Focus Equity SMA Commentary

4th Quarter 2022

Performance[1]	QTR	YTD	1YR	3YR	5YR	Since Inception[2]
Sterling (Gross)	5.79%	-33.96%	-33.96%	1.60%	9.35%	12.49%
Sterling (Net)	5.13%	-35.66%	-35.66%	-0.51%	7.26%	10.14%
Russell 1000® Growth Index	2.20%	-29.14 %	-29.14%	7.79%	10.96%	12.95%

Ahead of our 4Q22 portfolio comments, it's timely that we offer a quick note on evolving industry regulation and its effect on our performance presentation to keep our clients current with the latest updates. The U.S. Securities and Exchange Commission requires that registered investment advisers, including Sterling Capital, ensure certain communications are in compliance with its new marketing rule. To comply, we've modified our performance table above to meet the new standard, which differs from our historic presentation. Notably, net performance figures are now shown using the maximum bundled fee, showing an increase from prior presentation. This change results in lower net performance figures while gross figures, by contrast, remain consistent. Despite the new presentation, our management of your portfolio stands unchanged.

Focus Equity more than doubled the benchmark's +2.2% return in Q4 by rising +5.8% gross (+5.1% net of max fee bundle), as quality factors reemerged to display strength in the period. Market recovery was helped by a dose of optimism from several economic indicators suggesting that a dominant macro headwind, inflation, may finally be abating. We shed more light on the market backdrop and its relation to the portfolio in the Performance Notes.

During the quarter we made no roster changes. However, in the Activity Notes, we offer updates on each strategy holding to transparently share our insights on portfolio positioning.

Performance Notes

It was a terrible year for investors, and the pain was widespread. Historic safe havens, such as bonds and real estate, failed to preserve wealth and saw values shrink. So too did stocks of all stripes. Commodities and cash were the only two liquid asset classes yielding positive returns during the year.[3] There was nowhere to hide.

[1]The maximum bundled external platform fee is 2.52%. Actual fees may vary by size and type of portfolio. [2]Inception date is 12.31.2015. Data is as of 12.31.2022. The benchmark is the Russell 1000® Growth. 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: Russell Investments; eVestment Alliance; Sterling Capital Management Analytics.
[3]https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/market-insights/guide-to-the-markets/mi-guide-to-the-markets-us.pdf, p61

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In 2022, Focus Equity fell -34.0% gross (-35.7% net of max fee bundle) amid the market maelstrom as waves of indiscriminate selling marked down equity valuation multiples across a majority of sectors. The Russell 1000 Growth fell -29.1%. Profitable investment opportunities were scarce. For example, during 2022, just *two* sectors (Energy and Utilities) generated positive returns, both where Focus Equity has no exposure. *Every* style (Growth, Core, and Value) in *every* capitalization size (Large, Mid, and Small) lost money, and Growth took the hardest hit. Looking outside U.S. borders, *only two* major indices (India's Sensex and U.K.'s FTSE 100) rose in 2022 but would have lost money if those local currency returns had been translated into U.S. dollars, as the USD significantly strengthened during the year. In summary, 2022 was a *historically difficult* market across the board.

But we think the tide may be turning.

Markets bounced back into positive territory during Q4, reacting to a variety of data points suggesting that the inflationary tide of higher prices may be ebbing. Updated figures from the U.S., U.K., and Germany, among other geographies, provided evidence that the central bankers' ongoing policy rate hikes are yielding results. In the U.S., for example, when looking at the monthly Consumer Price Index (CPI) and personal consumption expenditures (PCE) figures over the second half of 2022, annualized inflation hovered around 2.5%, not far from the Federal Reserve's target level. We think alleviation of global supply chain bottlenecks, in addition to monetary policy impacts, are seizing momentum against inflation.

Inflation drama, along with China's shifting COVID-19 policy and the impact of the Russia/Ukraine war, have been the dominant market themes of 2022, so any glimmer of an improving trend has resulted in relief rally reflation of market multiples, which we started to see in Q4. Zooming in on portfolio contribution during the Q4, the top five contributors (net) were **Mastercard** (+161 basis points, bps), **IDEXX** (+133 bps), **CoStar** (+90 bps), **S&P Global** (+82 bps), and **Shopify** (+84 bps). The largest performance detractors (net) were **Atlassian** (-149 bps), **Amazon** (-149 bps), **Unity** (-23 bps), **Alphabet** (-21 bps), and **Veeva** (-3 bps).

Based on our experience, we speculate that as investor fear subsides, asset correlations may begin to uncouple to better allow quality fundamentals, the factors we intensely diligence and carefully bet on, to shine through. Along these lines, as we always do at year end, we provided individual company color on each portfolio position in the Activity Notes below.

Activity Notes

Despite weaker macros on the European continent, the momentum at **Adyen** is palpable. Results for the first half of 2022 (the most recent available, since many European issuers like Adyen report only half-year, not quarterly, figures) revealed +60% processed volume growth and net revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) improvements both exceeding +30% year-over-year. Our research revealed that Adyen is passing several key milestones along its growth journey. This path is tracking in line with our thesis that the company's innovative products can lead the large payments industry and enable Adyen to win meaningful wallet share from existing and new customers. Milestones include the almost double point-of-sale (POS) volumes in the first half of 2022 (lapping a difficult comparison after also nearly doubling volumes in the prior year), demonstrating Adyen's extension into omnichannel commerce.

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Other key mileposts include its success in partnering with key players like Apple (for Tap to Pay) and the launch of a new embedded financial product suite that offers business financing, card issuing, and bank accounts through a single integration. The company is building products that the market wants at a faster clip than slower-moving legacy incumbents and is rapidly taking revenue share that grows at high (60%) EBITDA margins. The fact that >80% of growth comes from existing platform merchants embeds revenue visibility amid macro fog, and we believe after his recent medical procedure, CEO/founder Pieter van der Does will soon make his return to the office and steer the company into continued strong expansion in the upcoming year.

Amazon was hit hard by a post-pandemic retail hangover where customers have, in no small part, returned to shop at physical stores to supplement their online purchase activity. During COVID-19, Amazon doubled its warehouse capacity, which temporarily alleviated logistics bottlenecks during the pandemic's ecommerce boom, but is now underutilized as the supernormal nature of the pandemic ecommerce boom becomes clearer. Amazon has too much space and is now rapidly shedding it to preserve profit margins in a recessionary environment. At the same time, its key profit engine Amazon Web Services (AWS) has slowed, despite recently growing revenues. When we factor in additional government scrutiny from E.U. and U.S. competition regulators, the investment case (weaker retail, slower AWS, and heightened regulation) makes for a weaker stock, which is just what the market delivered in 2022. In the short term, we think the stock price reflects these concerns, yet has significant room to appreciate when fully considering favorable longer-term fundamentals. Informing our stance is AWS' market leadership position, where we think growth will remain attractive. We also see CEO Andy Jassy as a pragmatic manager who will apply detailed management attention to the retail franchise to achieve profitability (recently evidenced by 18,000 employee role eliminations). Finally, we think other segments, including Advertising (which recently grew +30% y/y and is gaining share) in the shorter term and Healthcare in the longer term, provide attractive beachheads into large new markets that provide revenue visibility and the potential for high margins for many years to come.

We think **CoStar** is at an exciting point in its corporate history. Just ten years ago, the company was mainly a domestic seller of a single suite of data and analytics tools for the commercial real estate (CRE) industry, mainly selling to brokers. Today, through a variety of mergers and acquisitions (M&A), founder and CEO Andy Florance built them into an international provider of tools to help analyze, value, sell, and market a variety of property types within traditional CRE types (office, industrial, and retail) while also extending into residential multifamily and single-family property types. The company's core multifamily asset, Apartments.com, has scaled well, with segment revenues now rivaling the legacy CoStar Suite. The countercyclicality of multifamily has become more apparent, enabling them to *raise guidance* at the same moment this year when many others are *slashing* projections. This helps offset the historic cyclicality of the CoStar Suite, rendering the company's consolidated revenue growth profile less volatile and more robust. We are excited that the company has announced its entry into the residential home market, which challenges incumbents like Zillow. Although we think the road here is long, the addressable market is large, and CoStar's execution experience in building marketplace ad models from scratch (as they did with Apartments.com) should lend credibility to this growth vector in the coming years. They now have international growth assets in legacy, mid, and early-phase, all managed with an ownership mindset that we think can prosper in a variety of economic backdrops.

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Waste services provider **Casella** continues to scale its operations and recently crossed the $1 billion trailing 12-month revenue threshold for the first time. The company's operations are steadily densifying across the seven northeast states where it operates, which we feel is a testament to the management team's operational discipline that despite inflationary pressure, weaker macro tamping growth, and input prices, they have *expanded* margins while continuing to grow revenues. As a reminder, less than ten years ago, the company was an inefficient family-operated waste hauler. Casella then brought in professional management with operational discipline to implement strategic growth plans. Through a combination of increasing landfill returns, wringing additional margin from collections, and innovating and growing ancillary resource solutions (each supported by a strengthening balance sheet), they steadily optimized the business model and prepared it for more aggressive footprint expansion, in part enabled through its brimming mergers and acquisitions (M&A) pipeline. We see more opportunity ahead for this Casella team.

Alphabet had a difficult year. The discretionary nature of customer ad spend (which, among other things, fuels the company's high-margin Search franchise) is cyclical, and current economic headwinds have given buyers pause. Even ad revenues at fast-growing YouTube, for example, recently fell y/y for the first time. With the company still hiring in anticipation of continued long-term expansion, costs are up, and when combined with slowing revenues, negative operating leverage is pinching profits (which have fallen y/y). This dynamic got investors attention as shareholders looked for cost rationalization. We think expense discipline is always a good idea yet also acknowledge that certain markets, like cloud infrastructure for Google Cloud Platform (GCP), require larger scale (achieved through continued short-term investments) to reach attractive long-term operating margins. By focusing on existing profit centers like Search and Social, we think the company has immediate share gain opportunity from an ailing Meta and an improving ability to fend off incursion from a politically sensitive TikTok (which is seeing its footprint of service bans grow in the U.S.) Moreover, we like the potential for Alphabet's artificial intelligence (AI) leadership to fuel innovation at other segments, including Search and Cloud. Although it's difficult to yet quantify, in our view, there's transformational potential underlying this technology's application across the business.

HEICO's business is finally getting the wind beneath its wings that we anticipated during the pandemic, which informed our stance to hold our position through significant cutbacks in business and leisure travel. We've long held that the question was *when*, not if, the Flight Support Group (FSG) would return to strong growth, and though it's taken longer than we expected, the moment finally arrived in 2022. Recent segment backlog stats have snapped back, growing y/y as airline customers rapidly grow networks back to pre-COVID-19 levels. The other half of the business, Engineered Technologies Group (ETG), continued its growth during the pandemic but is now experiencing softness as government defense budgets remain unfinalized. Here, we think the rise in geopolitical tensions (for example, with China and Russia) bodes well for robust growth over the next few years, and that's the feedback we recently heard during our conversation with management. While defense budgets await signatures, HEICO isn't standing still, recently announcing its largest acquisition *ever* within the ETG segment for Exxelia – a European asset that we think provides a 'buy and build' platform for them on that continent. The Mendelson team continue to operate a flexible high-growth model that can thrive in cyclical recovery (at FSG) as well as in slower growth periods (at ETG).

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In various meetings with **HubSpot** and industry peers throughout the year, we confirmed that the company continues to drive healthy organic growth as it takes share within its core small and medium-sized business (SMB) market. A much newer trend, however, is how the company is also readily *moving upmarket* towards the medium enterprise tier to challenge Salesforce in customer relationship management (CRM) products, one of the largest markets in global software. HubSpot is still seeing increased SMB traction beyond Marketing, including Sales, Operations, and Service hubs while also experiencing strong (albeit still early) growth in its Payments offering. CEO Yamini Rangan's prior executive roles in customer experience at larger tech firms is coming to roost as HubSpot has retooled its go-to-market motions and product positioning to better incentivize enterprise clients, justifying the switch to its product suite. We're seeing the results in stronger subscription revenue per customer and net revenue retention, which means customers are allocating more wallet share for longer than ever before. Although weaker macros will slow growth, particularly for SMBs in Europe, we think long-term trends still favor HubSpot and its growing CRM opportunity.

IDEXX's largest challenge in 2022 was supply constrained veterinary clients. Concisely put, vet offices across its footprint didn't have enough staffing, supplies, or professional bandwidth to adequately service demand from an enlarged pet population, which ballooned during the pandemic. Our own research has confirmed this dynamic, where we can anecdotally point to cases of vets turning away new business due to capacity bottlenecks. For IDEXX's instrumentation and testing businesses, too much demand without enough supply may be a high-quality problem, but it's a problem nonetheless. Due to supply constraints, vet visits, which drive their unit volumes, couldn't strongly lap difficult y/y comps, and growth slowed as a result. However, diagnostic frequency and utilization both grew, which means vets are using more, not less, IDEXX products for each visit. We believe in providing line of sight for robust revenue growth as the historic resiliency of the veterinary services industry returns in 2023. We see growing validation of attractive organic growth ahead with revenue.

Mastercard's stock has been range-bound for about three years while the business has not. During COVID-19 lockdowns, payment volumes (which drive the network's profit model) dried up as travel and in-person commerce evaporated, and the boom in e-commerce volumes could not make up the difference. Today, payment volumes (and Mastercard's business) have snapped back. Payment credentials also continue to grow, up mid-single digits at our most recent check. Management is not waiting for the stock price to wake up to the business momentum, but are seeing opportunity to accelerate share repurchases (over $2 billion in just the second half of 2022) to drive shareowner value. We see more levers for CEO MIchael Miebach and his team to pull as the stock recovers to reflect the robust fundamentals.

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Often categorized as a cyclical business model subject to the whims of market values, **MSCI** provided a proof statement of resiliency in 2022. Despite combined stock and bond market returns conspiring to deliver their *worst* combined results in nearly *50 years*, MSCI's Index segment revenues *grew* and Analytics revenues *accelerated*. For two decades, CEO Henry Fernandez steadily diversified the data and analytics platform to set up today's resiliency as his team added functionality to include private assets and rapidly growing environmental, social, and governance (ESG) market leadership. Client retention is over 96% and speaks to the criticality of the platform for global financial customers of all types, including traditional asset managers, banks, and alternatives. This client diversification is important as it drives strong double-digit subscription growth across the Americas, Europe, the Middle East, and Africa (EMEA), and Asia-Pacific (APAC) regions, and builds new growth runways for further organic expansion to take off. Segment EBITDA margins remain high (Index at 76% and Analytics at 46%) and enable CFO Andrew Wiechmann to deliver the balance sheet and repurchase stock until the markets provide better tailwinds. We're anticipating continued resiliency from MSCI's mature lines of business and strong above-average growth from newer offerings as the business withstands the current market headwinds.

At 2022's end, most of the attention surrounding **Microsoft** centered on moderating business trends, particularly at Azure. The company also confirmed at least two rounds of layoffs affecting <1% of employees. Our background diligence revealed increasing customer belt-tightening to slow spending growth (including for cloud services, which tends to be a large, foundational item in enterprise IT budgets), but also affirms that the shift to the public cloud remains healthy with secular tailwinds intact. As recently as December, for example, the London Stock Exchange (LSE) announced a partnership with Microsoft to digitize business processes and drive the effectiveness and efficiencies of the LSE's world-class market infrastructure, all cemented by a ten-year cloud deal underpinning their collaboration. Other newer growth businesses like Microsoft Teams continue to competitively thrive, evidenced in part by Microsoft's own robust y/y user adds, but also by looking outside the company's walls at significant slowdowns and executive turnover at leading peers such as Slack. We continue to value what we consider Microsoft's competitively advantaged positioning amid several favorable secular tailwinds.

During the year, **ServiceNow's** voluble CEO Bill McDermott single-handedly spooked tech markets as he declared that macro crosswinds were indeed 'blowing' and affecting his business. At the time, we didn't overreact, and added to our Focus position during the year. Our research has since confirmed that short-term slowdowns are not knocking the long-term trendlines off course. Put simply, *secular* tailwinds remain stronger than *cyclical* macro crosswinds. A proof statement here is the company's constant currency subscription revenue growth, which we put in the context of healthy ongoing customer commentary and wallet share commitments. A notable use case is JP Morgan, the world's largest bank by market capitalization, which used the Now platform to replace *24* custom service management platforms, a project that has already delivered *$50 million* (and growing) in savings and allowed significantly faster delivery of new capabilities. The fact that JP Morgan highlighted the project at its own investor day event informs our belief ServiceNow has solidified its status among enterprises, who renew at a 98% rate, as a fast-growing mission critical partner.

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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When we toured facilities with the **ODFL** team last year, we kicked the tires on a brand-new distribution facility even as CEO Greg Gantt acknowledged how the macro fog was clouding visibility for shipment growth and rendering forecasts difficult. As management invests *through the cycle* ahead of demand to capture more share when robust cyclical growth resumes, we posit that uncertain environments such as the present provide opportunity. Less-profitable, smaller less-than-truckload (LTL) peers aren't able to invest during downturns as they preserve cash, whereas ODFL continuously leverages its industry-leading operating profit margin to deploy free cash into fleet renewal and facility footprint expansion. We've studied the model closely to better understand how the company wrangles the inflation headwinds buffeting important expense lines like wages, supplies, and fuel. CFO Adam Satterfield and Treasurer Anthony Slater offered us a variety of explanatory factors. However, we boil down the explanation to simply one element: culture. We believe that reading financial presentations or earnings calls can't do justice to its importance. We think culture is *the* differentiating element that separates ODFL from the field, which we observe first-hand through our own in-person diligence. In our view, their strong culture, strategic investment initiative, and fundamental business momentum continue to fuel a bright outlook for the company.

Okta had a difficult 2022. In summary, the young company made the decision to upgrade its sales leadership while simultaneously integrating its largest-ever acquisition (Auth0) and rearchitecting its legacy software platform. If that sounds like a heavy lift, it is. There were executional missteps, and the stock cratered. The founder/CEO Todd McKinnon had to rapidly shift gears to focus less on growth and instead repair momentum in the go-to-market and engineering functions. The good news is that the teams responded quickly to restore customer momentum, and we don't believe the company's long-term trajectory was adversely impacted. After informing our stance with a variety of interviews with customers, industry experts, and even rank-and-file employees at the company, we added to our Focus Equity position late in the year. We acknowledge, however, the early lifecycle of the company, which typically is associated with some inherent volatility in results and remain diligent as Okta's franchise continues to develop. Despite the organizational ructions, their customer base remains broad (70% of the Fortune 100 with its top eight customers rising from eight different industries), engaged, and expanding. We believe that Okta is rapidly penetrating an increasingly critical market to secure identity across the cybersphere.

Like Okta, **Shopify's** stock swooned in 2022, a move significantly driven by market interest rate increases (which reduce equity valuation multiples, especially for longer duration growth stocks) but also stems from concerns regarding post-pandemic e-commerce growth trends which failed to sustain the supernormal rates experienced during COVID-19 lockdowns. Founder/CEO Tobi Lutke and the team took quick action to rectify the expense structure, announcing a 10% reduction in the workforce last July while also making talent changes, notably in the CFO's office which saw the entry of Jeff Hoffmeister, a two-decade veteran of Morgan Stanley where he was co-head of Americas Tech Banking and helped lead Shopify's initial public offering (IPO). We think Jeff's expertise and network will be beneficial in a cash-constrained technology environment where partnerships, acquisitions, and capital access are increasingly important.

After right-sizing the profit model, Shopify is well-positioned to continue its growth, albeit at more modest levels, since its various products are still seeing robust customer demand. Recent results show continued growth in Shopify marketplace volume (gross merchandise value or GMV) y/y, which enables even faster growth for ancillary Merchant Services, Payments GMV, and Subscription Solutions. Merchant adoption and engagement are strong leading indicators for longer-term marketplace success and we think offer evidence of Shopify's enduring long-term growth even as the post-pandemic retail dynamic remains fluid.

We spent considerable time in 2022, especially during Q4, interfacing with **S&P Global's** management and its peers to monitor the company's progress integrating the acquired businesses of IHS Markit, a deal originally announced back in late 2020. In our view, the transformational merger provides a variety of benefits to the consolidated entity, including reducing revenue cyclicality (shrinking percentage contribution from the ratings agency), merging complementary asset classes (linking equity indices with newer fixed income benchmarks), and accelerating new product introductions (applying Kensho AI to fuel innovation and shorten the time to market). CEO Doug Peterson rolled out new business segmentation, and we find the growth initiative credible, featuring low-teens earnings per share (EPS) growth, dividend and free cash payouts to shareowners, and profit margins exceeding across all five segments. We think capital market conditions are prime to bounce back from a historically difficult 2022, providing a more constructive demand backdrop for S&P's solutions in 2023 and beyond.

Slowing macro didn't begin to affect **Atlassian's** business until later in 2022, leading the company to lower its cloud revenue growth guidance. The growth is still strong, in our view, especially amid a 'market winter' for many other tech companies where capital adequacy and demand generation are harder to achieve. We think Atlassian's free cash flow generation and mid-teens operating margins help insulate it from a harsher macro climate. Moreover, its customer base is still growing at a mid-teens rate, and free-to-paid conversions and paid seats are also expanding, albeit at slower rates. Our windshield view on the competitive landscape is that there's no one in the passing lane overtaking Atlassian's solutions, yet in the short term the macro weather reduced visibility and the growth speed limit for everyone. Indeed, we still think the road ahead remains attractive, where Atlassian continues driving towards market leadership in a combined >$100 billion addressable opportunity for its Agile and DevOps, IT Service Management, and Non-Technical Work Management team solutions.

During 2022, **Unity** transformed its growth trajectory after hitting some speedbumps earlier in the year, and in our view, entered 2023 on its strongest footing ever. Changes to Apple's privacy requirements have had wide-ranging ramifications for digital ad markets. However, Unity's ad exposure has been less affected, due in part to the company's ability to rely on depersonalized contextual game data for its ecosystem users. This information doesn't rely on third party inputs that have notably impacted large scale players such as Meta. Unity did, however, make some unforced execution errors that have since been corrected, which came at a vulnerable moment for digital ads while investors harbored heightened anxiety. As a result, the stock swooned. Nonetheless, as we extend our farsighted view, the company made significant progress that we believe sets the model up for longer-term success. This included completing the acquisition of ironSource, which rapidly shifts the combined company towards a profitable $1 billion EBITDA run rate in 2024.

Besides putting the financial model on solid footing, strategically, their assets bring a handful of complementary capabilities including enhanced publishing, user acquisition, and monetization that help Unity's combined offering go to market with a more complete customer value proposition. We think users appreciate CEO John Riccitiello's plan to build a unified development and monetization software platform, offering creators all the necessary tools to journey from game ideation to revenue generation. This is evidenced by Unity's dominant use case today in *over >70%* of mobile games, which are taking share from all other forms of entertainment, both live *and* digital.

We've long viewed **Veeva's** competitive position as formidable and, as 2022 closes, we see it gaining even more strength. The company's customer relationship management (CRM) offering already owns >80% market share, and newer products built on its first-party platform, Vault, continue to see traction. Large pharmaceutical customers are increasingly aligning themselves with Veeva's unique platform, evidenced in part by Merck's November announcement to form a ten-year strategic partnership that will see them take a Veeva-first approach to new industry-specific software and data, selecting Veeva products when they are fit for purpose. Another big announcement late in the year was Veeva's intention to move its CRM off the Salesforce architecture to its Vault platform. In our view, this is an exciting development. We've followed the long, shared history between these two firms, and we think CEO Peter Gassner has a team with the requisite expertise and strategic vision to accelerate innovation with a unified product suite across commercial and research and development (R&D) solutions. Before founding Veeva, Gassner originally joined Salesforce pre-IPO as a Senior VP of Technology to build the force.com platform he is now moving away from. The company is tracking ahead of its 2025 financial targets, and we believe they are putting pieces in place for growth well beyond that timeline.

In light of a darkening macro, **Workday's** results stayed bright, finishing the year on a strong note. Customer momentum remained strong, enabling CFO Barbara Larson to raise 2023 growth and margin guidance. She also implemented a $500 million share repurchase program, the company's *first*, signaling the management team sees the same value we see in the stock price. One new development was unexpected was in December where the company appointed Carl Eschenbach to Co-CEO, taking Chano Fernandez's former position. While Carl isn't new to Workday (he's been a board member since 2018), we acknowledge that it's been several years since his last executive post (in 2016 as President/COO of VMWare). Though the announcement came as a surprise, we'd highlight his experience as a partner at Sequoia Capital, and previously as a board member at more than a dozen pioneering tech companies (including Zoom, Snowflake, Palo Alto Networks, and UiPath). This embeds a deep relationship network in the Workday C-suite just as enterprise software market growth and innovation is, in our view, accelerating. At a moment when customers are demanding platform solutions and smaller toolmakers are facing capital constraints, we think Workday has timely product/market fit to drive attractive return on investment (ROI) for enterprise digital transformation.

We'll close with a reminder that we continue to value ownership mindsets. To that end, it's important to reemphasize that Focus Equity remains your portfolio manager's largest family investment. Put simply, we eat our own cooking, and are strongly incentivized to continuously protect and grow your Focus Equity investment.

Finally, we'd like to extend our deepest gratitude to our colleague Jeremy Lopez for his dutiful and illuminating counsel while co-managing Focus Equity. In the same breath, we are elated to congratulate him on his new role co-managing our group's Equity Income strategy with our teammate Chip Wittmann. We're excited to follow their progress, and we look forward to continuing to work closely with them as tenured Equity Opportunities Group colleagues to serve all our clients.

Just below the text of this letter, you will find Focus Equity's quarter-end position list. The strategy remains concentrated in 20 active positions with 43% of assets in the top five, 70% in the top ten, and 87% in the top 15 positions. We have relatively few eggs but watch our basket closely.

Thanks for your trust and investment in us.

Colin Ducharme

Colin Ducharme, CFA®
Portfolio Manager

December 31 2022 Positions[4]

Position	Weight
S&P Global	9.2%
CoStar	9.1%
Adyen	8.8%
Mastercard	8.4%
HEICO	7.6%
IDEXX	6.6%
Microsoft	6.1%
Casella Waste	4.6%
Amazon	4.6%
Old Dominion	4.5%
Veeva	4.0%
Shopify	3.8%
Okta	3.5%
Hubspot	3.4%
Workday	3.1%
ServiceNow	2.7%
Alphabet	2.7%
MSCI	2.4%
Atlassian	2.1%
Unity	1.5%
Cash	1.3%

Top 5 Total	43.1%
Top 10 Total	69.5%
Top 15 Total	87.3%
Top 20 Total	98.7%

[4]Representative Account. Holdings note: The weightings for your account may differ somewhat from the figures above due to variations in account holdings, trade timing, and other client-specific circumstances. For illustrative purposes only. Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.

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Disclosures

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Performance Disclosure: Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the maximum 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. The Performance is considered Supplemental Information to the GIPS Composite Report which is attached.

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.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.

Technical Terms: **The Consumer Price Index (CPI)** is a measure of the aggregate price level in an economy. The CPI consists of a bundle of commonly purchased goods and services. The CPI measures the changes in the purchasing power of a country’s currency, and the price level of a basket of goods and services. **Personal consumption expenditures (PCE),** also known as consumer spending, is a measure of the spending on goods and services by people of the United States. According to the Bureau of Economic Analysis (BEA), a U.S. government agency, PCE accounts for about two-thirds of domestic spending and is a significant driver of gross domestic product (GDP). **EBITDA**, or earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income. By stripping out the non-cash depreciation and amortization expense as well as taxes and debt costs dependent on the capital structure, EBITDA attempts to represent cash profit generated by the company’s operations. **Gross merchandises value (GMV)** is the total value of merchandise sold over a given period of time through a customer-to-customer (C2C) exchange site. It is a measure of the growth of the business or use of the site to sell merchandise owned by others. (Technical definitions are sourced from Corporate Finance Institute and Investopedia.)

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.

ESG Considered: Sterling Capital 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 Capital 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 Capital strategies designated as ESG Considered do not claim ESG Integration.

Sterling Capital Management – Focus Equity SMA Composite

January 1, 2016 – December 31, 2021

Description: Consists of all discretionary separately managed wrap Focus portfolios. Sterling's Focus portfolio investments are flexible and may span growth and value, large- and small-capitalization companies, and various capital forms including equity, debt, and derivatives. The strategy seeks positions featuring sustainable, multi-year return profiles underpinned by businesses perceived to possess attractive financial returns, visible reinvestment opportunities, and talented management.

Year	Total Return "Pure" Gross of Fees	Total Return Net of Fees	No. of Portfolios	Total Assets End of Period ($MM)	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 1000 Growth	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2021	16.35	13.48	238	110	75,308	0.36	27.60	20.02	18.17
2020	36.47	34.89	251	104	70,108	1.01	38.49	20.88	19.64
2019	43.06	41.26	151	35	58,191	0.67	36.39	13.72	13.07
2018	4.19	2.06	36	5	56,889	not meaningful	-1.51	13.77	12.13
2017	29.91	26.62	5	1	55,908	not meaningful	30.21	N/A	N/A
2016	12.24	9.39	4	0	51,603	not meaningful	7.08	N/A	N/A

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 01/01/01 to 12/31/21. 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. 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.

Please refer to the slide titled "Performance" for the one- and five-year returns of the composite.

Notes:

1. Sterling Capital Management LLC (SCM) is a registered investment advisor with the SEC. Registration does not imply a certain level of skill or training. Sterling manages a variety of equity, fixed income and balanced assets. Prior to January 2001, Sterling was a wholly owned subsidiary of United Asset Management (UAM). In January 2001, Sterling Capital Management LLC purchased all the assets and business of Sterling Capital Management Company from UAM to become an employee owned firm. In April 2005, BB&T Corporation purchased a majority equity ownership stake in Sterling Capital Management LLC. In October 2010, the management group of Sterling Capital entered into an agreement with BB&T Corporation that reduced and restructured management's interest in Sterling Capital Management. Additionally, BB&T Asset Management merged into Sterling Capital Management. In January 2013, CHOICE Asset Management firm merged into Sterling Capital Management. "Percent of Firm Assets" and "Total Firm Assets" prior to 2013 are for CHOICE Asset Management. In August 2015, eight new employees joined Sterling Capital management via Stratton Management Company following the close of BB&T's purchase of Susquehanna Bancshares. In December 2019, BB&T Corporation and SunTrust Banks, Inc. Holding Company merged as equals to form Truist Financial Corporation. Sterling Capital Management LLC is a wholly owned subsidiary of Truist Financial Corporation. In August 2020, new employees joined Sterling Capital Management via the Investment Advisory Group of SunTrust Advisory Services. This reorganization aligns all of the discretionary fixed income asset management activities within Truist under Sterling.
2. Colin Ducharme, CFA, has managed the portfolio since inception. No alterations of composites, as presented herein, have occurred due to changes in personnel or other reasons at any time.
3. Inception date of composite: December 31, 2015. Creation date: August 3, 2018. Effective 3/31/20, the appropriate benchmark for this composite was changed retroactively to inception from the Russell 3000 Index to the Russell 1000 Growth Index. The Russell 1000® Growth Index measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The index is reconstituted annually. Total return includes price appreciation/depreciation and income as a percent of original investment. 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.
4. 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. Beginning July 1, 2020, portfolio performance is calculated daily including cash flows. Daily calculations are geometrically linked to create time weighted returns. Composite returns are asset weighted using the beginning market value and time weighted return of the portfolios. From September 1, 2018 to July 31, 2020 portfolio returns were calculated using the Modified Dietz Method and revalued for cash flows greater than 10%. Composite returns are calculated monthly by weighting the individual portfolio returns using beginning of period market value plus weighted cash flows. From inception through August 31, 2018, composite returns were asset weighted using the average capital base method that reflects both beginning market value and cash flows and used the aggregate method. This method aggregates market values and cash flows for all the accounts and treats the composite as if it were one account. Composites were revalued at cash flows greater than 5%.
5. "Pure" gross of fees returns are presented as supplemental information. Effective January 1, 2021, the net of fee return reflects the maximum bundled external platform fee of 2.52%. From September 1, 2018 to December 31, 2020, the net of fee return reflects actual SMA fee of the individual account. From inception through August 31, 2018, gross of fee returns reflect the deduction of trading costs. Net performance returns were calculated by subtracting the applicable SMA fee (2.57% on an annual basis or 0.21% per month) on a monthly basis from the gross return. Beginning September 1, 2018, "pure" gross of fee returns do not reflect the deduction of any fees including trading costs. The SMA fee includes all charges for trading costs, portfolio management, custody, administrative fees, and foreign withholding taxes. 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 27 basis points annually. From 12/31/15 to 8/31/18 the composite was comprised 100% of separate accounts. Beginning 9/01/18 the composite has been comprised 100% of wrap fee portfolios.
6. 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 for annual periods prior to 2011 or when a full three years of composite performance is not yet available.
7. The performance presented represents past performance and is no guarantee of future results. Stock market conditions vary from year to year and can result in a decline in market value due to material market or economic conditions.