



STERLING  
CAPITAL

## Firm Brochure

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September 25, 2017

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@sterling-capital.com](mailto:scmcompliance@sterling-capital.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.

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

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.

## Item 2 – Material Changes

**Below are the material changes that occurred since our last Annual Amendment dated March 30, 2016:**

Effective October 31, 2016 – Sterling Capital Management ceased offering the Elite UMA program to new clients as program sponsorship has moved to BB&T Investment Services Inc. (BB&T IS). Sterling will continue to serve as the sponsor to the Elite UMA program for existing clients and as the investment advisor for the Elite UMA program.

Effective July 31, 2017 – Sterling Capital Management completed the transfer of the Elite UMA program sponsorship and remaining client accounts to BB&T Investment Services Inc. (BB&T IS).

Effective September 25, 2017 – Item 12, language was added describing Sterling's trade error policy. In addition, the language concerning trade rotation and aggregation was revised.

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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.

Our Brochure may be requested by contacting Sterling's Compliance Department at [scmcompliance@sterling-capital.com](mailto:scmcompliance@sterling-capital.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

**Organization** - Sterling Capital Management LLC (Sterling) 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. Headquartered in Charlotte, NC, and with additional offices in Raleigh, NC; Atlanta, GA; Washington, DC; King of Prussia, PA; Richmond and Virginia Beach, VA; and San Francisco, CA, Sterling has approximately 131 investment and client services professionals and 159 employees total.

**Assets Under Management** - As of December 31, 2016, Sterling's assets under management were approximately \$51 billion. Sterling manages approximately \$45 billion in client assets on a discretionary basis and \$5.9 billion on a non-discretionary basis. An account may be managed on a non-discretionary basis upon a client's request.

**Advisory Services** - Sterling currently provides investment management services and model portfolio management services as discussed below. These services are both discretionary and non-discretionary advisory services.

### **Investment Management Services**

Sterling provides continuous and regular investment management services to a variety of clients. We provide investment management services when we have discretionary authority over a client's portfolio and provide ongoing supervisory or management services with respect to the client's portfolio. We generally exercise discretionary authority without client consultation after initially establishing the investment objective with the client.

Sterling also provides investment management services when we do not have discretionary authority over a client's portfolio, but we have ongoing responsibility to make recommendations to a client as to specific securities or other investments that may be purchased or sold for a client's portfolio. In these instances, if our recommendations are accepted by the client, we are responsible for arranging or effecting the purchase or sale of such securities or other investments. Because we do not have discretionary authority in these instances, we may refer to these services as non-discretionary advisory services.

Client portfolios are managed in accordance with the investment objective established with the client. Clients can specify investment policy restrictions on investing in certain securities or types of securities such as prohibiting preferred securities, private placements, non-investment grade securities, etc.

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

## **Model Portfolio Management Services**

Sterling also furnishes investment advice and recommendations through the provision of model portfolios for certain of our investment strategies and periodic updates to the model portfolios. We typically provide these services to investment advisory firms or other managers (Overlay Managers). The Overlay Managers utilize our model portfolios and periodic updates, either alone or together with other model portfolios provided by the Overlay Managers or other investment advisers, to manage the assets of the Overlay Manager's clients. In certain cases, we provide our model portfolios and periodic updates to technology or other companies that operate platforms or programs (Platform Providers) in which Overlay Managers participate. The Platform Providers make our model portfolios available to Overlay Managers that use their platforms.

When providing model portfolios, we generally do not have investment discretion; the Overlay Manager has investment discretion. We generally do not have trading responsibilities. We do not have an advisory relationship with the Overlay Manager's clients. We also do not manage our model portfolios on the basis of the financial situation or investment objective of individual clients. We generally only manage our model portfolio to the particular investment strategy. In certain cases, Sterling provides model portfolios to Overlay Managers and Sterling effects the trades resulting from the model portfolio changes.

**Types of Accounts Sterling Manages** - Sterling provides advisory services through a variety of accounts, institutional or high net worth individuals (in either case, Separate Accounts), separately managed accounts or wrap fee programs (in either case, Managed Accounts), and registered investment companies or mutual funds (Investment Companies).

## **Separate Accounts**

Sterling provides investment management services to a variety of clients. When providing such services, we enter into an investment management agreement with the client. This agreement, among other provisions, describes the client's investment policy statement and/or our investment strategy or mandate pursuant to which we will manage the client's portfolio. The client's portfolio is held at a qualified custodian selected by the client.

## **Managed Accounts**

Sterling participates as an investment manager or portfolio manager in Managed Accounts. Managed Accounts generally are investment programs under which a client is charged a specified fee or fees not based directly upon transactions in the client's portfolio for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and execution of client transactions. Custody and other services also may be provided (not by Sterling) for the specified fees. We receive a portion of the fees paid by the Managed Account client for our services.

In Managed Account programs, clients, with or without the assistance of the sponsors (Sponsors) of the Managed Account Program, select or appoint Sterling to manage designated client assets in accordance with one or more of our investment strategies. The Sponsors may be broker-dealers, financial institutions or other investment advisory firms which sponsor, operate and administer the Managed Account programs. When providing investment management to Managed Accounts, Sterling typically acts as sub-adviser to the Sponsor's program by entering into a sub-advisory arrangement or other program agreement with the Sponsors. The Sponsors generally enter into investment management agreements with clients; Sterling typically does not have direct investment management agreements with clients that participate in Managed Account programs. Sterling

may get a direct grant of investment discretion through the investment management agreement between the Sponsor and the client. The Sponsors provide portfolio manager selection, performance reporting, and evaluation, custody, brokerage and other administration services, or a combination of these services to clients. We only provide advisory services to clients of the Managed Account Programs.

Managed Account Programs may also be structured as dual contract or unbundled relationships. In these relationships, Sponsors will enter into brokerage agreements with clients, and Sterling will enter into separate investment management agreements directly with the same clients.

There are certain differences between how we manage Managed Accounts versus how we manage other client accounts. For example, when participating in Managed Account Programs, the Sponsor is generally responsible for determining the suitability of the Managed Account Program, as well as Sterling and our investment strategy for the client. We typically are only responsible for managing client's assets in accordance with our investment strategy that has been selected and any reasonable restrictions imposed by the client. In certain Managed Accounts, the Sponsor may limit the information available to us. We may be restricted by Sponsors from communicating directly with clients; communications regarding the client usually must be directed through the Sponsor.

Sterling may also provide model portfolio management to Overlay Managers or Sponsors that participate as managers, sponsors or operate Managed Accounts.

## **Wrap**

A wrap fee program bundles or wraps together a suite of services, such as investment advice, trading, custodial and other services provided by the Sponsor in one contract for a single fee. In adviser-only arrangements, Sterling is retained as an investment adviser by the wrap fee program Sponsor. Generally trades are executed only with the referring broker-dealer to avoid the client incurring incremental brokerage costs that would be incurred by use of other broker-dealers. Transactions are effected "net" and a portion of the wrap fee is considered in lieu of commissions.

In evaluating a wrap fee arrangement, the client should consider the amount of portfolio activity and the value attributed to monitoring, custodial and any other services provided and whether the wrap fee would exceed the aggregate cost of such services if they were separately provided and Sterling were free to choose broker-dealers to execute portfolio transactions.

## **Investment Companies**

Sterling also provides investment management services to investment companies. Investment companies are pooled investments registered under the Investment Company Act of 1940 (the Investment Company Act). 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 investment companies.

## Item 5 – Fees and Compensation

Sterling is compensated for providing investment advisory services by charging an investment management fee. Generally, the investment management fee is based on an annual rate on total assets under management. Occasionally Sterling may consult on a small percentage of accounts that are not actively managed by Sterling. Hourly charges or fixed fees are set when the amount of work involved is not directly related to the assets under management.

Investment management fees may be negotiated under certain circumstances. These negotiations are entered into only when such factors as account size, type of investments and activity are taken into consideration. The negotiations may result in a reduced, higher or fixed fee. Any deviation from Sterling's standard fee schedule must be justified and warranted. Please refer to the Fee Schedules below for more information relating to Sterling's fees.

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 client accounts. In some instances, clients calculate their own fee and initiate payment.

Except as described below, Sterling's advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers and other third parties such as fees charged by other managers, custodial fees, 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. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are in addition to Sterling's advisory fee.

Where appropriate and in accordance with applicable laws, Sterling may recommend to its clients that they purchase shares of the Affiliated Funds. Clients should note that Sterling may have a conflict of interest in these cases because Sterling receives fees from the Affiliated Funds. Clients have the right, at any time, to prohibit us from investing any of their managed assets in the Affiliated Funds.

Item 12 further describes the factors that Sterling considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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. Please refer to the Fee Schedules below for more information relating to Sterling's fees.

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

Sterling does not receive compensation from the sale of securities or other investment products.

The minimum account size generally required to open or maintain an account varies by type of account. Under certain circumstances the stated minimum may be waived by Sterling.

### **FEE SCHEDULE – PRIVATE CLIENT ACCOUNTS**

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 of \$10 million.

#### ***Equities***

1.00% on the first \$5,000,000  
 0.75% on the next \$10,000,000  
 0.65% on the next \$10,000,000  
 0.50% on amounts over \$25,000,000

#### ***Fixed Income***

0.50% on the first \$5,000,000  
 0.40% on the next \$5,000,000  
 0.25% on amounts over \$10,000,000

**Minimum Annual Fee:** \$10,000

**Unified Investment Strategy Fees:** A 0.50% fee will be added to the Market Value of equity assets managed through the Unified Managed Account Platform.

**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 – INSTITUTIONAL SEPARATE ACCOUNTS**

***Small Cap Value, Stratton Small Cap Value and Small-Mid Cap Value Equity Portfolios*** – Investment Management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

1.00% on the first \$25 million  
 0.75% on all incremental assets above \$25 million

***Small Cap Value Diversified Alpha Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

0.60% on the first \$50 million  
 0.55% the next \$50 million  
 0.50% on all incremental assets above \$100 million



***International Equity Diversified Alpha Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

- 0.60% on the first \$250 million
- 0.50% the next \$250 million
- 0.40% on all incremental assets above \$500 million

***Large Cap Value Diversified Alpha Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

- 0.45% on the first \$250 million
- 0.35% the next \$250 million
- 0.25% on all incremental assets above \$500 million

***Mid Cap Value Equity, Stratton Mid Cap Value and Stratton Real Estate Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

- 0.85% on the first \$10 million
- 0.70% on the next \$15 million
- 0.60% on all incremental assets above \$25 million

***Equity Income Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

- 0.70% on the first \$25 million
- 0.60% on the next \$25 million
- 0.50% on the next \$25 million
- 0.40% on all incremental assets above \$75 million

***Global Leaders Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

- 0.70% on the first \$25 million
- 0.60% on the next \$25 million
- 0.50% on the next \$25 million
- 0.40% on all incremental assets above \$75 million

***SMID Opportunities Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

- 0.70% on the first \$25 million
- 0.60% on the next \$25 million
- 0.50% on the next \$25 million
- 0.40% on all incremental assets above \$75 million

***Insight Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

- 0.70% on the first \$25 million
- 0.60% on the next \$25 million
- 0.50% on the next \$25 million
- 0.40% on all incremental assets above \$75 million

***Special Opportunities Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

- 0.70% on the first \$25 million
- 0.60% on the next \$25 million
- 0.50% on the next \$25 million
- 0.40% on all incremental assets above \$75 million

***Enhanced Equity Portfolios*** – Investment management fees are based on the following annual rate on total assets under management. Fees are payable either, in advance at the beginning of each quarter, or in arrears at the end of each quarter, depending upon specific client relationships. The minimum balance for separate accounts is \$10 million.

- 0.70% on the first \$25 million
- 0.60% on the next \$25 million
- 0.50% on the next \$25 million
- 0.40% on all incremental assets above \$75 million

***Cash/Enhanced Cash Fixed Income Portfolios*** – Investment management fees are billed each quarter in arrears, based on the average daily market value of the assets in the account during the quarter. The minimum balance for separate accounts is \$50 million. Accounts with less than \$50 million may be charged a higher asset-based fee, or a flat quarterly fee, which may result in a higher asset-based fee.

- 0.15% on the first \$100 million
- 0.125% on the next \$100 million
- 0.10% on all incremental assets above \$200 million

***Short Term Fixed Income Portfolios*** – Investment management fees are billed each quarter in arrears, based on the average daily market value of the assets in the account during the quarter. The minimum balance for separate accounts is \$25 million. The minimum annual fee for all short term fixed income portfolios is \$62,500.

- 0.15% on the first \$100 million
- 0.125% on the next \$100 million
- 0.10% on all incremental assets above \$200 million

***Intermediate, Core or Long Duration Fixed Income Portfolios*** – Investment management fees are billed each quarter in arrears, based on the average daily market value of the assets in the account during the quarter. The minimum balance for separate accounts is \$20 million. Accounts with less than \$20 million may be charged a higher asset-based fee, or a flat quarterly fee, which may result in a higher asset-based fee.

- 0.25% on the first \$50 million
- 0.20% on all incremental assets above \$50 million

***Intermediate or Core Fixed Income Municipal Portfolios*** – Investment management fees are billed each quarter in arrears, based on the average daily market value of the assets in the account during the quarter. The minimum balance for separate accounts is \$20 million. Accounts with less than \$20 million may be charged a higher asset-based fee, or a flat quarterly fee, which may result in a higher asset-based fee.

- 0.35% on the first \$10 million
- 0.25% on the next \$40 million
- 0.15% on all incremental assets above \$50 million

***High Yield Portfolios*** – Investment management fees are billed each quarter in arrears, based on the average daily market value of the assets in the account during the quarter. The minimum balance for separate accounts is \$20 million. Accounts with less than \$20 million may be charged a higher asset-based fee, or a flat quarterly fee, which may result in a higher asset-based fee.

- 0.50% on the first \$50 million
- 0.45% on all incremental assets above \$50 million

## **FEE SCHEDULE - MANAGED ACCOUNTS**

### **Wrap Programs**

Fees charged by Sterling to affiliated and unaffiliated wrap fee program Sponsors for Sterling's portfolio management service. Minimum investment required of \$100,000.

**Fee:** 0.60% on all program assets

### **Investment Models**

Fees shown are for the model only and do not include underlying manager fees. Fees shown are charged directly to individual clients or external investment platform sponsors.

**Fee:** 0.50% for all Investment Models

### Sterling UMA Platform Fees

Fees charged by Sterling to internal affiliate partners are for internal use only and are subject to negotiation. The entities include but are not limited to affiliates such as BB&T Wealth and BB&T Retirement and Institutional Services. These entities engage Sterling for its open architecture investment platform products and services. Fees may or may not be passed through to the client in part or in whole by affiliate partners. The client may pay additional fees to affiliate partners for the same or other products and services.

### FEE SCHEDULE - STERLING CAPITAL FUNDS

Sterling serves as investment adviser to the Sterling Capital Funds (the Affiliated Funds). Investment management fees are based on the following annual rate on total assets under management. Fees are accrued daily and paid monthly. The contract may be terminated by either party upon 60 days written notice. Upon termination, the Affiliated Funds will be billed for fees accrued up to the date of termination.

STERLING CAPITAL FUND	ADVISORY FEE	STERLING CAPITAL FUND	ADVISORY FEE
Behavioral Small Cap Value Equity	0.60%	Kentucky Intermediate Tax-Free	0.35%
Behavioral Large Cap Value Equity	0.45%	Maryland Intermediate Tax-Free	0.35%
Behavioral International Equity	*0.40%	North Carolina Intermediate Tax-Free	0.35%
Mid Value	0.70%	South Carolina Intermediate Tax-Free	0.35%
Special Opportunities	0.65%	Virginia Intermediate Tax-Free	0.35%
Equity Income	0.55%	West Virginia Intermediate Tax-Free	0.35%
Securitized Opportunities	*0.31%	Diversified Income	0.25%
Short Duration Bond	*0.20%	Strategic Allocation Balanced	*0.00%
Intermediate U.S. Government	0.32%	Strategic Allocation Growth	*0.00%
Total Return Bond	*0.27%	Ultra Short Bond	*0.10%
Long/Short Equity	1.50%	Corporate	0.35%
Stratton Real Estate	0.58%	Stratton Small Cap Value	0.85%
Stratton Mid Cap Value	0.70%	SMID Opportunities	*0.54%

\*Sterling has contractually agreed to limit the management fees paid by the Affiliated Fund for the period from February 1, 2017 through January 31, 2018. This contractual limitation may be terminated during this period only by the Affiliated Fund and will automatically terminate upon termination of the Investment Advisory Agreement between the Affiliated Fund and Sterling. Please refer to the Affiliated Fund's prospectus for additional information.

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

Sterling may enter into performance related fee arrangements if determined individually between the client and Sterling, and if allowed by law. 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 accounts may also be responsible for the management of accounts 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 accounts over other accounts 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. Reasons for non-pro rata allocations may include differing investment objectives, restrictions, risk characteristics, tax implications and other factors.

## Item 7 – Types of Clients

Sterling provides investment advisory services to a diversified group of clients including individuals, high net worth individuals, trusts, estates, banking or thrift institutions, 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, wrap programs and managed investment pools (*e.g.*, a hedge fund).

Account 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 account minimums, please refer to Item 5 – Fees and Compensation.

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

*Investing in securities involves risk of loss that clients should be prepared to bear.*

**Methods of Analysis** - Sterling's security analysis methods include: charting, fundamental, technical, quantitative, qualitative and cyclical. In conducting security analysis, we utilize a broad spectrum of information, including 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.

**Investment Strategies** - 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: long term purchases, short-term purchases, trading, short sales, option strategies including covered options, uncovered options or spreading strategies, and over-the-counter derivative strategies.

**Principal Investment Strategies** - A brief summary for each principal investment strategy listed below is included along with the methods of analyses and principal risks of investing in the product. Sterling's principal investment strategies are:

### Principal Strategy and Methods of Analysis - Taxable and Tax Exempt Fixed Income

Depending on client objectives, the portfolio manager 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, corporate bonds, preferred stock, taxable and tax exempt municipal securities, asset-backed securities, mortgage-backed securities, including commercial mortgage-backed securities, and convertible securities.

The 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 interest rates and volatility as well as relative spread analysis. Utilizing fundamental analysis the portfolio manager then selects individual securities consistent with the target by 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.

### **Principal Risks – Taxable and Tax Exempt Fixed Income**

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 in this strategy 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 are the principal risks of investing in the strategy.

**Interest Rate Risk:** The possibility that the value of the portfolio 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.

**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.

**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.

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

**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.

**Estimated Maturity Risk:** The possibility that an underlying security holder 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.

**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.

**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.

**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.

**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.

**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.

**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 pre-payment 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.

**Active Trading Risk:** The Fund may trade securities actively, which could increase its transaction costs (thereby lowering its performance) and may increase the amount of taxes that a shareholder pays, by increasing the amount of the Fund's realized capital gains and increasing the portion of the Fund's realized capital gains that are short-term capital gains.

**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.

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

**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.

**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 the Fund's service providers, counterparties, market participants, or issuers of securities held by the Fund may adversely affect the Fund and its shareholders, including by causing losses for the Fund or impairing Fund operations.

### **Principal Strategy and Methods of Analysis – 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

### **Principal Risks – Small Cap, SMID and MID Cap Value**

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 in this strategy is not a deposit or obligation of any bank, is not endorsed or guaranteed by any bank and is not insured by the FDIC or any other government agency. You may lose money. Below are the principal risks of investing in the product.

**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 your investment will tend to increase or decrease in response to these movements.



**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 market 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.

**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.

**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, share price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term.

**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.

**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.

**Active Trading Risk:** The Fund may trade securities actively, which could increase its transaction costs (thereby lowering its performance) and may increase the amount of taxes that a shareholder pays, by increasing the amount of the Fund's realized capital gains and increasing the portion of the Fund's realized capital gains that are short-term capital gains.

**Emerging Markets Risk:** The risks associated with foreign investments (see "Foreign Investment Risk" above) are particularly pronounced in connection with investments in emerging markets.

**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. When the Fund invests in an ETF, in addition to directly bearing expenses associated with its own operations, the Fund will bear a pro rata portion of the ETF's expenses. As a result, it may be more costly to own an ETF.

**Operational and Technology Risk:** Cyber-attacks, disruptions, or failures that affect the Fund's service providers, counterparties, market participants, or issuers of securities held by the Fund may adversely affect the Fund and its shareholders, including by causing losses for the Fund or impairing Fund operations.

**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.

## **Principal Strategy and Methods of Analysis – Stratton Small Cap Value and Stratton 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.

### **Principal Risks – Sterling Capital Stratton Small Cap and Mid Cap Value**

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 in this strategy is not a deposit or obligation of any bank, is not endorsed or guaranteed by any bank and is not insured by the FDIC or any other government agency. You may lose money. Below are the principal risks of investing in the product.

**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 your investment will tend to increase or decrease in response to these movements.

**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 market 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.

**Small 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.

**Middle 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, share price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term.

**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.

**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.

## **Principal Strategy and Methods of Analysis – Advisory Solutions**

For wealth and institutional clients seeking comprehensive asset allocation and investment selection, Sterling utilizes Advisory Solutions to provide open architecture-based solutions. Solutions are achieved by blending multiple investment strategies and asset classes. This combination can include domestic and international equities and fixed income. The investment process includes:

- Developing an asset allocation framework.
- 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 top tier investment managers for each allocation within the portfolio.

## **Principal Risks – Advisory Solutions**

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 in this strategy is not a deposit or obligation of any bank, is not endorsed or guaranteed by any bank and is not insured by the FDIC or any other government agency. You may lose money. Below are the principal risks of investing in the product.

**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 your investment will tend to increase or decrease in response to these movements.

**Investment Manager Risk:** The possibility that an investment manager may underperform relevant benchmarks.

**Investment Style Risk:** The possibility that any market segment on which this strategy focuses will underperform other kinds of investments or market averages.

**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.

**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.

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

**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.

**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.

**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. When the Funds invests in an ETF, in addition to directly bearing expenses associated with its own operations, the Fund will bear pro rata portion of the ETFs expenses. As a result, it may be more costly to own an ETF.

**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.

**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 pre-payment 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.

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

#### **Principal Strategy and Methods of Analysis – Diversified Alpha (Small Cap Value Diversified Alpha, Large Cap Value Diversified Alpha, and International Diversified Alpha)**

The Diversified Alpha suite of products consist of three strategies that employ techniques that seek to capitalize upon behavioral finance-based principles 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 Diversified Alpha portfolio seeks to invest in U.S. small capitalization stocks that will offer greater capital appreciation than the Russell 2000 Value Index. The Large Cap Value Diversified Alpha portfolio seeks to invest in U.S. large and mid-capitalization stocks that will offer greater capital appreciation than the Russell 1000 Value Index. The International Diversified Alpha portfolio seeks to invest in developed market (ex-U.S. and Canada) large and mid-capitalization stocks that will offer greater capital appreciation than the MSCI EAFE Net Index.

### **Principal Risks – Diversified Alpha**

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 in this strategy is not a deposit or obligation of any bank, is not endorsed or guaranteed by any bank and is not insured by the FDIC or any other government agency. You may lose money. Below are all of the principal risks of investing in the product.

**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 your investment will tend to increase or decrease in response to these movements.

**Investment Style Risk:** The possibility that the market segment on which this strategy focuses will underperform other kinds of investments or market averages. A value stock may decrease in price or may not increase in price as anticipated by the portfolio manager if other investors fail to recognize the company's value or the factors that the portfolio manager believes will cause the stock price to increase do not occur. A stock owned more for its momentum traits may break down and underperform.

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

**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.

**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, share price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term.

**Company-Specific Risk:** The possibility that a particular stock 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.

**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 foreign exchange currency fluctuations and social, economic or political instability. These risks are particularly pronounced for emerging markets.

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

**Principal Strategy and Methods of Analysis – Equity Opportunities (Special Opportunities, Equity Income, Insight, Global Leaders, SMID Opportunities and Enhanced Equity)**

The Equity Opportunities portfolios consist of six 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 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 insider's stock purchasing activity or existing ownership based on SEC filings. The Global Leaders portfolio primarily consists of larger cap 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.

In managing each of the portfolios, the team will place a strong emphasis on identifying companies with: 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.

**Principal Risks – Equity Opportunities**

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 in this strategy is not a deposit or obligation of any bank, is not endorsed or guaranteed by any bank and is not insured by the FDIC or any other government agency. You may lose money. Below are all of the principal risks of investing in the product.

**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 your investment will tend to increase or decrease in response to these movements.

**Investment Style Risk:** The possibility that the market segment on which this strategy focuses-small cap value stocks-will underperform other kinds of investments or market averages. A value stock may decrease in price or may not increase in price as anticipated by the portfolio manager if other investors fail to recognize the company's value or the factors that the portfolio manager believes will cause the stock price to increase do not occur.

**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.

**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, share price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term.

**Company-Specific Risk:** The possibility that a particular stock 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.

**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.

**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.

**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.

**Management Risk:** The risk that a strategy used by the Fund's portfolio manager may fail to produce the intended result.

**Operational and Technology Risk:** Cyber-attacks, disruptions, or failures that affect the Fund's service providers, counterparties, market participants, or issuers of securities held by the Fund may adversely affect the Fund and its shareholders, including by causing losses for the Fund or impairing Fund operations.

#### **Additional Principal Risks – Enhanced Equity**

**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.

### **Principal Strategy and Methods of Analysis – 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 40-50 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 publically traded equities with minimal cash levels.

All three 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.

### **Principal Risks – Large Cap Equity**

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 in this strategy is not a deposit or obligation of any bank, is not endorsed or guaranteed by any bank and is not insured by the FDIC or any other government agency. You may lose money. Below are all of the principal risks of investing in this product.

**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 your investment will tend to increase or decrease in response to these movements.

**Investment Style Risk:** The possibility that the market segment on which this strategy focuses will underperform other kinds of investments or market averages. A stock may decrease in price or may not increase in price as anticipated by the portfolio manager if other investors fail to recognize the company's value or the factors the portfolio manager believes will cause the stock price to increase do not occur.

**Company-Specific Risk:** The possibility that a particular stock 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.



**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, share price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term.

**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. The Fund will indirectly bear its proportionate share of expenses, including management fees, paid by each REIT in which the Fund invests.

**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. When the Fund invests in an ETF, in addition to directly bearing expenses associated with its own operations, the Fund will bear a pro rata portion of the ETF's expenses. As a result, it may be more costly to own an ETF.

**Active Trading Risk:** The Fund may trade securities actively, which could increase its transaction costs (thereby lowering its performance) and may increase the amount of taxes that a shareholder pays, by increasing the amount of the Fund's realized capital gains and increasing the portion of the Fund's realized capital gains that are short-term capital gains.

**Operational and Technology Risk:** Cyber-attacks, disruptions, or failures that affect the Fund's service providers, counterparties, market participants, or issuers of securities held by the Fund may adversely affect the Fund and its shareholders, including by causing losses for the Fund or impairing Fund operations.

**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.

### **Principal Strategy and Methods of Analysis – Long/Short Equity (Multi-Manager)**

The Long/Short Equity strategy seeks to achieve its objective primarily by selecting a group of experienced long/short equity managers who will serve as sub-advisers to the portfolio. The portfolio managers of this strategy believe that long/short equity investing can offer advantages relative to "long only" investing (*e.g.*, lower volatility as defined by the standard deviation of monthly returns, enhanced risk-adjusted returns, and moderate correlation to equity markets) and can be a complementary piece of an investor's overall investment portfolio. Further, the portfolio managers believe that manager diversification offers an important element of risk management when pursuing long/short equity strategies due to the broad dispersion of approaches that long/short equity managers can take in the management of their portfolios.

### **Principal Risks – Long/Short Equity (Multi-Manager)**

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 in this

strategy is not a deposit or obligation of any bank, is not endorsed or guaranteed by any bank and is not insured by the FDIC or any other government agency. You may lose money. Below are all of the principal risks of investing in this product.

**Management Risk:** Sterling's judgment about the capabilities of each sub-adviser and the impact of each sub-adviser's investment techniques on the Long/Short Equity strategy's overall investment exposures may prove incorrect, and the strategy may fail to produce the intended results. Similarly, each sub-adviser's judgments and investment techniques may fail to produce the intended results.

**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 your investment will tend to increase or decrease in response to these movements. While the Long/Short Equity strategy expects to have lower correlation to equity markets than a "long-only" equity fund (and thus less "market risk"), it still has net long exposure to equity markets.

**Short Sale/Options Risk:** Unlike most traditional long-only equity funds, the Long/Short Equity strategy will engage in short selling and, on occasion, the selling of covered call options. Short positions in individual stocks are speculative and may be more risky than "long" positions because the cost of the replacement security or derivative is unknown. Short selling strategies typically reduce returns relative to "long only" strategies during rising equity markets, and involve risk of significant losses; potential loss on uncovered short positions is unlimited. Short selling strategies typically help to preserve capital in falling markets. Short selling strategies also involve significant transaction costs. The Long/Short Equity strategy will engage in short sales through a prime brokerage account and will hold assets (which may be a substantial portion of the strategy's assets) in connection with such short sales in a triparty account among the Long/Short Equity fund, the prime broker and the fund's custodian. There can be no guarantee that the Long/Short Equity strategy will be able to recover the entire margin held in the triparty account in the event of the prime broker's insolvency.

**Investment Style Risk:** The possibility that a strategy or market segment pursued by one or more sub-advisers underperforms other kinds of investments or market averages.

**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 Long/Short Equity strategy's management or performance.

**Small Capitalization Company Risk:** Investing in smaller, lesser-known companies typically 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.

**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, share price changes may be more sudden or erratic than the prices of other equity securities, especially over the short term.

**Company-Specific Risk:** The possibility that a particular stock 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.

**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.

**Tax Risk:** The extent of the Long/Short Equity strategy's investments in certain entities, such as U.S. royalty trusts, the income of which is treated as earned directly by, or is allocated to the Long/Short Equity strategy for U.S. federal income tax purposes, is limited by the strategy's intention to qualify as a regulated investment company for U.S. federal income tax purposes. If the Long/Short Equity strategy were not to appropriately limit such investments or if such investments or the income derived from such investments were recharacterized for U.S. tax purposes, the Long/Short Equity fund's status as a regulated investment company could be jeopardized. If the Long/Short Equity fund were to fail to qualify for taxation as a regulated investment company in any taxable year, and were ineligible to or otherwise did not cure such failure, the fund would be subject to U.S. federal income tax at the Fund level, and all distributions from earnings and profits, including any distributions of net long-term capital gains, would be taxable to shareholders as dividend income. The Long/Short Equity fund's failure to qualify and be taxed as a regulated investment company could significantly reduce the value of shareholders' investments in the fund.

**Derivatives Risk:** The possibility of suffering a loss from its 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. The Long/Short Equity fund's use of derivatives also entails counterparty and credit risk relating to the other party to a derivative contract (this risk is greater for over-the-counter derivatives), the risk of potential difficulties in pricing and valuation, the risk that changes in the value of a derivative may not correlate perfectly with the relevant reference asset, rate or index, and the risk that the fund may be unable to terminate or sell a derivatives position at an advantageous time or price.

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

**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.

**Active Trading Risk:** The Long/Short fund may trade securities actively, which could increase its transaction costs (thereby lowering its performance) and may increase the amount of taxes that a shareholder pays, by increasing the amount of the fund's realized capital gains and increasing the proportion of the fund's realized capital gains that are short-term capital gains.

**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.

**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. When the Long/Short Equity funds invests in an ETF, in addition to directly bearing expenses associated with its own operations, the Long/Short Equity fund will bear pro rata portion of the ETFs expenses. As a result, it may be more costly to own an ETF.

**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.

**Foreign Currency Transaction Risk:** Funds that invest directly in foreign currencies and in securities that trade in, or receive revenues in, foreign currencies are subject to the risk that those currencies will fluctuate in value relative to the U.S. dollar.

**Operational and Technology Risk:** Cyber-attacks, disruptions, or failures that affect the Fund's service providers, counterparties, market participants, or issuers of securities held by the Fund may adversely affect the Fund and its shareholders, including by causing losses for the Fund or impairing Fund operations.

### **Principal Strategy and Methods of Analysis – 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.

### **Principal Risks – Real Estate**

**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 your investment will tend to increase or decrease in response to these movements.

**Company-Specific Risk:** The possibility that a particular stock 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.

**Real Estate Market and Real Estate Investment Trust (REIT) Risk:** The risk that your investment may be affected by conditions in the real estate industry such as declining property values due to increasing vacancies or declining rents resulting from unanticipated economic, legal, cultural or technological developments. REIT prices also may drop because of the failure of borrowers to pay their loans and as a result of poor management. Sterling's Real Estate fund will indirectly bear its proportionate share of any expenses, including management fees, paid by an externally managed REIT in which it invests.

**Manager Risk:** The risk that the portfolio manager's strategy may fail to produce the intended results.

**Concentration Risk:** The risk that the Fund's concentration in REITs and other real estate-related securities may produce a greater risk of loss than a more diversified mutual fund.

**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.

**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.

**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.

**Operational and Technology Risk:** Cyber-attacks, disruptions, or failures that affect the Fund's service providers, counterparties, market participants, or issuers of securities held by the Fund may adversely affect the Fund and its shareholders, including by causing losses for the Fund or impairing Fund operations.

**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.

### **Principal Strategy and Methods of Analysis – Diversified Income**

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

### **Principal Risks – Diversified Income**

**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 it being more volatile than the underlying portfolio of securities. When the Diversified Income Fund invests in an ETF, in addition to directly bearing expenses associated with its own operations, the Fund will bear a pro rata portion of the ETF's expenses. As a result, it may be more costly to own an ETF.

**U.S. Government Securities Risk:** An Underlying Fund may invest in securities issued or guaranteed by the U.S. government or its agencies or instrumentalities. 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.

**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.

**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.

**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.

**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.

**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. An Underlying Fund will indirectly bear its proportionate share of expenses, including management fees, paid by each REIT in which an Underlying Fund invests.

**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 pre-payment 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.

**Prepayment/Call Risk:** When obligations are prepaid and when securities are called, an Underlying Fund 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.

**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.

**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.

**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.

**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 Diversified Income fund's management or performance.

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

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

**Fixed Income Fund Risk:** The strategy invests in Underlying Funds that invest mainly in fixed income securities, which are subject to interest rate and credit risk. Interest rate risk is the potential for a decline in bond prices due to rising interest rates. Credit risk is the possibility that the issuer of a fixed income security will fail to make timely payments of interest or principal, or that the security will have its credit rating downgraded. High-yield/high-risk (junk) debt securities, in which some of the Underlying Funds may invest, 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.

**Foreign Investment Risk:** The strategy invests in Underlying Funds that invest mainly in foreign securities, of which a substantial portion of such Underlying Fund's total assets may be invested in emerging market securities. 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. The risks associated with foreign investments are particularly pronounced in connection with investments in emerging markets. In addition, profound social changes and business practices that depart from norms in developed countries' economies have hindered the orderly growth of emerging economies and their markets in the past and have caused instability. High levels of debt tend to make emerging economies heavily reliant on foreign capital and vulnerable to capital flight. These countries are also more likely to experience high levels of inflation, deflation, or currency devaluation, which could also hurt their economies and securities markets. For these and other reasons, investments in emerging markets are often considered speculative and may be highly volatile.

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

**Active Trading Risk:** The Fund may trade securities actively, which could increase its transaction costs (thereby lowering its performance) and may increase the amount of taxes that a shareholder pays, by increasing the amount of the Fund's realized capital gains and increasing the portion of the Fund's realized capital gains that are short-term capital gains.

**Operational and Technology Risk:** Cyber-attacks, disruptions, or failures that affect the Fund's service providers, counterparties, market participants, or issuers of securities held by the Fund may adversely affect the Fund and its shareholders, including by causing losses for the Fund or impairing Fund operations.

## Item 9 – Disciplinary Information

Sterling currently has no disciplinary events or matters to disclose.

Sterling is the successor-in-interest to BB&T Asset Management LLC (BBTAM) in the following two cases following the merger of BBTAM into Sterling in October 2010:

- *Francis P. Maybank v. BB&T Corporation, Branch Banking and Trust Company, successor in merger to Branch Banking and Trust Company of SC, and Sterling Capital Management LLC, successor in merger to BB&T Asset Management LLC.* The original complaint was filed in South Carolina in December 2011. Following the appeal of a trial court judgment in November 2014, the South Carolina Supreme Court issued an opinion in June 2016 and remitted the case back to the trial court in July 2016. The matter was finally settled in January 2017. This matter related to an investment in a variable prepaid forward contract and did not involve any current Sterling employee or any current Sterling investment product or strategy. Sterling was only a party to this matter based on its merger with BBTAM, and the settlement was immaterial to Sterling's ongoing financial operations.
- *Effie C. S. Bowers v. Branch Banking and Trust Company, successor in merger to Branch Banking and Trust of SC and Sterling Capital Management LLC, successor in merger to BB&T Asset Management LLC.* The original complaint was filed in Georgia in January 2015. Similar to *Maybank*, this matter related to an investment in a variable forward contract and did not involve any current Sterling employee or any current Sterling investment product or strategy. This matter was settled in December 2015 to avoid the distraction, costs and uncertainty of ongoing litigation, with no admission of liability by Sterling Capital. Sterling was only a party to this matter based on its merger with BBTAM, and the settlement was immaterial to Sterling's ongoing financial operations.

## Item 10 – Other Financial Industry Activities and Affiliations

- A. Certain employees of Sterling are registered representatives of Sterling Capital Distributors, LLC, a limited purpose broker-dealer and distributor to the Sterling Capital Funds.
- B. Neither Sterling, nor any of its employees, are registered, or have 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.



C. Sterling is an independently operated subsidiary of BB&T Corporation and related to the following subsidiaries of BB&T Corporation under common control with Sterling, unless otherwise noted:

1) Broker-Dealers

- i. BB&T Investment Services, Inc. (BB&T IS), a registered broker-dealer and SEC registered investment adviser, is wholly owned by Branch Banking and Trust Company. BB&T IS provides retail distribution for the sale of shares of the Sterling Capital Funds.
- ii. BB&T Securities, LLC (BB&T Securities), a wholly owned subsidiary of BB&T Corporation, is a registered self-clearing broker-dealer and investment adviser. BB&T Securities provides retail distribution for the Affiliated Funds. BB&T Securities serves as custodian of certain accounts for which Sterling advises.

BB&T Securities is a registered municipal adviser. BB&T Securities is registered with the National Futures Association and is a commodity trading adviser.

Sterling generally does not act as principal or broker in connection with client transactions. However, Sterling may exercise its discretion under the investment agreement with the client to effect transactions in securities or other instruments through BB&T Securities. In connection with such 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.

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. All such transactions will be effected in accordance with applicable law, including the Advisers Act, the Investment Company Act and Employee Retirement Income Security Act of 1974 (ERISA).

2) Investment Companies or Other Pooled Investment Vehicles

- i. Sterling serves as investment adviser 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. Sterling is the Administrator to the Affiliated Funds. The Sterling Capital Funds and Sterling have entered into investment advisory agreements whereby Sterling serves as the investment adviser to the Sterling Capital Funds. Pursuant to these agreements, the Sterling Capital Funds pay Sterling an advisory fee based on the Sterling Capital Funds' average daily net assets each month. Sterling has voluntarily agreed to limit certain fees. Please refer to Item 5-Fees and Compensation, or the Sterling Capital Funds' Prospectus, for the current fee schedule.

Sterling, where appropriate and in accordance with applicable laws, may recommend to its clients that they purchase shares of the Sterling Capital Funds. Clients should note that Sterling

may have an incentive to introduce clients to the Sterling Capital Funds over other investment management companies in these cases because Sterling receives fees from the Sterling Capital Funds. Clients have the right, at any time, to prohibit Sterling from investing any of their managed assets in the Sterling Capital Funds.

3) Other Investment Adviser or Financial Planner

- i. BB&T Institutional Investment Advisers, Inc. (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.
- ii. Sterling Capital (Cayman) Limited, a wholly owned subsidiary of Sterling Capital Management LLC provides investment advisory services to non-U.S. companies.
- iii. 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 the service provider for shareholder services rendered by the service provider.
- iv. Please also refer to items C.1.i. (BB&T IS) and C.1.ii. (BB&T Securities) above.

4) Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser.

- i. Please refer to Item C.1.ii. (BB&T Securities) above.

5) Banking or Thrift Institution

- i. 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 in 15 states and the District of Columbia.
- ii. Branch Banking and Trust Company, a North Carolina banking company, is a wholly owned subsidiary of BB&T Corporation. Branch Banking and Trust Company serves as trustee and/or custodian of certain accounts for which Sterling advises.

6) Accountant or accounting firm - Not applicable.

7) Lawyer or Law Firm - Not applicable.

8) Insurance Company or Agency:

- i. Please refer to Item C.1.i. (BB&T IS) above.

9) Pension Consultant

- i. Please refer to Item C.3.i. (BB&T IIA) above.

10) Real Estate broker or dealer - Not Applicable.

11) Sponsor or Syndicator of Limited Partnerships - Not applicable.

- D. Sterling does not receive compensation from other investment advisers for recommending or selecting the other investment adviser. Other investment advisers recommended or selected may include affiliated advisers listed above. While Sterling does not receive compensation for the recommendation of affiliates, it may nonetheless cause a conflict of interest.

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

- A. We strive 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 of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. 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. 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.

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@sterling-capital.com](mailto:scmcompliance@sterling-capital.com).

- B. If in appropriate circumstances and consistent with the clients' investment objectives, Sterling may 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.
- i. Sterling, where appropriate and in accordance with applicable laws, may recommend to our clients that they purchase shares of registered investment companies for which we serve as investment

adviser (*i.e.* the Affiliated Funds). We receive fees from the Affiliated Funds. Clients have the right, at any time, to prohibit Sterling from investing any of their managed assets in the Affiliated Funds.

- ii. Sterling generally does not act as principal or broker in connection with client transactions. Sterling may, however, exercise its discretion under the investment management agreement with the client, effect transactions in securities or other instruments for the client through an affiliated broker-dealer. If an affiliated broker-dealer will act as principal, Sterling will disclose to the client that the trade will be conducted on a principal basis and obtain client consent.
- iii. On behalf of its clients, Sterling may 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. All such transactions will be effected in accordance with applicable law, including the Advisers Act, the Investment Company Act and ERISA.
- iv. Sterling employees may invest their personal funds in investment strategies that are offered to clients, including Sterling's 401(k). In this regard, employees will have interests in securities owned by or recommended to Sterling's clients.
- v. 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.

Robert Bridges, CFA was elected to the Board of Directors of Bridges Investment Counsel, Inc. (BIC) in November 2006 and will continue to act as a director until BIC de-registers with the SEC and close in the 1st quarter 2018. All BIC clients have been notified and are being solicited by Bridges Investment Management, Inc., (BIM) which is now owned by Bridges Holding Corporation (BHC). Mr. Bridges will serve on the Board of Directors of BHC which was effective on July 31, 2017. An affiliate of BIC serves as the investment manager of the Bridges Investment Fund (BIF), a registered investment company also located in Omaha. Mr. Bridges was elected as a director of BIF in the spring of 2007 and will remain in that capacity.

BIC also provides investment management services to Bridges Trust Company (BTC) (f.k.a Provident Trust Company (PTC), a state-chartered (non-bank) trust company). Mr. Bridges was elected as a director of PTC in the spring of 2007 and will remain as a director with BTC. Mr. Bridges receives compensation for serving as a director of these entities. Mr. Bridges will also receive compensation for his Board of Directors role with BTC. Compensation is immaterial to Mr. Bridges' overall compensation from Sterling.

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

- C. 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.
- D. Sterling, or its related persons, may recommend securities to clients, or buy or sell securities for client accounts, at or about the same time that Sterling, or its related person, buys or sells the same securities for their own account. Please refer to Items 11. A and 11.C above for a description of Sterling's Code of Ethics.

## Item 12 – Brokerage Practices

As a general rule, Sterling receives discretionary authority from its clients through its investment management agreements at the outset 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
- Determine commission rates, if any, at which transactions are effected

There are several factors considered when selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation. The list of approved broker-dealers is reviewed at least quarterly and revised as appropriate. Criteria considered in evaluating broker-dealers include, but are not limited to:

- Appropriate 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
- The quality of research services provided by the firm (when applicable)

The major consideration in allocating brokerage business is the pursuit of best execution on all transactions effected for all accounts. Brokerage may at times be allocated to firms that supply research, 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 Section 28(e) of the Securities Exchange Act of 1934.

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/from a client account incur a charge.

**Wrap Trade Desk** - Sterling manages accounts in a number of wrap fee programs that are not traded through the firm's trade order management system. Instead, these accounts are traded through each wrap program Sponsor's system and shares are not allocated to these accounts using the firm's trade order management system's computer-generated methods.

Clients of wrap Sponsors 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 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. Due to this additional fee and additional processing, it is anticipated that generally all trading for wrap programs will be executed through the Sponsor.

It is important that these accounts receive equitable treatment in regards to block trading activities. To accomplish this, the wrap trading department, on a rotational basis, alternates the participation order of the wrap fee accounts on the trading platforms.

**Mutual Funds** - The prospectuses for the Sterling Capital Funds set forth the types and amounts of securities that may be bought or sold by Sterling on behalf of the Sterling Capital Funds. The investment advisory agreements entered into by Sterling and the Sterling Capital Funds give Sterling the authority to select the brokers or dealers that will execute the purchases and sales of the securities of the Sterling Capital 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. 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.

**Research and Other Soft Dollar Benefits** - Sterling uses research materials in making recommendations to 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 securities markets, the economy, individual services, 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 equity portfolios. For proprietary broker-dealer services that are "bundled" (e.g. offer trade execution and research products for one commission rate), we consider a portion of the commission for trade execution and the remainder for research services.

For third-party (soft dollar) research services, we predominantly use client commission arrangements (CCA) with participating broker-dealers and also allocate a portion of the commission to trade execution and the remainder to

research services. Third-party research is reviewed by both the equity group and the Best Execution Committee. All third-party research and trading services are reviewed by our compliance department to ensure compliance with the safe harbor section 28(e) of the Securities Exchange Act of 1934, as amended.

We periodically review our total commission structure with an industry survey of comparable managers. 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 may create an incentive to select a certain broker 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.
- Sterling may invest client assets in securities issued by broker-dealers or their affiliates.
- Sterling may provide investment management services to broker-dealers or their affiliates.

In some cases, research services are generated by third parties but provided to Sterling by or through brokers-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 it receives such services.

Clients may pay commission rates that are higher than would otherwise be the case if they traded solely for execution purposes. Such higher commissions would be paid in accordance with Section 28(e) of the Securities Exchange Act of 1934, which requires Sterling to determine in good faith that the commission paid is reasonable in relation to the value of the research provided. We believe that using soft dollars to obtain the type of research services mentioned above enhances our investment research process, thereby increasing the prospect for higher investment returns. Research services received pursuant to soft dollar arrangements may be used to benefit the account that generates the commissions, as well as other accounts. In some instances, research products or services received by Sterling may also be used for functions that are not research related. Where such product or service has a soft dollar/hard dollar “mixed use”, we will make a reasonable allocation according to its use and will pay for the non-research function in hard dollars using our own funds.

Sterling uses client soft dollar commissions for the service of all of its equity clients. Not all research commissions generated by a client’s trade will necessarily benefit a particular client’s account and soft dollar benefits are not proportionate to soft dollar commissions generated.

Research and other soft dollar benefits can be broken down into proprietary broker-dealer research and third-party research. Proprietary broker-dealer research typically includes analyst research reports, sales brokerage coverage, conferences, and one-on-one meetings with both analysts and companies.

In accordance with the requirements of Section 28(e), Sterling has entered into arrangements for research and/or brokerage services. To facilitate payment of these services, Sterling initiated client CCA, directing the transacting broker-dealer to collect and pool commissions generated by client trades and then periodically directing the broker-dealer to pay research invoices from that pool. Justifications for each arrangement are reviewed or monitored by the Best Execution Committee periodically to determine if the product or service meets the eligibility criteria of “research” or “brokerage” in Section 28(e) 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. Non-research usage, overhead and ineligible brokerage services do not fall under the Safe Harbor provided by Section 28(e). If a product/service is determined to be a “mixed-use” item, Sterling makes a best effort decision on a reasonable cost allocation between hard and soft dollars and splits the payment for this service accordingly. Sterling is not contractually obligated to direct trades to these broker-dealers in connection with this arrangement. When we execute orders through these broker-dealers, clients may pay commissions higher than those obtainable from other brokers. Research products or brokerage services provided by these commission credits may benefit all clients including those not participating in a given transaction.

Sterling may use a commission aggregation platform such as Instinet’s T-Share platform. These platforms aggregate and reconcile commission credits in one location so that all credits are housed in a segregated account.

Sterling’s procedure for working with equity broker-dealers or equity third-party research providers using client commissions is multi-faceted. Portfolio managers and analysts “vote” for broker-dealers with proprietary research services annually. Considerations typically include:

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

Third-party research services are vetted within the equity group and must be approved by the Best Execution Committee before they can be purchased. Third party research services are purchased through broker-dealers using CCA. In a CCA, a trade execution commission rate is established and an additional commission rate is added to be retained by the broker-dealer to pay for the research services.

Sterling on occasion directs fixed income securities transactions to a broker-dealer that provides specialized research services, generally paying a small premium (usually no more than one sixty-fourth of a point, but which may range up to a maximum of one thirty-second of a point) on those transactions in recognition of the value of the research services provided. The services consist of daily and weekly macroeconomic analyses that assist the fixed income team in its investment process, especially as an input to decisions on portfolio duration, yield curve decisions, and sector weightings. The services have well-established track records and have been recognized by the industry as premier fixed income economic groups. In our judgment, this practice is consistent with its best execution guidelines.

**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 according to their agreement with the unaffiliated entity.

**Trade Aggregation and Allocation** - Investment decisions deemed appropriate for one client may also be deemed appropriate for other clients so that 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, but is not required to, aggregate 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 accounts generally will be deemed to have purchased or sold their proportionate share of the security involved at the average price. Sterling will not aggregate transactions unless it believes that it is in the best interest 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. Also, it is possible that Sterling may choose not to aggregate trades in circumstances where it might have been beneficial to do so. Also, Sterling may choose not to aggregate trades in circumstances where it is beneficial to do so.

**Directed Brokerage Clients** - 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, and/or if Sterling does not have discretion as to which broker(s) to use. Examples of these include WRAP accounts where trades are routed to sponsoring custodian(s)/broker(s) who then executes the trades, and for Model Portfolio clients where Sterling simply provides changes to the Model Portfolio. In these instances, the Model recipient trades when, and with who they deem appropriate, or they may choose to not execute a trade. Sterling refers to these clients as "Non-Discretionary."

Directed brokerage transactions may result in higher commissions, greater spreads or less favorable execution on some transactions than would be the case if Sterling were free to choose the broker-dealer. Under certain circumstances, and in an attempt to secure 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 Sterling believes the net result would be advantageous to the client. Sterling generally does not monitor or evaluate the nature and quality of the services clients obtain from a directed broker or sponsor. For this reason, it is possible that the sponsors provide less advantageous executions than if Sterling had selected another broker-dealer to execute the transactions.

In addition to providing investment advisory services via separate accounts, wrap accounts, mutual funds and other pooled investment vehicles, Sterling also provides investment advisory services to select model-based managed account programs of unaffiliated managers and financial advisors.

The following procedure describes the sequencing practices designed to ensure that all clients are treated in a fair and equitable manner over time.

**Trade Rotation** – Given the nature of a non-discretionary account, discretionary account 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. Thus, 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 accounts is also being provided to non-discretionary accounts. Sterling will start the aggregated trade for discretionary accounts and the trade rotation for non-discretionary accounts 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 as one or more clients have, or appears to have, completed trading before releasing the trade information farther down the rotation.

When a new client is added to a rotation they are 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.

**Cross-Trades** – A cross-trade is a practice where buy and sell orders for the same security from two client accounts 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, such as for ERISA accounts. When a security is not traded on an exchange, there is a risk that one or both clients did not get the best price based on prevailing market conditions. Nevertheless, there may be circumstances where Sterling may choose to cross stock 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.

**Trade Error Policy** - In the event of a trade error loss caused by Sterling, the firm will seek to restore the client's account 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, their own monitoring capabilities, the type of advice and the arrangements made with the client, frequency of reviews 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 account, the account's activity level, and the volatility of the asset allocation sectors in which the account is invested and the client's preferences, if any. Additional review may be triggered by changes in the investment objectives or guidelines of a particular client or specific arrangements with the particular clients. There is no minimum or maximum number of accounts assigned for each reviewer.

Portfolio evaluations and analyses 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 account and a current market value along with account transactions and other portfolio details. The portfolio investment results (performance) are provided for various time periods along 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.

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**

Sterling does not receive an economic benefit from anyone who is not a client in exchange for investment advice or other advisory services.

We will from time-to-time compensate persons and companies for client referrals, including our affiliates Branch Banking and Trust, BB&T Securities, and BB&T IS. You will be informed in writing of such compensation prior to the initiation of the account. We will not charge an advisory fee for the account that is different from the fee that we would normally charge to the account.

## **Item 15 – Custody**

Client assets will be held at a qualified custodian such as a broker-dealer, bank, or other qualified custodian. However, Sterling is “deemed” to have custody of client assets if:

- Sterling serves as adviser to accounts held at an affiliated custodian,
- Sterling has the authorization to deduct or draft advisory fees from a client’s investment or bank account,
- A Sterling employee serves 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 access to client’s other investment accounts; and
- Sterling receives cash or securities from a client and forwards them to the client’s custodian.

Clients should receive statements at least quarterly from the broker-dealer, bank or other qualified custodian that holds their assets. Sterling urges clients to carefully review such statements and compare such official custodial records to the account statements that Sterling may provide. Sterling’s statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

Sterling manages securities portfolios on a discretionary basis. We accept discretionary authority when a client signs an investment advisory agreement at the outset of the advisory relationship. This investment advisory agreement allows Sterling, without obtaining client consent, to implement investment decisions. In making decisions as to which securities are to be bought and sold and the amount, 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 registered investment companies, Sterling’s authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

We generally will not manage accounts on a non-discretionary basis. However, exceptions may be made on a case-by-case basis.

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 brokerage discretion as to 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, 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 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. 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 directions in writing.

The major consideration in allocating brokerage business is the pursuit of best execution on all transactions effected for all accounts. Brokerage may at times be allocated to firms that supply research, 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 Section 28(e) of the Securities Exchange Act of 1934. Also, please refer to Item 12 - Brokerage Practices.

## **Item 17 - Voting Client Securities**

### **Proxy Voting**

Sterling's investment advisory agreement states that decisions on the voting of proxies will be made by Sterling unless client reserves the right to vote. Sterling engages a third-party service provider to assist with the functions related to voting client proxies.

Sterling has adopted and implemented written proxy policies and procedures reasonably designed to ensure that proxies are voted solely in clients' interests, or plan participants and beneficiaries for ERISA accounts. The policies include provisions to resolve material conflicts of interests that may arise between Sterling and clients.

Sterling has adopted Glass Lewis' Proxy Guidelines which assist the members of Sterling's Proxy Committee in evaluating relevant facts and circumstances and enables Sterling to vote in a manner consistent with its fiduciary responsibility.

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. Client may direct a vote for a particular solicitation.

Sterling's voting guidelines provide a general framework for voting proposals in the best interest of clients. The key element underlying any evaluation of the interests of a client in a proposal, election, or issue presented to a shareholder vote is the effect, if any, the proposal, election, or issue could have on the current or future value of the investment.

If you would like to obtain a copy of Sterling's proxy policies and procedures and/or a report summarizing how your securities were voted, contact Sterling's Compliance Department at [scmcompliance@sterling-capital.com](mailto:scmcompliance@sterling-capital.com). Annual Form N-PX for Sterling Capital Funds show how Sterling voted proxies for the 12-month period ending June 30<sup>th</sup> are filed with the SEC no later than August 31<sup>st</sup> of each year.

### **Class Action Settlements**

Although we may be authorized to vote proxies in client accounts as described above, we 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 accounts. Clients will receive the paper work for such claims directly from their account custodians. Each client should verify with his/her/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.

We do not believe our firm possesses the necessary legal expertise or the obligation to advise clients on legal matters including class actions and proofs of claim regarding securities held in clients' accounts. We do, however, believe that our fiduciary duty to our clients binds us to act in their best interests and to assist in these matters to the best of our ability. Sterling will provide such assistance to clients or their agents and advisers as it is reasonably capable of providing, but does not accept ultimate responsibility for responding to class action notifications and expressly disclaims liability for the failure to respond to such notifications.

From time to time, our clients may be eligible to participate in a class action lawsuit relating to securities they own or have owned during the period we managed their account. In these cases, Sterling's general policy is to work with client custodians to assist the custodian to gather information about the applicable class, the applicable lawsuit and/or any applicable award or settlement and inform the client of the same. In certain circumstances,

when authorized and instructed to do so by a client, Sterling may file a claim with respect to a class action lawsuit, settlement or award on behalf of a client.

## **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.***