

Global Leaders SMA Commentary

1st Quarter 2024

Quarterly Review

Performance	QTR	YTD	1YR	3YR	5YR	10YR	Since Inception ¹
Sterling (Gross)	8.56%	8.56%	35.71%	7.21%	10.98%	9.59%	7.43%
Sterling (Net)	7.78%	7.78%	31.84%	4.09%	7.76%	6.41%	4.31%
Blended Benchmark ²	8.93%	8.93 %	25.17%	8.43%	11.91%	10.39%	7.11%

Performance and Market Update

Following a strong 2023 performance when the Global Leaders strategy advanced +41.54% gross of fees, +37.52% net of fees, the strategy continued to rise in 1Q24, advancing +8.56% gross of fees, +7.78% net of fees.

Looking across global markets, we think bullish equity market narratives expecting near-term global policy bank rate cuts helped the Bloomberg Developed Markets Large & Mid Cap NR Index advance +8.93%. We believe sentiment improved in part from the macro backdrop of decelerating inflation, strong employment, and healthy wage growth. We see a secular theme of artificial intelligence (AI) that appears to boost corporate optimism as management teams attempt to quickly incorporate it into workflows and product offerings, which could create greater efficiencies and faster revenue growth. We believe a confluence of these factors is helping push consensus economic growth expectations higher for 2024.

By contrast, we think market bears cling to the fear of higher-for-longer rates as well as any lagged effects of Federal Reserve (Fed) tightening, which remain unclear. We believe the slow and choppy nature of disinflation coupled with robust labor and consumer markets are making the “last mile” of sticky inflation more difficult for policymakers to quell. Finally, the spread between 2- and 10-year Treasury yields remains negative, which has historically been a reliable indicator of a looming recession.

¹Inception date is 12.31.2000. ²Blended benchmark: the current benchmark is the Bloomberg Developed Markets Large & Mid Cap NR Index. Prior to 12.31.2015 the benchmark was the S&P 500 Index. Data is as of 03.31.2024. The benchmark is the Bloomberg Developed Markets Large & Mid Cap NR. Performance results prior to 01.01.2013 are considered “predecessor performance” and were achieved by the Equity Opportunities team when they were known as CHOICE Asset Management, a division of Scott & Stringfellow. Effective 06.30.2023, the net of fee performance reflects the deduction of the maximum SMA bundled fee of 3.00% annually for all periods presented. Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the SMA bundled fee, which includes all charges for trading costs, advisory services, portfolio management, custody and other administrative fees. “Pure” Gross of fees performance returns do not reflect the deduction of any fees including trading costs: a client’s return will be reduced by the management fees and other expenses it may incur. Investment management fees are described in Sterling’s Form ADV 2A. Performance reflects the reinvestment of interest income and dividends and realized capital gains. The performance presented represents past performance and is no guarantee of future results. Performance is compared to an index: however, the volatility of an index varies greatly and investments cannot be made directly in an index. Market conditions vary from year to year and can result in a decline in market value due to material market or economic conditions. Please refer to the attached GIPS Composite Report for additional disclosures. Sources: MSCI; eVestment Alliance; Sterling Capital Management Analytics.



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Leading Contributors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return
Adyen N.V. Unsponsored ADR	12.64	3.48	3.38
ASML Holding NV ADR	4.39	1.15	1.11
Amazon.com, Inc.	5.36	0.96	0.92
Veeva Systems Inc Class A	4.43	0.86	0.83
Microsoft Corporation	5.77	0.71	0.66

Sources: FactSet; Sterling Capital Management Analytics.

For the quarter, the top five contributors for Global Leaders included **Adyen** (+3.38%), **ASML** (+1.11%), **Amazon** (+0.92%), **Veeva** (+0.83%), and **Microsoft** (+0.66%).

Following the Investor Day, we believe Adyen has continued the positive momentum, with the company reporting strong earnings in February. Following a growth deceleration in early 2023, management improved investor communication, and we see improved financial disclosure, better management access, and greater visibility into the business. Additionally, Adyen stated that their increased staffing expense is complete, which we think could provide a tailwind to growth in earnings before interest, taxes, depreciation, and amortization (EBITDA) and margins in 2024.

In January, ASML reported strong revenue growth and robust system shipments. Bookings also grew across the board, with both logic and memory orders up year-over-year. We think ASML's expanding customer wallet share coupled with strong order intake helped the stock perform strongly in Q1.

Amazon reported strong results on revenue, operating income, and earnings per share (EPS) for Q4, which we think helped push the stock higher. Robust retail demand in the North American and international markets (helped by Black Friday and Cyber Monday promotions) led to Amazon setting a new sales record. They reduced their cost to serve across both U.S. and international markets, which we think is further driving Amazon's high customer value of low transportation costs, lower average sales prices, and quick delivery. Additionally, Amazon Web Services revenues accelerated sequentially compared to Q3, which is a testament to the new business momentum highlighted during the Q3 call.

We think Veeva reported a strong quarter, but they modestly lowered revenue guidance for next year. The reduction was primarily driven by weakness in their services segment. Services may be impacted by project timing and investments related to Vault Customer Relationship Management (CRM), especially with some larger Veeva CRM customers. However, management raised the non-generally accepted accounting principles (non-GAAP) operating income guidance, given improved efficiencies in product development and disciplined hiring. Macro headwinds continue to persist for Veeva, but the company is still earning new customers on the CRM side, with management navigating the soft biotech funding environment well.

Microsoft reported a beat across the board in fiscal year Q2 with broad-based strength throughout the business. Capex is expected to materially increase on a sequential basis given the push in cloud and AI infrastructure, but we feel investors are bullish on the AI-improved economy and rewarding Microsoft for its strong Azure performance.

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Leading Detractors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return
Atlassian Corp Class A	5.09	-1.00	-1.04
Zoetis, Inc. Class A	4.18	-0.62	-0.65
Dassault Systemes SA Sponsored ADR	2.93	-0.28	-0.30
S&P Global, Inc.	5.47	-0.17	-0.21
MSCI Inc. Class A	2.35	-0.03	-0.04

Sources: FactSet; Sterling Capital Management Analytics.

For the quarter, the bottom five detractors included **Atlassian** (-1.04%), **Zoetis** (-0.65%), **Dassault Systems** (-0.30%), **S&P Global** (-0.21%), and **MSCI** (-0.04%).

It was Atlassian's first \$1B quarter, and we saw strong top line and non-GAAP profitability metrics. During the last public earnings call, management raised 2024 guidance for cloud revenue, data center revenue, and the non-GAAP operating margin, but the stock fell because cloud revenue growth is still struggling to show reacceleration.

For Q4, Zoetis revenues came in modestly ahead of consensus, mostly driven by stronger U.S. and international livestock revenue growth. However, companion animal revenues, both in the U.S. and internationally, were weaker. Zoetis is still operating in a challenging macro environment with vet visits remaining a headwind, but we feel new launches like Librela are showing a strong uptake even amid the weaker macro picture.

Dassault reported Q4 results that were towards the low end of their stated guidance. Additionally, full year 2024 guidance came in below expectations, raising doubts about their ability to hit long-term targets, specifically in their life sciences business.

In Q4, S&P Global beat on revenue but missed in adjusted operating income and EPS. Additionally, management provided a softer guide that fell short of consensus. However, S&P's ratings business is pivoting from a headwind to a tailwind, with billed issuance growing 19% in the quarter. S&P continues to incorporate more AI into its business, which may provide greater efficiencies over time.

MSCI posted a strong quarter beat across their income statement. However, their environmental, social, and governance (ESG) and climate segment remain soft, with revenues falling short of consensus expectations and retention rates ticking lower sequentially. Management highlighted that cancellations from smaller clients were the cause of the downtick, but the core business of Index and Analytics remains on strong footing.

Portfolio Changes and Diligence Updates

Although **Canadian Pacific** reported solid earnings, management guided to a conservative low single-digit volume growth estimate. Meanwhile, peer railroads guided to higher, mid-single digit volume growth. Our team considered our views of better combinations of risk/reward ratios and recycled proceeds from our Canadian Pacific sale to add to certain existing exposures in the portfolio.

Please refer to the Performance Disclosure found on page 5.

ESG Risk: The use of ESG factors could result in selling or avoiding investments that subsequently perform well or purchasing investments that subsequently underperform. As a result, strategies that take ESG factors into account could underperform similar strategies that do not take into account ESG factors.



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Waste Connections printed strong results on revenue, EBITDA, and EPS. Additionally, management announced strong profit expectations in their 2024 EBITDA guidance. With the stock rising, Global Leaders used the positive momentum to exit the position. The original investment thesis revolved around Waste Connections' ability to navigate a highly inflationary environment. We believe management continues to operate against these challenges.

Outlook

We believe 2024 is off to a strong start, our team remains cautiously optimistic as economic growth stays robust, inflation moves lower, and labor markets continue to recover. Geopolitical ructions are among the factors we continue to watch, but we think Global Leaders' diversified exposures are balanced and ready to navigate a variety of macroeconomic conditions.

Thanks for your trust and investment in us.

Colin Ducharme

Colin Ducharme, CFA®
Portfolio Manager

Important Information

Disclosures

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Economic charts are provided for illustrative purposes only. The information provided herein is subject to market conditions and is therefore expected to fluctuate.

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Performance Disclosure: Effective 06.30.2023, the net of fee performance reflects the deduction of the maximum SMA bundled fee of 3.00% annually for all periods presented. Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the SMA bundled fee, which includes all charges for trading costs, advisory services, portfolio management, custody and other administrative fees. "Pure" Gross of fees performance returns do not reflect the deduction of any fees including trading costs: a client's return will be reduced by the management fees and other expenses it may incur. Investment management fees are described in Sterling's Form ADV 2A. Performance reflects the reinvestment of interest income and dividends and realized capital gains. The performance presented represents past performance and is no guarantee of future results. Performance is compared to an index: however, the volatility of an index varies greatly and investments cannot be made directly in an index. Market conditions vary from year to year and can result in a decline in market value due to material market or economic conditions. Please refer to the attached GIPS Composite Report for additional disclosures.

Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

The **Bloomberg World Large & Mid Cap (Net) Index** is a float market-cap-weighted benchmark that covers 85% market cap of the measured market.

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The **S&P 500® Index** is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

Technical Terms: **Customer relationship management (CRM)** refers to the principles, practices, and guidelines that an organization follows when interacting with its customers. **Earnings per share (EPS)** is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution. **EBITDA**, or earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income. By including depreciation and amortization as well as taxes and debt payment costs, EBITDA attempts to represent the cash profit generated by the company's operations. **Non-GAAP** earnings are earnings measures that are not prepared using GAAP (Generally Accepted Accounting Principles) and are not required for external reporting or other public disclosures. (Technical definitions are sourced from Corporate Finance Institute.)

ESG Considered: Sterling is committed to achieving the best possible risk adjusted returns for our clients. To achieve these results, a variety of factors are considered, including ESG issues. Sterling strategies that take the ESG Considered approach analyze ESG as one part of the research mosaic and consider it, along with other fundamental data, during the investment process. Sterling strategies designated as ESG Considered do not claim ESG Integration.

The Chartered Financial Analyst® (CFA) charter is a graduate-level investment credential awarded by the CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

Sterling Capital Global Leaders SMA

	Total "Pure" Gross Return	Total Net Return	Benchmark Return	3Y Composite Std. Dev. (Gross)	3Y Benchmark Std. Dev.	Composite Dispersion	Number of Portfolios	Composite Assets (MM)	Total Firm Assets (MM)
2023	41.54%	37.52%	23.73%	21.89%	16.73%	0.20%	12	\$7	\$66,746
2022	-28.45%	-30.61%	-18.29%	21.13%	20.46%	0.23%	20	\$7	\$62,842
2021	13.19%	9.92%	21.56%	16.06%	17.09%	0.59%	25	\$18	\$75,309
2020	20.58%	17.11%	15.60%	16.50%	18.31%	0.62%	42	\$30	\$70,108
2019	29.39%	25.69%	27.77%	10.44%	11.15%	0.87%	51	\$29	\$58,191
2018	-4.23%	-7.03%	-8.80%	9.90%	10.38%	0.50%	57	\$26	\$56,889
2017	19.80%	16.36%	22.40%	9.54%	10.04%	0.51%	63	\$29	\$55,908
2016	5.25%	2.19%	7.51%	10.07%	10.77%	0.30%	88	\$37	\$51,603
2015	-0.63%	-3.53%	1.38%	10.05%	10.47%	0.37%	80	\$38	\$51,155
2014	10.40%	7.20%	13.69%	9.12%	8.97%	0.40%	89	\$41	\$47,539

Benchmark: 01.01.2016 - Present: 100% Bloomberg Developed Markets Large/Mid Cap Net Index. Composite Creation 12.31.2000 Inception Date: 01.01.2001
Prior to 01.01.2016: 100% S&P 500® Index Date:

- Consists of all discretionary separately managed wrap Global Leaders portfolios. SCM's Global Leaders equity portfolios invest primarily in companies which have established themselves as market leaders, exhibiting sustainable advantages in production, marketing and research and development.
- Sterling Capital Management LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sterling Capital Management LLC has been independently verified for the periods 01/01/2001 to 12/31/2022. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. Benchmark returns are not covered by the report of the independent verifiers. GIPS® is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
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- The performance presented represents past performance and is no guarantee of future results. Market and economic conditions vary from year to year and can result in a decline in market value due to material market or economic conditions. Please refer to the slide titled "Performance" for the one-, five-, and ten-year returns of the composite.
- A complete list of all of SCM's composites and SCM's broad distribution pooled funds and their descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Composite Reports are available upon request.
- Performance reflects reinvested interest income and dividends and realized and unrealized capital gains and losses. All portfolios utilize trade-date and accrued income accounting. Valuations and performance are reported in U.S. dollars. Periodic time weighted returns are geometrically linked. Returns are not calculated net of non-reclaimable withholding taxes due to immaterial dollar amounts. Composite returns are calculated by weighting the individual portfolio returns using beginning of period market values.
- "Pure" gross of fees returns are presented as supplemental information and do not reflect the deduction of any fees including trading costs. Net returns are calculated by deducting the highest applicable wrap fee of 3.00% annually from the pure gross composite return. As of 6/30/23, the composite model fee was updated to 3.00% annually for all periods presented. Prior to this change, the net of fees returns reflected the maximum bundled external platform fee of 2.52%. Prior to 1/1/21, the net of fees returns reflect the actual SMA fee of the individual portfolios in each platform except for one platform where the maximum fee is deducted from the gross return. The SMA fee includes all charges for trading costs, portfolio management, custody and other administrative fees. The actual fee may vary by size and type of portfolio. The maximum SMA or bundled external platform fee is 2.52% annually and includes Sterling's actual management fee of 0.27%. Sterling's actual management fees are 50 basis points annually or less. Since inception, the composite is comprised 100% of wrap fee portfolios.
- Effective 1/1/22, portfolios are removed from the composite for flows 10% or greater of prior month portfolio market value. Portfolio remains out of the composite for the month of the flow and for one additional period. Prior to 1/1/22, portfolios were not removed from the composite for flows.
- The Secondary Benchmark shown is the Bloomberg Developed Markets Large/Mid Cap Net Index. As of 6/30/23, the benchmark was changed from the MSCI World Net Index to the Bloomberg Developed Markets Large/Mid Cap Net Index beginning 1/1/16. The Bloomberg Developed Markets Large & Mid Cap Net Return Index is a float market-cap-weighted equity benchmark that covers 85% market cap of the measured market. Effective 1/1/16, the composite was renamed from "Leaders" to "Global Leaders" and the benchmark was changed at that time to the MSCI World Net Index. The MSCI World Index covers approximately 85% of the free float-adjusted market capitalization in each country, and does not offer exposure to emerging markets. Prior to 1/1/16 the benchmark was the S&P 500® Index. The S&P 500® Index is an unmanaged, weighted index of 500 stocks providing a broad indicator of price movements. Total return includes price appreciation/depreciation and income as a percent of the original investment.
- The annual composite dispersion presented is measured by an asset-weighted standard deviation calculation method of all portfolios in the composite for the entire year, and is calculated using gross of fee returns. It is not meaningful when there have been less than six portfolios in composite for entire calendar year. The three year annualized standard deviation measures the variability of the composite and benchmark returns over the preceding 36-month period. The composite 3-year standard deviation is calculated using gross of fee returns. It is not required to be presented when a full three years of composite performance is not yet available.