  | 0.20%       |
| Fee  | 0.20%       | Minimum Initial Investment   | \$500,000   |
| Minimum Initial Investment   | \$500,000   | Muni Intermediate Ladder   |             |
| Full Term Government/Credit Ladder   |             | Fee  | 0.20%       |
| Fee  | 0.20%       | Minimum Initial Investment   | \$250,000   |
| Minimum Initial Investment   | \$250,000   |  |             |

*\*The following strategy is no longer available for new clients*

|   |       |
|---|-------|
| Intermediate Government Credit Total Return     |       |
| Fee – First \$5 Million                         | 0.28% |
| Fee – Next \$5 Million                          | 0.25% |
| Fee – All incremental Assets above \$10 Million | 0.23% |

### Item 6 – Performance-Based Fees and Side-By-Side Management

In addition to the asset-based fees described above, Sterling may charge certain qualified clients a performance-based fee. The amount of a performance-based fee can vary depending on factors such as the portfolio's relative return to a particular benchmark return. Sterling will take into consideration the investment objectives of the client as well as what Sterling deems to be reasonable performance goals.

Portfolio managers responsible for the management of performance-based portfolios may also be responsible for the management of portfolios with an asset-based fee or other fee arrangement. Performance-based fee arrangements may create an incentive for Sterling to recommend investments

which may be riskier or more speculative than those which would be recommended under an asset-based fee or other fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying portfolios over other portfolios in the allocation of investment opportunities.

Sterling has procedures designed and implemented to ensure that clients are treated fairly and equally and to prevent this potential conflict of interest from influencing the allocation of investment opportunities among clients.

## Item 7 – Types of Clients

Sterling provides investment management services to a diversified group of clients including individuals, high net worth individuals, trusts, estates, banking or thrift institutions, affiliated and non-affiliated investment companies (including mutual funds), investment advisers, pension and profit sharing plans (other than plan participants), charitable organizations, corporations and other business entities, insurance companies, state and municipal government entities, churches, affiliated and non-affiliated Wrap Programs, and managed investment pools (e.g., a hedge fund).

Portfolio minimums vary by type of client (e.g., wealth management, institutional, Wrap, managed investment pools), investment type (e.g., fixed, equity), and product (e.g., small cap, mid cap, balanced, short term fixed, intermediate fixed). For specific portfolio minimums, please refer to Item 5 – Fees and Compensation.

## Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

### Methods of Analysis and Investment Strategies

Sterling's security analysis methods include: charting, fundamental, technical, quantitative, behavioral, qualitative, and cyclical. In conducting security analysis, we utilize a broad spectrum of information, including but not limited to financial publications, third-party research materials, annual reports, prospectuses, regulatory filings, company press releases, corporate rating services, inspections of corporate activities and meetings with management of various companies.

Sterling offers various investment strategies to its clients; in doing so, Sterling may invest in a wide range of securities and other financial instruments, unless expressly limited by written direction or our client's guidelines and policies. We employ a range of investment strategies to implement the advice we give to clients including but not limited to long-term purchases, short-term purchases, trading, short sales, option strategies (e.g., covered options, uncovered options, or spreading strategies), and over-the-counter derivative strategies.

The specific risk associated with a particular strategy depends on the securities used and the extent to which the strategy employs certain portfolio management techniques. Not all of risks apply to each strategy. For a summary of each risk, see **Summary of Material Risks** at the end of this item.

## **Principal Investment Strategies**

A brief summary for each principal investment strategy listed below is included along with the methods of analyses. Please refer to the Summary of Material Risks for a description of material risks that apply to the principal investment strategies.

### ***Taxable and Tax- Exempt Fixed Income***

Depending on client objectives, Sterling will invest in one or all of the following fixed income securities: securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, foreign government and government-related securities, securities issued by supranational organizations, corporate bonds, preferred stock, taxable and tax-exempt municipal securities, asset-backed securities, mortgage-backed securities, including commercial mortgage-backed securities, and convertible securities.

Sterling's portfolio manager combines elements of both "top-down" as well as "bottom-up" investment management strategies in constructing portfolios. The "top-down" macro view drives the manager's interest rate risk and sector allocation decisions, while "bottom-up" credit fundamentals drive the manager's security selection decisions. For yield curve management, in addition to the trend in interest rates, other factors such as future inflation expectations, supply factors, and forward curve analysis are considered. Sector weightings are driven by a combination of the firm's macro view on the economy, sector fundamentals, interest rates and volatility as well as relative spread analysis. The portfolio manager then selects individual securities by utilizing fundamental analysis and looking for the best relative values within particular sectors. The analysis includes an attempt to understand the structure and embedded features of potential securities. Features that are analyzed include puts, calls, sinking fund requirements, prepayment and extension risk, debt limitations, lien baskets, restricted payments baskets and other covenants and individual company financial data for potential corporate holdings. Scenario analysis is the primary tool employed for these assessments.

### ***Small Cap, SMID and Mid Cap Value***

Sterling's team of portfolio managers and analysts utilize quantitative and qualitative tools to examine the fundamental and investment characteristics of a particular company. The analysis is focused on finding undervalued businesses producing strong cash flows, high returns on invested capital, and sustainable competitive advantages. We seek businesses run by capable managers with a track record of good capital allocation and shareholder-aligned incentives. The team seeks attractive risk/reward investment opportunities and broad diversification across uncorrelated economic sectors.

Sterling's investment process attempts to analyze and define the intrinsic value of the business using both quantitative and qualitative fundamental analysis. We emphasize the five key factors listed below:

- Free cash flow
- Return on invested capital
- Sustainable competitive advantages
- Capable management
- Balance sheet strength

### ***Stratton Relative Small Cap Value and Stratton Relative Mid Cap Value***

The portfolio management team uses a value investment approach to invest primarily in common stock of small or mid-capitalization companies. We believe that undervalued companies with good earnings

prospects have superior appreciation potential with reasonable levels of risk. Quantitatively, we focus on a stock's fundamental valuation relative to its peers, with particular emphasis on cash-flow valuation metrics. Other quantitative measures such as earnings momentum and relative price strength are also considered. Qualitatively, we seek to identify business catalysts which will serve to drive future earnings growth, increase investor interest, and expand valuation. Management seeks to control risk through broad diversification across economic sectors.

### ***Advisory Solutions (OCIO)***

Sterling's Advisory Solutions team provides discretionary Outsourced Chief Investment Officer ("OCIO") services & open architecture-based solutions for wealth and institutional clients seeking comprehensive asset allocation, investment manager selection, and portfolio construction. Solutions are achieved by blending multiple investment strategies and asset classes. This combination can include domestic and international equities, fixed income, alternative investments & private market assets, affiliated and non-affiliated funds. The investment process includes:

- Developing an asset allocation framework aligned with client specific goals & constraints
- Actively managing asset allocation, employing both quantitative and qualitative principles
- Utilizing a blend of active and passive managers, striving to achieve above-average returns with below-average risk
- Seeking to identify investment managers for each allocation within the portfolio
- Utilizing a complementary mix of investment managers
- Employing a diversified portfolio of separately managed accounts, mutual funds, index funds, exchange-traded funds, and/or private investment funds

### ***Focused Factor (Small Cap Value, Large Cap Value, and International)***

***Focused Factor strategies are offered as Behavioral Small Cap Value Equity, Behavioral Large Cap Value Equity, and Behavioral International Equity for the Affiliated Funds***

The Focused Factor suite of products consists of three strategies that employ techniques seeking to capitalize upon behavioral finance-based principles and to take advantage of inefficiencies within the market. Investors are prone to certain biases and heuristics (mental shortcuts) as well as greed and fear that often times lead to anomalies within the financial markets. Our investment process, from the valuation and momentum factors we use to the portfolio construction techniques we employ, is specifically designed to capitalize upon investor behavior.

The Small Cap Value Focused Factor portfolio seeks to invest in U.S. small capitalization stocks that will potentially offer greater capital appreciation than its applicable benchmark. The Large Cap Value Focused Factor portfolio seeks to invest in U.S. large and mid-capitalization stocks that will potentially offer greater capital appreciation than its applicable benchmark. The International Focused Factor portfolio seeks to invest in developed market (ex- U.S. and Canada) large and mid-capitalization stocks that will potentially offer greater capital appreciation than its applicable benchmark.

### ***Equity Opportunities (Equity Income, Special Opportunities, SMID Opportunities, Insight, Global Leaders, Enhanced Equity, Focus, and Focus Equity)***

The Equity Opportunities portfolios consist of seven strategies, each using a stock selection multi-cap, multi-style approach to build a diversified, but concentrated, portfolio. The Equity Income portfolio is



primarily larger-cap equities and focused on total return, selecting stocks with increasing dividend payouts. The Special Opportunities portfolio has a quality bias that tends to focus stock selection away from smaller capitalization issues, while seeking capital appreciation typically found in faster growing companies. The SMID Opportunities portfolio focuses on small- and mid-cap stocks. The Insight portfolio focuses on corporate insiders' stock purchasing activities or existing ownership based on SEC filings. The Global Leaders portfolio primarily consists of larger cap global equities that are seen as industry leaders, with a focus on tax efficiency. The Enhanced Equity portfolio is designed for investors who seek the long-term capital growth of equity markets and who are comfortable with the risks inherent in selling call options against the underlying common stock positions, while emphasizing short-term cash-flows as part of a total return strategy. The Focus portfolio retains the ability to concentrate the strategy's exposure across growth and value, large- and small-capitalization companies, and various capital forms, including equity, debt, and derivatives. The Focus Equity portfolio follows a similar strategy to the Focus portfolio but invests only in equities.

In managing each of these portfolios, the Equity Opportunities team will place a strong emphasis on identifying companies with the following characteristics: strong profitability, attractive valuation, below average debt, above average return on equity and skilled management. Both quantitative and qualitative analysis is used in identifying investment opportunities. The focus will be on companies perceived to have a quality business model, strong balance sheet, and good management. Valuation analysis of each security is conducted relative to its historical range, peers, growth rate, and the market. A long-term investment horizon allows portfolios to take advantage of transitory weakness which creates potential buying opportunities. To implement the Enhanced Equity strategy, out-of-the-money covered call options are written opportunistically against positions in the portfolio which provide income to the portfolio.

#### ***Large Cap Equity (Core Equity, Focused Equity, and Dividend Advantage)***

The Large Cap Equity products consist of three separate strategies, each using a disciplined approach and a common fundamentally-driven, multi-factor quantitative model to identify attractively valued equity securities with an emphasis on large capitalization stocks with above average financial quality. Factors used to manage the portfolios include earnings growth, forward earnings yield, cash flow, debt levels, price momentum and dividend yield.

The portfolio management team will at times overlay strategies that emphasize certain segments of the market in order to position the portfolios to participate in attractive trends developing in the market. These decisions are driven by several factors including the current macro-economic environment and business cycle events. The strategies have the ability to invest a portion of the portfolio in attractively valued mid-cap stocks when appropriate. However, the portfolios will consistently maintain exposure to all sectors of the market, and be positioned as large cap strategies at all times.

The Core Equity portfolio is a broadly diversified portfolio of 30-40 equity holdings across all market sectors. Focused Equity is a more concentrated portfolio of 20-30 individual holdings; however, the portfolio maintains broad diversification across all market segments. The Dividend Advantage portfolio is diversified across all market sectors and has a target dividend yield of 150% of the yield of the S&P 500. All three Large Cap Equity strategies are comprised of publicly- traded equities with minimal cash levels.

The Large Cap Equity strategies take a long-term approach to the markets, and the portfolio team closely monitors the tax impact throughout the portfolio management process. This tax awareness approach

includes attention to holding periods (long vs. short term), pending tax legislation, impact on after-tax returns and ex-dividend timing. These factors are balanced against the benefits associated with portfolio changes.

### ***Stratton Real Estate***

The Real Estate strategy employs a combination of quantitative and qualitative measures, including underlying real estate values, earnings multiples, geographic and tenant concentrations, balance sheet metrics, company strategies, and management track record to identify the most attractive securities on a relative valuation basis within each property subsector. Based on the aforementioned criteria, stocks that appear undervalued relative to peers, and have identifiable fundamental catalysts, are buy candidates.

### ***Diversified Income***

The Diversified Income strategy seeks income and capital appreciation by investing in a broad range of income-generating asset classes and strategies. To pursue this objective, assets will be allocated among (i) the Affiliated Funds and (ii) registered open-end and closed-end investment companies (including ETFs) that are not a part of the Affiliated Funds. The portfolio management team will make allocation decisions according to its outlook for the economy, financial market, and relative market valuation of the Underlying Funds.

### **Summary of Material Risks**

Investing in securities involves risk of loss that clients should be prepared to bear. All investments carry a certain amount of risk and Sterling cannot guarantee that it will achieve its investment objective. An investment is not a deposit or obligation of any bank, is not endorsed or guaranteed by any bank, and is not insured by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. **You may lose money.** Below is a summary of principal risks associated with the principal strategies used by Sterling.

**Asset Allocation Risk:** The amount invested in various asset classes of securities may change over time and is subject to the risk asset classes may underperforms other asset classes or that the allocation selected by Sterling may fail to perform as expected.

**Company-Specific Risk:** The possibility that a particular investment may lose value due to factors specific to the company itself, including deterioration of its fundamental characteristics, an occurrence of adverse events at the company, or a downturn in its business prospects.

**Concentration Risk:** The risk that a strategy's concentration in specific securities may produce a greater risk of loss than a more diversified strategy.

**Convertible Securities Risk:** Convertible securities are securities that may be converted or exchanged into shares of an underlying stock or other asset at a stated exchange ratio or predetermined price. The market value of convertible securities tends to decline as interest rates increase and may be affected by changes in the price of the underlying security.

**Counterparty Risk:** The possibility that a counterparty to a contract will default or otherwise become unable to honor a financial obligation.

**Credit Risk:** The possibility that an issuer cannot make timely interest and principal payments on its debt securities such as bonds. The lower a security's rating, the greater its credit risk.

**Derivatives Risk:** The possibility of suffering a loss from a use of derivatives. The primary risk with many derivatives is that they can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative instrument. Use of derivatives for non-hedging purposes is considered a speculative practice and involves greater risks.

**Dividend Risk:** Companies that issue dividend-yielding securities are not required to continue to pay dividends on such securities. Therefore, there is the possibility that such companies could reduce or eliminate the payment of dividends in the future.

**Emerging Markets Risk:** The risks associated with foreign investments are particularly pronounced in connection with investments in emerging markets.

**Energy and Natural Resource Company Risk:** The risk associated with investing in Master Limited Partnerships that may concentrate its investments in the energy infrastructure sector and may invest a significant portion of its assets in the natural resources sector of the economy.

**Estimated Maturity Risk:** The possibility that an underlying security issuer will exercise its right to pay principal on an obligation earlier or later than expected. This may happen when there is a rise or fall in interest rates. These events may shorten or lengthen the duration (*i.e.*, interest rate sensitivity) and potentially reduce the value of these securities.

**Exchange-Traded Fund (ETF) Risk:** The risks associated with investing in ETFs include the risks of owning the underlying securities the ETF is designed to track. Lack of liquidity in an ETF could result in being more volatile than the underlying portfolio of securities.

**Fixed Income Market Risk:** Fixed income securities markets may, in response to governmental intervention, economic or market developments (including potentially a reduction in the number of broker-dealers willing to engage in market-making activity), or other factors, experience periods of increased volatility and reduced liquidity.

**Focused Investment Risk:** Investments focused in sectors, industries, or issuers that are subject to the same or similar risk factors and investments whose prices are strongly correlated are subject to greater overall risk than investments that are more diversified or whose prices are not as closely correlated.

**Foreign Currency Transaction Risk:** Fluctuations in exchange rates can adversely affect the market value of foreign currency holdings and investments denominated in foreign currencies.

**Foreign Investment Risk:** Foreign securities involve risks not typically associated with investing in U.S. securities. Foreign securities may be adversely affected by various factors, including currency fluctuations and social, economic, or political instability. These risks are particularly pronounced for emerging markets.

**High-Yield/High-Risk Debt Securities:** High-yield/high-risk debt securities are securities that are rated below investment grade by the primary rating agencies. These securities are considered speculative and involve greater risk of loss than investment grade debt securities.

**Income Risk:** The possibility that the portfolio's income will decline due to a decrease in interest rates. Income risk is generally high for shorter-term bonds and low for longer-term bonds.

**Insurance-Linked Securities Risk:** Insurance-linked securities may include event-linked securities (also known as insurance-linked bonds or catastrophe bonds), quota share instruments (also known as reinsurance sidecars), collateralized reinsurance investments, industry loss warranties, event-linked swaps, securities of companies in the insurance or reinsurance industries, and other insurance and reinsurance-related securities.

**Interest Rate Risk:** The possibility that the value of the investment will decline due to an increase in interest rates. Interest rate risk is generally higher for longer-term debt instruments and lower for shorter-term debt instruments.

**Investing in Underlying Funds Risk:** For strategies whose investments are concentrated in underlying funds, the investment performance is directly related to the performance of those underlying funds. There are risks associated with any underlying fund in which the strategy invests and the types of investments made by those underlying funds.

**Investment Manager Risk:** The possibility that an investment manager may underperform relevant benchmarks and fail to produce the intended results.

**Investment Style Risk:** The possibility that the market segment on which a strategy focuses will underperform other kinds of investments or market averages. An investment's value may decrease or remain unchanged if other investors fail to recognize the company's value. In addition, expected positive catalysts or other events may not occur.

**Leverage Risk:** The risk associated with securities or practices that multiply small index or market movements into large changes in value. Leverage is often associated with investments in derivatives, but also may be embedded directly in the characteristics of other securities.

**Limited Operating History Risk:** The risk that a newly formed fund has no or a limited operating history to evaluate and may not attract sufficient assets to achieve or maximize investment and operational efficiencies.

**Liquidity Risk:** The possibility that certain securities or derivatives may be difficult or impossible to sell at the time and the price that would normally prevail in the market. The seller may have to lower the price, sell other securities instead or forego an investment opportunity, any of which could have a negative effect on performance.

**Loan Risk:** Investments in loans are generally subject to the same risks as investments in other types of debt securities, including, in many cases, investments in high-yield/junk bonds. They may be difficult to value and may be illiquid.

**Management Risk:** The risk that a strategy may fail to produce the intended result.

**Market Risk:** The value of an investment may decline in price because of a broad stock market decline. Markets generally move in cycles, with periods of rising prices followed by periods of falling prices. The value of the investment will tend to increase or decrease in response to these movements.

**Master Limited Partnership ("MLP") Risk:** Investments in MLPs are generally subject to many of the risks that apply to partnerships. For example, holders of the units of MLPs may have limited control and limited voting rights on matters affecting the partnership. MLPs that concentrate in a particular industry or region are subject to risks associated with such industry or region. Investments held by MLPs may be illiquid. Certain MLPs may also be subject to leverage risk.

**Mid-Capitalization Company Risk:** Investments in middle capitalization companies may be riskier, more volatile, and more vulnerable to economic, market and industry changes than investments in larger, more established companies. As a result, price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term.

**Mortgage-Backed and Asset-Backed Securities Risk:** Mortgage-backed and other asset-backed securities may be particularly sensitive to changes in prevailing interest rates. Rising interest rates tend to extend the duration of mortgage-backed securities, making them more sensitive to changes in interest rates, and may reduce the market value of the securities. Mortgage-backed securities are also subject to prepayment risk. Due to their often complicated structures, various mortgage-backed and asset-backed securities may be difficult to value and may constitute illiquid securities. Furthermore, debtors may be entitled to the protection of a number of state and federal consumer protection credit laws with respect to these securities, which may give the debtor the right to avoid or reduce payment.

**Municipal Securities Risk:** Municipal obligations are issued by or on behalf of states, territories, and possessions of the United States and their political subdivisions, agencies and instrumentalities and the District of Columbia to obtain funds for various public purposes. Municipal obligations are subject to more credit risk than U.S. government securities that are supported by the full faith and credit of the United States. The ability of municipalities to meet their obligations will depend on the availability of tax and other revenues, economic, political, and other conditions within the state and municipality, and the underlying fiscal condition of the state and municipality. As with other fixed income securities, municipal securities also expose their holders to market risk because their values typically change as interest rates fluctuate.

**Operational and Technology Risk:** Cyber-attacks, disruptions or failures that affect service providers, counterparties, market participants, or issuers of securities may adversely affect the investment.

**Options Risk:** There are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing an option transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and

judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. There can be no assurance that a liquid secondary market will exist for any particular option at a particular time; as a result, it may be costly to liquidate options. There is also no assurance that a liquid market will exist for any particular option contract on an exchange.

**Preferred Stock Risk:** Preferred stock represents an interest in a company that generally entitles the holder to receive, in preference to the holders of common stock, dividends, and a fixed share of the proceeds resulting from a liquidation of the company. Preferred stocks are generally subordinated in right of payment to all debt obligations and creditors of the issuer.

**Prepayment/Call Risk:** When mortgages and other obligations are prepaid and when securities are called, the portfolio manager may have to reinvest in securities with a lower yield or fail to recover additional amounts (*i.e.*, premiums) paid for securities with higher interest rates, resulting in an unexpected capital loss. Call risk is the possibility that, during periods of declining interest rates, a bond issuer will “call” or repay higher-yielding bonds before their stated maturity date. In both cases, investors receive their principal back and are typically forced to reinvest it in bonds that pay lower interest rates.

**Private Placement Risk:** Privately-issued securities are restricted securities that are not publicly traded, and may be less liquid than those that are publicly traded.

**Real Estate-Related Investment and REIT Risk:** Real estate-related investments may decline in value as a result of factors affecting the real estate industry. Risks associated with investments in securities of companies in the real estate industry include decline in the value of the underlying real estate, default, prepayment, changes in value resulting from changes in interest rates and demand for real and rental property, and the management skill and creditworthiness of REIT issuers.

**Risks of Loss:** The specific risk associated with a particular strategy depends on the securities used and the extent to which the strategy employs certain portfolio management techniques. Not all of risks apply to each strategy.

**Security Selection Risk:** Core factors utilized by the strategy may fall out of favor and underperform versus the overall stock market and/or the benchmark index.

**Short Sale/Options Risk:** There are several risks associated with transactions in options on securities, such as exchange-listed, over-the-counter and index options. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. There can be no assurance that a liquid secondary market will exist for any particular option at a particular time, especially when seeking to close out an option position; as a result, it may be costly to liquidate options. There is also no assurance that a liquid market will exist for any particular option contract at any particular time even if the contract is traded on an exchange.

**Small Capitalization Company Risk:** Investing in smaller, lesser-known companies involves greater risk than investing in those that are more established. A small company’s financial well-being may, for

example, depend heavily on just a few products or services. In addition, small company stocks tend to trade less frequently and in lesser quantities than those of larger firms.

**State-Specific Risk:** By concentrating investments in securities issued by on political subdivision, a strategy may be more vulnerable to unfavorable developments than strategies that are more geographically diversified.

**Tax Risk:** The risk that the issuer of securities will fail to comply with certain requirements of the Internal Revenue Code, which would cause adverse tax consequences.

**U.S. Government Securities Risk:** Although U.S. government securities issued directly by the U.S. government are guaranteed by the U.S. Treasury, other U.S. government securities issued by an agency or instrumentality of the U.S. government may not be. No assurance can be given that the U.S. government would provide financial support to its agencies and instrumentalities if not required to do so by law.

**Valuation Risk:** Certain securities may be difficult to value, and there can be no assurance that the valuation placed on a security will reflect that actual price at which the security might be sold in a market transaction.

**Variable and Floating Rate Instrument Risk:** Variable and floating rate instruments are generally less sensitive to interest rate changes than other fixed rate instruments; however, the value of floating rate instruments may decline if their interest rates do not rise as quickly, or as much, as general interest rates.

**Yankee Bond Risk:** Yankee bonds are subject to the same risks as other debt instruments, notably credit risk, market risk, currency and liquidity risk. Other risks include adverse political and economic developments, the extent and quality of government regulations of financial markets and institutions, the imposition of foreign withholding or other taxes, and the expropriation or nationalization of foreign issuers.

## Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Sterling. Sterling does not have any material disciplinary events or matters to disclose.

## Item 10 – Other Financial Industry Activities and Affiliations

### Registration of Management Persons as Registered Representatives of a Broker-Dealer

Certain employees of Sterling are registered representatives of Sterling Capital Distributors, LLC, ("the distributor") a limited purpose broker-dealer and distributor to the Sterling Capital Funds. The Distributor is not affiliated with Sterling or Sterling's affiliates.

### **Registration as Commodity Pool Operator and Commodity Trading Advisor**

Neither Sterling, nor any of its employees, is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities.

### **Affiliations and Conflicts of Interest**

Sterling is committed to acting in the best interests of our clients. Nevertheless, there are circumstances where client interests conflict with Sterling's interests, the interests of our affiliates, the interests of other clients, or the interests of our affiliate's clients. Some of these conflicts of interest are inherent to our business. We have adopted policies and procedures that are designed to address conflicts of interest.

Sterling is an independently-operated subsidiary of BB&T Corporation. Accordingly, we are affiliated with various advisers, broker-dealers, among other financial entities under common ownership with BB&T. From time to time Sterling may engage in business activities with some of these companies, subject to our policies and procedures governing how we handle conflicts of interest.

Sterling advises a number of clients and affiliated clients. Persons associated with Sterling or its affiliates may themselves have investments in securities, pooled investment vehicles, or other assets, that are recommended to clients or affiliated clients or held in portfolios, subject to compliance with our policies regarding personal investments. Additional information regarding these potential conflicts of interest is provided under Item 11 - Code of Ethics, Participation, or Interest in Client Transactions and Personal Trading.

### **Broker-Dealers**

#### ***BB&T Securities, LLC***

BB&T Securities, LLC, including its divisions BB&T Scott & Stringfellow, BB&T Capital Markets, Sterling Advisors and BB&T Investments (collectively, "BB&T Securities"), a wholly-owned subsidiary of BB&T Corporation, is a registered self-clearing broker-dealer and an SEC-registered investment adviser. In addition, BB&T Securities is a registered municipal adviser, registered with the National Futures Association and is a commodity trading adviser.

BB&T Securities provides retail distribution for the Affiliated Funds. Sterling serves as adviser to Wrap Programs for which BB&T Securities is sponsor. BB&T Securities serves as custodian of certain clients for which Sterling provides investment management services, including Wrap Programs.

Although Sterling generally does not use affiliated broker-dealers to execute transactions, Sterling may on occasion exercise its discretion to effect agency transactions in securities or other instruments through BB&T Securities. In connection with transactions in which BB&T Securities will act as principal, Sterling will disclose to the client that the trade will be conducted on a principal basis and obtain client consent in accordance with Section 206-3 of the Advisers Act. BB&T Securities will benefit from such transactions.



In addition, Sterling may from time to time purchase, on behalf of clients, securities in offerings with respect to which BB&T Securities serves as an underwriter. In such cases, the purchase is generally made from a party unaffiliated with Sterling, but BB&T Securities may nevertheless benefit indirectly from such transactions.

#### *Sterling Capital Distributors, LLC*

Sterling Capital Distributors, LLC (the "Distributor") is a limited purpose broker-dealer and currently serves as the principal underwriter of the Sterling Capital Funds (the "Affiliated Funds"). The Distributor is not affiliated with Sterling or Sterling's affiliates. Sterling employees who are involved in marketing or soliciting the Affiliated Funds are also licensed, registered representatives of the Distributor.

### ***Investment Companies or Other Pooled Investment Vehicles***

#### *Sterling Capital Funds*

Pursuant to an investment management agreement Sterling serves as investment adviser and administrator to the Sterling Capital Funds (the "Affiliated Funds"). The Affiliated Funds are open-end investment management companies (mutual funds) registered under the Investment Company Act. The Affiliated Funds pay Sterling administrative and investment management fees. The investment management fees are based on the Affiliated Funds' average daily net assets each month. Sterling has voluntarily agreed to limit certain fees. Please refer to the Sterling Capital Funds' Prospectus for the current fee schedule of the Affiliated Funds.

Sterling, where appropriate and consistent with client guidelines, may purchase for client portfolios shares of the Affiliated Funds as part of the portfolios' investment strategy. Clients should note that Sterling has a conflict of interest and financial incentive to choose Affiliated Funds because Sterling receives investment management and other fees from the Affiliated Funds. Sterling reduces our investment management fees with respect to investments in Affiliated Funds in client portfolios with the exception of Affiliated Funds in Private Client portfolios or Outsourced Chief Investment Officer services. However, this reduction in fees does not eliminate the conflict of interest, as there are other incentives such as increasing Sterling's assets under management or providing support to the Affiliated Funds. Clients have the right, at any time, to prohibit us from investing any of their managed assets in the Affiliated Funds.

### ***Other Investment Advisers or Financial Planners***

#### *BB&T Institutional Investment Advisers, Inc. ("BB&T IIA")*

BB&T IIA is an institutional-only investment adviser, registered with multiple states and the SEC under the Advisers Act. BB&T IIA is a wholly owned subsidiary of Branch Banking & Trust Company and under common control with Sterling. Sterling provides investment management services to BB&T IIA clients.

#### *Sterling Capital (Cayman) Limited*

Sterling Capital (Cayman) Limited, a wholly-owned subsidiary of Sterling Capital Management LLC, provides investment management services to non-U.S. companies.

### ***Banking or Thrift Institution***

#### ***BB&T Corporation***

Sterling is an independently operated subsidiary of BB&T Corporation. BB&T Corporation is a diversified banking and financial holding company and operates banking subsidiaries across several states and Washington, D.C.

Branch Banking and Trust Company, a North Carolina banking company, is a wholly-owned subsidiary of BB&T Corporation. Branch Banking and Trust Company, including its divisions BB&T Wealth Management and BB&T Retirement and Institutional Services (collectively, "BB&T Wealth/RIS"), serves as trustee and/or custodian of certain client accounts for which Sterling provides investment management services where Sterling may have a direct contract with the client or a contract with BB&T Wealth/RIS.

### ***Other Activities and Relationships***

Sterling does not receive direct compensation from other investment advisers for recommending or selecting the other investment advisers. However, employees may benefit indirectly when Sterling employees may attend conferences partially or fully paid for by third-party investment managers.

Employees of Sterling may serve on the boards of directors of investment management clients, including the Affiliated Funds. Serving in such capacity may give rise to conflicts of interest to the extent that an employee's fiduciary duties to the board may conflict with the interests with the client. Such conflicts will be managed on a case-by-case basis.

Clients of Sterling who are retirement plan sponsors will frequently offer shares of one or more of the Affiliated Funds as investment options for their plan participants. It is customary in these situations that a bank, broker-dealer, or other financial institution will serve as a retirement plan trustee and/or custodian. These entities act in the capacity of service providers by offering participant education, record-keeping, marketing, or other shareholder services. In these arrangements, the prospectus of the Affiliated Funds allows the mutual fund portfolios to pay these service providers for shareholder recordkeeping services rendered by the service provider. From time to time, Sterling may choose to supplement these payments made by the Affiliated Funds with additional cash payments made directly from Sterling to non-affiliated service providers for shareholder services rendered by the service provider.

## **Item 11 – Code of Ethics, Participation, or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

Sterling strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty, and trust. Sterling has adopted a Code of Ethics (the "Code") to help meet these standards. The Code includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance and the reporting of certain gifts and business entertainment items. In addition, the Code includes personal securities trading procedures such as preclearance and blackout provisions and disclosure and reporting requirements. Annually, employees

certify that they have read, understand, and will comply with the Code.

Section 204A of the Advisers Act requires the establishment and enforcement of policies and procedures reasonably designed to prevent the misuse of material, nonpublic information by investment advisers. Sterling has a policy generally restricting its employees from purchasing or selling securities for their own accounts or for accounts of family members over which they have control prior to the full satisfaction of clients' needs with respect to such securities. Quarterly, each employee is required to complete a Personal Transaction Report which provides the details of all personal security transactions made by employees and which is reviewed for compliance by Sterling. Employees are required to promptly report any violation of the Code of which they become aware.

A copy of our Code of Ethics will be provided to any client or prospective client upon request. Please contact Sterling's Compliance Department at [scmcompliance@sterlingcapital.com](mailto:scmcompliance@sterlingcapital.com).

### **Interests in Client Transactions**

If in appropriate circumstances and consistent with the clients' investment objectives, Sterling may use or recommend to clients the purchase or sale of securities in which Sterling on behalf of its clients and/or its affiliates may have a position of interest.

### ***Affiliated Funds***

Sterling, where appropriate and consistent with client guidelines, may purchase for client portfolios shares of the Affiliated Funds as part of the portfolios' investment strategy. Clients should note that Sterling has a conflict of interest and financial incentive to choose Affiliated Funds because Sterling receives investment management and other fees from the Affiliated Funds. Sterling reduces our investment management fees with respect to investments in Affiliated Funds in client portfolios with the exception of Affiliated Funds in Private Client portfolios or Outsourced Chief Investment Officer services. However, this reduction in fees does not eliminate the conflict of interest, as there are other incentives such as increasing Sterling's assets under management or providing support to the Affiliated Funds. Clients have the right, at any time, to prohibit us from investing any of their managed assets in the Affiliated Funds.

### ***Affiliated Transactions***

Although Sterling generally does not use affiliated broker-dealers to execute transactions, Sterling may on occasion exercise its discretion to effect agency transactions in securities or other instruments through BB&T Securities. In connection with transactions in which BB&T Securities will act as principal, Sterling will disclose to the client that the trade will be conducted on a principal basis and obtain client consent in accordance with Section 206-3 of the Advisers Act. BB&T Securities will benefit from such transactions.

On behalf of its clients, Sterling does from time to time purchase securities in offerings with respect to which an affiliate of Sterling serves as an underwriter. The purchase is generally made from a party unaffiliated with Sterling, but Sterling's affiliate may nevertheless benefit indirectly from the transactions.

### **Related Persons**

Sterling is an independently-operated subsidiary of BB&T Corporation and under certain circumstances may be prohibited, either by regulation or client guidelines, from investing in securities issued by BB&T

Corporation or placing transactions with affiliates. Sterling has developed procedures to comply with these prohibitions.

### **Other Related Interests**

Although Sterling does not generally manage assets on its own behalf, Sterling manages assets for our affiliates and our affiliate's clients. In addition, Sterling may serve as investment adviser to strategies where our employees or an affiliate provided the initial investment or seed capital for a new investment strategy. These activities may give rise to conflicts of interests in the allocation of investment opportunities between portfolios. However, Sterling has adopted trade allocation policies and procedures that seek to ensure fair and equitable access to investment opportunities for all clients over time.

Sterling employees may invest their personal assets in the same investment strategies that are offered to clients, including Affiliated Funds, and may occur in connection with our employee benefit plans.

Employees of Sterling and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Sterling's clients. The Code is designed to assure that the personal securities transactions, activities and interests of the employees of Sterling will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not interfere materially with the interest of Sterling's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees may benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code to reasonably prevent conflicts of interest between Sterling and its clients.

Sterling, or its related persons, may recommend securities to clients, or buy or sell securities for client portfolios, at or about the same time that Sterling, or a related person, buys or sells the same securities for their own account. However, Sterling has adopted trade allocation policies and procedures that seek to ensure fair and equitable access to investment opportunities for all clients over time.

### **Other Conflicts**

Sterling may from time to time take an active role in portfolio companies on behalf of clients. This may take various forms, including company Board of Director participation, solicitation of potential buyers for portfolio companies; and solicitation of other shareholders within the guidelines established by various regulatory bodies. Sterling believes there are occasions when such participation is consistent with Sterling's fiduciary duty to our clients.

Sterling, on occasion, assists with sponsoring client conferences organized by Wrap sponsors who recommend Sterling to their clients. In addition, employees of Sterling attend conferences partially or fully paid for by prospective or existing third-party investment managers.

## Item 12 – Brokerage Practices

### Broker-Dealer Selection

As a general rule, Sterling receives discretionary authority from its clients through its investment management agreements at the onset of an advisory relationship. Included in Sterling's authority is the ability to:

- Determine securities to be bought or sold;
- Determine the amount of the securities to be bought or sold;
- Select brokers and dealers through which to execute transactions on behalf of its clients; and
- Determine commission rates, if any, at which transactions are effected.

An important aspect of our discretionary investment management services includes the selection of broker-dealers. It is Sterling's policy to seek to obtain best execution on client transactions. We seek to select broker-dealers and route orders to broker-dealers based on our evaluation of the broker-dealer's ability to achieve best execution of client transactions and the level of commissions or other compensation charged by the broker-dealers, among other relevant factors.

When selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation, Sterling considers several factors. Approved broker-dealers are periodically assessed and reviewed. Criteria considered in evaluating broker-dealers include, but are not limited to:

- Appropriate infrastructure (e.g., facilities and technology);
- Competitive commission rates;
- Prompt payment and/or delivery of securities;
- Receipt of accurate confirmations and recordkeeping;
- The business reputation and financial strength of the firm;
- The firm's ability and responsiveness in executing orders; and
- The quality of research services provided by the firm (when applicable).

Sterling has negotiated custodial arrangements with several brokerage firms that Sterling considers competitive in terms of mitigating the total cost of transaction and other fees (custodial) incurred by clients. In some of these arrangements, Sterling is afforded the ability to deal competitively with firms of its choice in negotiating the purchase and sale of bonds for their clients and the broker acting as custodian will make or take delivery of such bonds without charge to their clients. In exchange, the majority of stock transactions that may occur in this type of account are transacted with the broker acting as custodian. In other arrangements, Sterling clients receive discounted brokerage rates on stock transactions with a minimum ticket charge. In some cases, bond sales or purchases delivered to or sold from a client account incur a charge.

### Research and Other Soft Dollar Benefits

Brokerage is at times allocated to firms in exchange for certain services, such as research and brokerage, when the terms of such transactions are consistent with the guidelines set forth in Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Specifically, Section 28(e) sets forth a "Safe Harbor" which provides that an investment adviser that has discretion over a client account is not in breach of its fiduciary duty when paying more than the lowest commission rate available if the adviser determines in good faith that the rate paid is commensurate with the value of research and brokerage services provided

by the broker-dealer that provide lawful and appropriate assistance to the investment adviser in its investment decision-making or trade execution processes.

Sterling uses research materials in making investment decisions for a broad range of clients. To the extent consistent with achieving best overall execution, Sterling allocates orders to broker-dealers that provide research information as part of their general customer service. These research services may include information on individual securities, markets, the economy, statistical information, risk measurement analysis, performance studies and other appropriate research products and services. We receive research products and services from both proprietary (created or developed by a broker-dealer) and third-party research firms in connection with managing client portfolios. Proprietary broker-dealer research typically includes analyst research reports, sales brokerage coverage, conferences, and one-on-one meetings with both analysts and companies. For proprietary broker-dealer services that are “bundled” (e.g. offer trade execution and research products for one commission rate), Sterling considers a portion of the commission for trade execution and the remainder for research services.

Sterling uses brokerage services and products for executing client’s securities transactions. Sterling’s use of brokerage services must relate to trade execution and trade implementation from the point when Sterling communicates with the broker-dealer for the purpose of transmitting a trade order, through the point when funds or securities are credited to the client account. Eligible services and products include functions incidental to effecting securities transactions, such as clearance, settlement, custody, and related communications. Trading software used to route orders and algorithmic trading software are also considered to be eligible brokerage services.

For third-party (“soft dollar”) research and brokerage services, we predominantly use client commission arrangements (“CCAs”) with participating broker-dealers and also allocate a portion of the commission to trade execution and the remainder to research or brokerage services. We believe that using soft dollars to obtain the type of research and brokerage services mentioned above enhances our investment research and trading process, thereby increasing the prospect for higher investment returns. Services received pursuant to soft dollar arrangements may be used to benefit the account that generates the commissions as well as other accounts. Research products or brokerage services received by Sterling might also be used for functions that are not research or brokerage related. Where such product or service has a soft dollar/hard dollar (“mixed use”) component Sterling will make a reasonable allocation according to its use and pay for the non-research function in hard dollars using our own funds.

Sterling uses client soft dollar commissions for the benefit of its clients. However, use of client commissions for research and other soft dollar benefits can create a conflict of interest between the client and its adviser. For example:

- It directly reduces Sterling out-of-pocket costs for those services;
- It creates an incentive to select a certain broker-dealer or research product or service;
- Clients may pay commission rates that are higher than would otherwise be the case if they traded solely for execution purposes;
- Not all research commissions generated by a client’s trade will necessarily benefit a particular client’s portfolio;

- Research products and brokerage services provided by the commission credits may benefit all clients including those not participating in a given transaction;
- Soft dollar benefits may not be proportionate to soft dollar commissions generated;
- Sterling may invest client assets in securities issued by the broker-dealers or their affiliates, and
- Sterling may provide investment management services to the broker-dealers or their affiliates.

In some cases, research services are generated by third-parties but provided to Sterling by or through broker-dealers. Although it is not possible to assign an exact dollar value to these services, they may reduce our expenses. The fees paid to us, however, are not reduced because we receive such services.

In accordance with the Safe Harbor, Sterling has entered into arrangements for research and/or brokerage services. To facilitate payment of these services, Sterling has CCAs in place, directing the transacting broker-dealer to collect and pool commissions generated by client trades and then periodically directing the broker-dealer to pay invoices from that pool. Arrangements are reviewed by Sterling's Best Execution Committee periodically to determine if the product or service meets the eligibility criteria of "research" or "brokerage" in the Safe Harbor; that the product or service provides lawful and appropriate assistance in Sterling's investment decision-making responsibilities and makes a good faith determination that the client commissions paid are reasonable in relation to the value of the services received. Sterling is not contractually obligated to direct trades to any broker-dealers in connection with these CCA arrangements. When we execute orders through these broker-dealers, clients may pay commissions higher than those obtainable from other brokers.

We periodically review our total commission structure with an industry survey of comparable managers. Sterling uses a commission aggregation platform to aggregate and reconcile commission credits in one location so that all credits are housed in a segregated account. Sterling's procedure for working with broker-dealers or third-party service providers using client commissions is multi-faceted. Portfolio managers and analysts "vote" for broker-dealers with proprietary research services at least annually. Considerations typically include, but are not limited to:

- Number of company or analyst meeting opportunities;
- Quality of the company or analysts and their research reports;
- Sales coverage; and
- Conference participation.

Sterling on occasion directs fixed income securities transactions to a broker-dealer that provides specialized research services, generally paying a small premium on those transactions in recognition of the value of the services provided.

### **Brokerage for Client Referrals**

Sterling does not consider broker-dealer or third-party referrals in selecting or recommending broker-dealers.

### **Advisory Solutions Multi-Strategy Models**

Trading for multi-strategy models provided to unaffiliated entities is generally not performed by Sterling. In these cases, Sterling provides the investment models through a third-party platform. The providers in turn may apply the investment models and make trade recommendations based on the model information provided by Sterling.

### **Investment Companies**

The prospectuses for the Affiliated Funds set forth the types and amounts of securities that may be bought or sold by Sterling on behalf of the Affiliated Funds. The investment management agreement entered into by Sterling and the Affiliated Funds gives Sterling the authority to select the brokers or dealers that will execute the purchases and sales of the securities of the Affiliated Funds' portfolios managed by Sterling. This agreement also directs Sterling to use its best efforts to obtain the best available price and most favorable execution of these transactions. Subject to the annual review by the Board of Trustees, Sterling is given the authority to effect transactions at commission rates that are in excess of the minimum available commission rates when deemed appropriate by Sterling.

### **Wrap Trading**

Sterling manages accounts in a number of Wrap Programs that are not traded through Sterling's trade order management system. Instead, these accounts are traded through each Wrap Program sponsor's system and thus shares are not allocated to these accounts using Sterling's trade order management system's computer-generated methods.

Clients of Wrap Programs typically pay the sponsor a single fee based on assets held at the sponsor for all trading, custodial, and other services provided by sponsor. This fee precludes a client from paying the sponsor commissions on a per transaction basis. When Sterling selects another broker-dealer to effect a trade other than the sponsor, an additional handling fee may be assessed by the sponsor. While Sterling would normally expect to trade directly with the sponsor in most instances, there may be circumstances where Sterling may choose to trade away if doing so provides better pricing and an overall benefit to the client even after any additional client fees are assessed by the sponsor.

It is important that these accounts receive equitable treatment in regards to block trading activities. To accomplish this Sterling's traders employ a rotation to ensure that all of Sterling's clients receive fair and equitable treatment over time.

### **Trade Aggregation and Allocation**

#### *Trade Aggregation*

Sterling typically aggregates client orders, where appropriate, in an effort to obtain a more favorable execution. Aggregating trades facilitates better execution for all clients and potentially reduces the overall commission rate. Trades will be aggregated to the extent permissible by policies and procedures, client guidelines and regulations. Investment decisions deemed appropriate for one client may also be deemed appropriate for other clients therefore the same security may be purchased or sold at or about the same time for more than one client. When this is the case, Sterling may aggregate the same security, same side (*i.e.*, buy or sell) trades for multiple clients, including clients of Sterling's affiliates, and execute the trade as a single block. When transactions are so aggregated, the securities purchased or sold will be allocated in a fair and equitable manner. The prices applicable to the aggregate transactions on a given day will be averaged, and the portfolios generally will be deemed to have purchased or sold their proportionate share of the security involved at the average price.



Aggregation of trade orders may not be possible at all times. For example, securities that are thinly traded may not be aggregated and allocated among all clients seeking the same investment opportunity. In addition, some issuers have threshold limitations on aggregating ownership interest.

Sterling will not aggregate transactions unless it believes that it is in the best interests of the clients, and consistent with seeking best execution. Nevertheless, there is no assurance that the aggregation of transactions will benefit all clients equally, and in some instances combined orders could adversely affect the price or volume of a security. In addition, under certain circumstances, clients may not be charged the same commission in connection with an aggregated order. Sterling may choose not to aggregate trades in circumstances where it is not beneficial to do so.

### **Trade Rotation**

Sterling's trade rotation is designed to ensure that all clients are treated in a fair and equitable manner over time.

Discretionary portfolio trades executed by Sterling's trading desk for a given strategy are not aggregated with non-discretionary trades, including those executed by the trading desk of the unaffiliated manager, sponsor, or financial adviser. Client orders placed by Sterling's trading desk for a given security could potentially compete with client orders placed by the trading desk of the unaffiliated manager, sponsor, or financial adviser. Timing delays or other operational factors associated with trade implementation may result in Sterling's client orders being executed at the same time, before, or after the client orders of the unaffiliated manager, sponsor, or financial adviser. This may result in some clients receiving materially different prices relative to other clients.

Sterling will use a trade rotation when the same trade that is being made for discretionary portfolios is also being provided to non-discretionary portfolios. Sterling will start the aggregated trade for discretionary portfolios and the trade rotation for non-discretionary portfolios contemporaneously. The trade rotation may be either random or sequential as Sterling deems appropriate. An example of when a sequential rotation may be more appropriate is the case where there are just two clients in a rotation. An exception to this process may occur if a security is extremely illiquid, as it may be beneficial to wait until one or more clients have, or appear to have, completed trading before releasing the trade information farther down the rotation.

When a new client is added to a rotation, it is added to the bottom of the list without restarting the rotation. When a client is removed from a rotation, the process will continue in successive order without restarting the rotation.

### **Directed Brokerage Clients**

#### *Non-Wrap Directed Brokerage*

Some clients may direct Sterling to use specific broker-dealers for their portfolio transactions. If a client directs us or limits us by providing specific instructions to use a particular broker-dealer or by providing us with particular instructions for trading, the client should be aware that Sterling may have opportunity risk and will not be in a position to freely negotiate commission rates or spreads, obtain volume discounts on aggregated orders, or to select broker-dealers on the basis of best price and execution. As a result, these accounts with special instructions may result in higher commissions, disparity in portfolio investment for some executions, greater spreads or less favorable execution on some transactions than would be the case

if we were free to choose the broker-dealer. In addition, a client may not be able to participate in certain investment opportunities because the client's broker-dealer may not have access to certain securities such as new issuer or limited inventory bonds. In situations where the client directs our firm to effect portfolio transactions through a particular broker-dealer, we will require the client to provide these directions in writing.

#### *Wrap Programs*

Wrap Programs typically charge transaction-specific commissions on agency transactions executed by the sponsor designated under the Wrap Program. It is anticipated that Sterling will affect most trades with the sponsor or the program's designated broker-dealer. Under certain circumstances, and in an attempt to secure best execution, a security may be purchased away from the sponsor and an additional charge could apply for accepting such delivery, so long as Sterling believes the net result would be advantageous to the client. Some Wrap Programs prohibit Sterling from effecting transactions away from the sponsor. It is not possible for Sterling to aggregate trades for clients where Sterling does not have the authority to trade securities on the client's behalf or where Sterling does not have discretion as to which broker(s) to use. For these reasons, it is possible that transactions effected through a Wrap Program may provide less advantageous executions than if Sterling had selected another broker-dealer to execute the transactions.

#### **Cross-Trades**

A cross-trade is a practice where buy and sell orders for the same security from two client portfolios are executed without placing that security trade on an exchange. Sterling will typically trade these orders separately and not cross them as there are many instances where cross-trading is prohibited.

There may be circumstances where Sterling may choose to cross-trade if Sterling believes that a cross-trade is beneficial to both parties, and where doing so is compliant with any client directions and applicable regulations. However, cross trades present conflicts of interest as Sterling represents the interests of both the selling and buying party in the same transaction. There are certain risks associated with cross trades: One client may be treated more favorably than another client; the price of the security may not be as favorable as it might have been if the trade had been executed in the open market; a client may receive a security that is difficult to dispose of in a market transaction.

To address these conflicts Sterling will only execute cross trades if it is in the best interests of both the buying and selling portfolios. In addition, Sterling has adopted policies and procedures that outline the requirements for participating in cross trades.

#### **Trade Errors**

Trade errors may occur in connection with Sterling's management of portfolios. Sterling has a Trade Error Policy to address identification and correction of trade errors. In the event of a trade error loss caused by Sterling, the firm will seek to restore the client's portfolio to the position it should have been in, had the trading error not occurred. Corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the client. In the event the error results in a gain, the client will retain the profit.

## Item 13 – Review of Accounts

Depending on the nature of the client's portfolio, the client's own monitoring capabilities, the type of advice, and the arrangements made with the client, the frequency of reviews with a client range from daily to quarterly. The level of review may encompass the entire portfolio, a section of the portfolio or a specific transaction or investment. The frequency of the review depends upon a variety of factors such as the risk profile of the portfolio, the portfolio's activity level, the volatility of the asset allocation sectors in which the portfolio is invested, and the client's preferences, if any.

Additional review may occur when the investment strategies and objectives are changed by the client or Sterling and when significant events occur that are expected to affect the value of the portfolio.

Reports are furnished to our clients in writing or electronically on a periodic basis as requested (usually monthly or quarterly periods). These reports generally include a list of all assets held in the portfolio and a current market value along with portfolio transactions and other portfolio details. The portfolio investment performance results are provided for various time periods, and if applicable with appropriate market indices for comparative purposes. Formal client review meetings are generally conducted on a regular basis at intervals selected by the client. During these reviews, the investment results and portfolio strategy are discussed. In addition, client objectives and risk tolerance are reviewed.

For Wrap Program clients, account reviews and reports will differ and is dependent to the agreement between Sterling and program sponsor.

Please refer to Item 15 – Custody for reports provided to clients regarding custody. We suggest to our clients that the information they receive from Sterling, including invoices and periodic statements, be compared to the statements clients receive from their custodians.

## Item 14 – Client Referrals and Other Compensation

From time-to-time Sterling may pay compensation for client referrals. To the extent required by law, we require that the person referring a client to us (the "Referral Agent") enter into a written agreement with us. Under this written agreement, the Referral Agent would be obligated to provide the prospective client with a separate disclosure document before Sterling begins to manage assets for such prospective client.

This separate disclosure document provides the prospective client with information regarding the nature of our relationship with the Referral Agent and any referral fees we pay to such Referral Agent. Referral fees are paid by Sterling and not by our clients.

Sterling employees and employees of affiliates of Sterling, as well as persons unaffiliated with Sterling, may serve as Referral Agents and may be compensated by us or our affiliates for referral activities. However, when our employees or affiliates serve as Referral Agents, we will not necessarily provide the separate disclosure document mentioned above.

## Item 15 – Custody

Sterling does not act as a custodian for client assets. Client assets will be held at a qualified custodian such as a broker-dealer, bank, or other qualified custodian. However, under the Advisor's Act, Sterling may, as described further below, be deemed to have constructive custody of client assets in certain instances, including any of the following:

- Clients maintain assets at a qualified custodian affiliated with Sterling,
- Sterling has the authorization to deduct or draft advisory fees from a client's investment or bank account,
- Sterling employees serve as a trustee for a non-family member's account,
- Sterling has been given client authorization to transfer funds or securities from a client's account to a pre-designated third-party,
- Sterling has online access to client's other investment accounts, and
- Where the terms of an agreement between a client and a qualified custodian inadvertently gives Sterling powers that may be construed as custody over such client's assets ("inadvertent custody").

In the case of Affiliated Funds, the Affiliated Funds have made arrangements with qualified custodians as disclosed in the relevant fund offering documents.

In the case of separately managed accounts, clients must select and appoint their own custodians, whose services and fees will be separate from Sterling's fees. Clients are responsible for arranging for all custodial services, including negotiating custody agreements and fees and opening custodial accounts.

For accounts where Sterling is deemed to have constructive custody, Sterling confirms on an annual basis that each custodian sends required periodic account statements. Whether Sterling is deemed to have custody or not, if a client does not receive account statement from their custodian on at least a quarterly basis, the client should contact Sterling and their custodian immediately. Clients should carefully review their custodian statements to ensure they reflect appropriate activity in their account. Clients may also receive reports from Sterling. Clients should compare the account statements that they receive from their qualified custodian with the reports they receive from Sterling. If there are discrepancies between a client's custodian statement and Sterling's report, clients should contact their custodians or a Sterling representative for more information.

## Item 16 – Investment Discretion

Sterling provides discretionary investment management services to clients. Sterling and the client will enter in to an investment management agreement, or other document, at the onset of the advisory relationship. This investment management agreement allows Sterling, without obtaining client consent, to implement investment decisions on the client's behalf. Sterling generally receives discretionary authority from clients (or a client's agent, such as a sponsor in the context of discretionary Wrap Programs) to select, and to determine the quantity of, securities or financial instruments to be bought or sold for the client's portfolio. Sterling is guided by the investment objectives, guidelines, and restrictions that are developed in consultation with clients. These guidelines usually include the investment objective, risk level, and the types and amounts of securities that will make up the portfolio.

For Wrap Program accounts, Sterling's discretionary authority is limited by the selected mandate's investment strategy and may be further limited by reasonable, client-imposed and Sterling agreed upon restrictions. With respect to certain portfolios, such as registered investment companies, Sterling's authority to trade securities may also be limited by certain securities, tax, and other laws that may, for example, require diversification of investments and impose other limitations.

Included in our discretionary authority is the ability to select broker-dealers through which to execute transactions on behalf of clients, and the commission rates, if any, at which transactions are effected. We may accept direction from the client or agree to limitations with respect to our discretion regarding which broker-dealers are to be used and what commissions are to be paid.

If a client directs us or limits us by providing specific instructions to use a particular broker-dealer or by providing us with particular instructions for trading, the client should be aware that Sterling may have opportunity risk and may not be in a position to freely negotiate commission rates or spreads, obtain volume discounts on aggregated orders, or to select broker-dealers on the basis of best price and execution. As a result, these portfolios with special instructions may result in higher commissions, disparity in portfolio investment for some executions, greater spreads or less favorable execution on some transactions than would be the case if we were free to choose the broker-dealer. For best execution, a security may be purchased away from the custodian brokerage firm and a minimal charge could apply for accepting such delivery, so long as the net result to the client would be advantageous. In situations where the client directs our firm to effect portfolio transactions through a particular broker-dealer, we will require the client to provide these directions in writing.

The major consideration in allocating brokerage business is the pursuit of best execution on all transactions effected for all portfolios. As discussed in Item 12 - Brokerage Practices, Sterling may allocate brokerage to firms that supply research and brokerage services, statistical data, and other services when the terms of all transactions and the capabilities of different broker-dealers are consistent with the guidelines set forth in the Safe Harbor.

Sterling may also furnish investment management services to some clients on a non-discretionary basis which may include evaluation and risk assessment of client portfolios.

## **Item 17 – Voting Client Securities**

### **Proxy Voting**

Sterling has adopted a written proxy voting policy as required under the Advisers Act. As a general matter, when Sterling has proxy voting authority, Sterling has an obligation to monitor corporate events and to take appropriate action on client proxies that come to its attention.

Sterling's investment management agreement generally states that decisions on the voting of proxies will be made by Sterling with regard to discretionary assets unless the client otherwise reserves the right to vote. Clients may provide written direction to Sterling with respect to voting in a particular proxy.

Sterling engages an Industry Service Provider ("ISP") to provide research, voting recommendations and vote the client's proxies in accordance with the ISP's guidelines. By following the ISP's guidelines, Sterling

seeks to mitigate potential conflicts of interest Sterling may have with respect to the proxies. Sterling will follow the recommendations of the ISP unless (i) the ISP does not provide a voting recommendation; or (ii) an Investment Professional determines it is the best interest of the firm's clients to override the recommendation set-forth by the ISP. In either case described above, Sterling will review the proxy to determine whether a conflict of interest exists. In certain circumstances, Sterling may have a conflict of interest when voting a proxy. In these cases, Sterling will vote in accordance with the ISP's recommendation.

Sterling may be unable to vote or may determine to refrain from voting in certain circumstances. The following highlights some potential instances in which a proxy may not be voted:

- Voting in certain countries requires "share blocking". Shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting with a designated depository. During this blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares are returned to the client's custodian banks. Sterling may determine that the value of exercising the vote is outweighed by the detriment of not being able to sell the shares during this period. In cases where Sterling wants to retain the ability to trade shares, Sterling may abstain from voting those shares. A list of the countries that meet this description is available upon request.
- In limited circumstances, other market-specific impediments to voting shares may limit Sterling's ability to cast votes, including, but not limited to, late delivery of proxy materials, untimely vote cut-off dates, power of attorney and share re-registration requirements, or any other unusual voting requirements. In these limited instances, Sterling will vote securities on a best efforts basis.
- If a client lends securities, Sterling will vote the securities' shares as reported by client's custodian. There may be instances, depending on the portfolio, for which Sterling does not vote proxies. In addition, clients may direct a vote for a particular solicitation.

Upon request, Sterling will disclose to its clients how Sterling voted such client's proxies. In addition, a client may obtain a copy of Sterling's Proxy Policy and information as to how its proxies have been voted by contacting Sterling's Compliance Department at [scmcompliance@sterlingcapital.com](mailto:scmcompliance@sterlingcapital.com).

Annual Form N-PX for the Affiliated Funds shows how Sterling voted proxies for the 12-month period ending June 30<sup>th</sup> and is filed with the SEC no later than August 31<sup>st</sup> of each year.

### **Other Proxy Voting Arrangements**

With respect to those client portfolios where Sterling is not authorized to vote proxies, clients should arrange to receive proxy material directly from their custodians.

In certain Wrap Program accounts, Sterling may not be delegated the responsibility to vote proxies on behalf of the Wrap Program accounts, instead the sponsor or another service provider may vote such proxies. Clients in such Wrap Programs should contact the sponsor for a copy of the sponsor's proxy voting policy.

### **Litigations, Class Actions and Bankruptcies**

As an investment manager, Sterling may be asked to decide whether to participate in litigation, including by filing proofs of claim in class actions, or bankruptcy proceedings for assets held in a portfolio. It is the client's responsibility to monitor and analyze its portfolio and consult with its own advisers and custodian about whether it may have claims that it should consider pursuing. Sterling will not handle or otherwise process any potential "class action" claims or similar settlements that clients may be entitled to for securities held in client portfolios.

Generally, clients will receive the paper work for such claims directly from their account custodians. Each client should verify with its custodian or other account administrator whether such claims are being made on the client's behalf by the custodian or if the client is expected to file such claims directly. Sterling will provide such assistance to clients, or their agents and advisers, as it is reasonably capable of providing, but Sterling does not accept responsibility for responding to class action notifications and expressly disclaims liability for the failure to respond to such notifications.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Sterling's financial condition. ***Sterling has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.***

## Sterling Capital Management – Privacy Notice

| FACTS  | WHAT DOES STERLING CAPITAL MANAGEMENT DO WITH YOUR PERSONAL INFORMATION?  |                |
|--|---|----------------|
| Why?   | Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.  |                |
| What?  | <p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"><li>▪ Social Security number and assets</li><li>▪ income and investment experience</li><li>▪ risk tolerance and retirement assets</li></ul> <p>When you are no longer our customer, we continue to share your information as described in this notice.</p> |                |
| How?   | All financial companies need to share customers’ personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers’ personal information; the reasons Sterling Capital Management chooses to share; and whether you can limit this sharing.  |                |
| Reasons we can share your personal information   |   |                |
| Does Sterling Capital Management share?  |   |                |
| Can you limit this sharing?  |   |                |
| For our everyday business purposes — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus | Yes   | No             |
| For our marketing purposes — to offer our products and services to you   | Yes   | No             |
| For joint marketing with other financial companies   | No  | We don't share |
| For our affiliates’ everyday business purposes — information about your transactions and experiences   | Yes   | No             |
| For our affiliates’ everyday business purposes — information about your creditworthiness   | No  | We don't share |
| For our affiliates to market to you  | No  | We don't share |
| For nonaffiliates to market to you   | No  | We don't share |
| Questions?   | Please call Sterling Capital Management at (704) 927-4175   |                |



## Sterling Capital Management – Privacy Notice

## Page 2

## Who we are

|                                      |  |
|--------------------------------------|--|
| <b>Who is providing this notice?</b> | This notice is provided by Sterling Capital Management LLC |
|--------------------------------------|--|

## What we do

|  |  |
|--|--|
| <b>How does Sterling Capital Management protect my personal information?</b> | <p>To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.</p> <ul style="list-style-type: none"> <li>Our employees are bound by our Code of Ethics and policies to access consumer information only for legitimate business purposes and to keep information about you confidential.</li> </ul> |
| <b>How does Sterling Capital Management collect my personal information?</b> | <p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>tell us about your investment or retirement portfolio or enter into an investment advisory contract</li> <li>seek advice about your investments or give us your income information</li> <li>give us your contact information.</li> </ul>   |
| <b>Why can't I limit all sharing?</b>  | <p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> <li>sharing for affiliates' everyday business purposes — information about your creditworthiness</li> <li>affiliates from using your information to market to you</li> <li>sharing for nonaffiliates to market to you.</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>                              |

## Definitions

|                        |   |
|------------------------|---|
| <b>Affiliates</b>      | <p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>Our affiliates include financial companies with BB&amp;T in their name such as BB&amp;T Insurance Services, Inc. Affiliates also include financial companies such as Branch Banking and Trust Company, custodial bank; as well as BB&amp;T Securities, LLC, a broker-dealer.</li> </ul> |
| <b>Nonaffiliates</b>   | <p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>Sterling Capital Management does not share with nonaffiliates so they can market to you.</li> </ul>   |
| <b>Joint marketing</b> | <p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>Sterling Capital Management does not jointly market.</li> </ul>  |

## Other important information

You may have other privacy protections under some state laws. We will comply with applicable state laws as to information about you.



## Sterling Capital Management LLC

### Guide to Services and Compensation ERISA Section 408(b)(2) Notice

The following is a guide to important information that you should consider in connection with the services to be provided by Sterling Capital Management LLC (the "Firm") to an ERISA Plan.

The Firm provides investment-related services to the Plan as an investment adviser registered with the U.S. Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, as amended (Advisers Act) and the Firm provides these services in its capacity as a fiduciary within the meaning of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Should you have any questions concerning this guide or the information provided, concerning our services or compensation, please do not hesitate to contact the Firm's Chief Compliance Officer by e-mail at [CDurham@SterlingCapital.com](mailto:CDurham@SterlingCapital.com) or by mail to 4350 Congress St, Suite 1000, Charlotte, NC 28209.

The below charts list the fees that could be charged with respect to the Plan and, where applicable, describes a cross reference to the document where the amount of the fees that will be charged to the Plan can be found. Unless otherwise stated, referenced documents include any amendment or updates to those documents.

| Required Information  | Location(s)   |
|---|---|
| Description of the services that the Firm provides to the Plan as a registered investment adviser.                | Please refer to "Advisory Business" in the Firm's ADV Part 2A and the Investment Advisory Agreement.  |
| Compensation the Firm will receive from the Plan ("direct" compensation).   | Please refer to the Investment Advisory Agreement between the Firm and the Plan.  |
| Compensation the Firm will receive from other parties that are not related to the Firm ("indirect compensation"). | To assist in the investment management process, and unless the Plan has directed us otherwise, the Firm may use client brokerage commissions to purchase research and brokerage services, such as stock screening and research tools as well as quotation and trade execution services. Research thus obtained does not have a quantifiable dollar value. Please refer to the Firm's ADV Part 2A for the full disclosure of brokerage and execution practices including research and the use of soft dollars. |
| Compensation that will be paid among the Firm and related parties.  | The Firm does not receive any compensation from a related party in connection with services provided to the Plan.   |
| Compensation the Firm will receive if the Plan terminates this service agreement.                                 | Please refer to the Investment Advisory Agreement between the Firm and the Plan.  |
| The cost to Plan of recordkeeping services.   | Not applicable, as the Firm does not provide Plan recordkeeping services.   |

| Required Information                                     | Location(s)   |
|--|---|
| The manner of receipt of compensation the Firm receives. | The Plan may elect to have fees deducted directly from its custodian account, or be billed for payment. The research and brokerage services are generally received by the Firm from executing broker-dealers or third parties as part of the securities transactions in the Plan's account. Please see the Firm's ADV Part 2A for the full disclosure of brokerage and execution practices. |
| Fees and Expenses relating to Plan investments.          | The Firm does not receive indirect compensation from Plan investments, such as 12b-1 fees.  |