



Changes to cost basis reporting for 2012

As part of the Emergency Economic Stabilization Act of 2008, the Internal Revenue Service will soon require Sterling Capital Funds to be responsible for tracking and reporting cost basis information to the IRS on the sale or exchange of shares you acquire on or after January 1, 2012. We've traditionally reported any cost basis information only to you.

Cost basis is the cost of the shares you purchased, including reinvested dividends and capital gains distributions. When you sell covered shares (shares acquired on or after January 1, 2012) in a taxable account, the cost basis accounting method you choose determines how your gain or loss is calculated. You are still responsible for calculating and reporting the cost basis for shares acquired before January 1, 2012 ("uncovered shares").

The new IRS regulations only apply to taxable accounts. As a result, cost basis is not required for tax-deferred accounts, including 529 and retirement accounts.

For most accounts, we've used the Average Cost method where we could determine a cost basis for our reporting, and we will continue to use that method for your noncovered shares. If you would like to use Average Cost for your covered shares, you do not need to do anything. Your account will default to that option unless you select another method.

The new tax regulations also require that mutual funds elect a default methodology to perform the required reporting. As a result, Sterling Capital Funds have chosen the Average Cost Method as the default tax lot identification method for its shareholders. This is the method Sterling Capital Funds will use to determine the cost basis for the shares sold and is the method in which "covered" share sales will be reported on a shareholder's Form 1099.

You can choose the method used for your account, so please consult your tax professional to determine which method below should be considered for your individual tax situation. Information can also be obtained by visiting the IRS website at www.irs.gov. Sterling Capital Funds and their affiliates and agents cannot provide tax advice.

Covered versus noncovered shares

The new regulations make the distinction between covered and noncovered shares in a taxable account:

- Covered shares are any shares acquired on or after January 1, 2012. We are required to report the cost basis for any sales or exchanges of covered shares to you and the IRS.
- Noncovered shares are any shares acquired before January 1, 2012, and any shares for which cost basis is unknown. Because they are not covered by the new rules, we are not required to report cost basis for these shares to the IRS.

If you sell or exchange shares after January 1, 2012, noncovered shares will be redeemed from your account before covered shares for any cost basis calculation methods except Specific Lot Identification.

Capital gain or loss

When you sell or exchange shares, your capital gain or loss is the difference between the proceeds from the sale/exchange and the cost basis of the shares.

Even though we will report any cost basis for the sale or exchange of covered shares to you and the IRS, you'll be responsible for reporting any capital gain or loss information for both covered and noncovered shares to the IRS.

Cost basis accounting methods

We provide several IRS-approved methods for determining your cost basis on covered shares — each with different tax implications.

Please consult your tax professional to determine which method should be considered for your individual tax situation.

Default method	Description
Average Cost	Calculates your gain or loss on shares sold based on the average purchase of all the covered shares you own. This is the method we have traditionally reported for your noncovered shares on your Form 1099-B. Note: Average cost will be calculated separately for your covered and noncovered shares.
Other methods	Description
First In, First Out (FIFO)	Shares purchased first are sold first.
Last In, First Out (LIFO)	Shares purchased last are sold first.
High Cost, First Out (HIFO)	Shares with the highest purchase price are sold first.

Select a cost basis method

If you would like to use Average Cost for your covered shares, you do not need to do anything.

To select your cost basis method:

- **By Mail:** Complete the Cost Basis Election Form located on our web site under the Tax Center Resources and return to:

Sterling Capital Funds
P.O. Box 9762
Providence, RI 02940-9762

- **By Phone:** Call us at (800) 228-1872 option 1, Monday through Friday between 8 a.m. and 8 p.m. Eastern Time. If you have any questions, please contact one of our customer service representatives at (800) 228-1872 option 1, Monday through Friday between 8 a.m. and 8 p.m. Eastern Time.

Sterling Capital Funds: The Funds are distributed by Sterling Capital Distributors, Inc. which is not affiliated with Branch Bank and Trust Company or its affiliates.

For more information To find out more about cost basis and how it could impact you, please consult your tax professional, financial adviser or you can also refer to IRS website (www.irs.gov).