

Global Leaders SMA Commentary

4th Quarter 2022

Simply stated, the philosophy behind the Sterling Capital Global Leaders portfolio is that global companies who establish themselves as #1 in their respective markets tend to stay #1 in those markets. Size usually translates to cost advantages in production, marketing, and research and development (R&D) expenditures that can be re-invested back into the business, making such advantages sustainable. Not insignificantly, industry leaders tend to be well-managed, since it is highly unlikely a company becomes its industry's best via pure luck.

We expect most of the holdings will be global household names, so-called “blue-chip” companies. While numerous factors are considered, we believe a company’s historical track record is the single best indicator of future financial success, so almost by definition our qualitative criteria should identify companies that already enjoy great success. Depending upon market conditions and specific situations, we retain the flexibility to sprinkle in medium-sized companies that we believe fit a common-sense definition of industry leadership. In doing so, we believe we distinguish our portfolio from other large-capitalization investment alternatives, ideally with the result of boosting long-term after-tax returns without taking on commensurate risk.

Quarterly and Annual Performance Notes

Performance	QTR	YTD	1YR	3YR	5YR	10YR	Since Inception ¹
Sterling (Gross)	5.58%	-28.44%	-28.44%	-0.78%	3.89%	8.13%	5.78%
Sterling (Net)	4.93%	-30.28%	-30.28%	-2.83%	2.10%	6.55%	4.27%
MSCI World Index	9.77%	-18.14 %	-18.14%	4.94%	6.14%	8.85%	5.44%

The Global Leaders team prides itself on approaching portfolio construction and stock selection from a bottom up perspective. However, this year, much of the change and broader weakness across markets have been top-down and macro-led. External drivers including interest rates, inflation, and geopolitical pressures have all weighed heavily on equity markets and the Global Leaders strategy.

For Q4 2022, the Global Leaders strategy returned +5.6% gross (+4.9% net of max fee bundle) versus a +9.8% return for the MSCI World Index.

For the full year 2022, the strategy returned -28.4% gross and -30.3% net of max fee bundle compared to a -18.1% return for the MSCI World Index.

¹Effective 01.01.2021 the maximum bundled external platform fee is 2.52%. Actual fees may vary by size and type of portfolio. ²Inception date is 12.31.2000. Data is as of 12.31.2022. The benchmark is the MSCI World Net. 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.

Global Leaders SMA Commentary

4th Quarter 2022

4Q22 Contributors and Detractors

Leading Contributors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return ¹
DexCom, Inc.	4.89	1.48	1.45
Mastercard Incorporated Class A	5.37	1.06	1.03
Astrazeneca PLC Sponsored ADR	5.05	1.05	1.02
Equinix, Inc.	5.33	0.79	0.76
Constellation Software Inc.	6.42	0.71	0.67

Leading Detractors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return ¹
Amazon.com, Inc.	4.92	-1.40	-1.43
Ritchie Bros. Auctioneers Incorporated	2.38	-0.54	-0.55
Alphabet Inc. Class A	1.89	-0.46	-0.47
Take-Two Interactive Software, Inc.	3.01	-0.31	-0.32
Petco Health & Wellness Company, Inc. Class A	0.99	-0.26	-0.27

Sources: FactSet; Sterling Capital Analytics.

The top five Q4 performance contributors (net) were: **DexCom** (+145 basis points (bps)), **Mastercard** (+103 bps), **Astrazeneca** (+102 bps), **Equinix** (+76 bps), and **Constellation Software** (+67 bps).

The top five Q4 performance detractors (net) were: **Amazon** (-143 bps), **Ritchie Bros** (-55 bps), **Alphabet** (-47 bps), **Take-Two Interactive** (-32 bps), and **Petco** (-27 bps).

2022 Contributors and Detractors

Leading Contributors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return ¹
DexCom, Inc.	2.03	1.50	1.45
Astrazeneca PLC Sponsored ADR	4.96	0.90	0.77
Boston Scientific Corporation	1.02	0.41	0.39
UnitedHealth Group Incorporated	5.84	0.39	0.24
ASML Holding NV ADR	0.58	0.25	0.24

Leading Detractors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return ¹
Amazon.com, Inc.	5.61	-3.41	-3.55
PayPal Holdings, Inc.	2.42	-2.50	-2.56
Cellnex Telecom S.A. Unsponsored ADR	4.72	-2.00	-2.11
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	3.75	-1.86	-1.95
Petco Health & Wellness Company, Inc. Class A	2.50	-1.87	-1.93

Sources: FactSet; Sterling Capital Analytics.

The top five annual performance contributors (net) were: **DexCom** (+145 bps), **AstraZeneca** (+77 bps), **Boston Scientific Corporation** (+39 bps), **UnitedHealth** (+24 bps), **ASML** (+24 bps).

The top five annual performance detractors (net) were: **Amazon** (-355 bps), **PayPal** (-256 bps), **Cellnex** (-211 bps), **Taiwan Semiconductor** (-195 bps), and **Petco** (-193 bps).

Portfolio Changes

There were several holdings changes made during the fourth quarter 2022 which we believe better position the Global Leaders portfolio for success in 2023. On the next page, we summarize the changes and provide a brief investment rationale for each.

¹Effective 01.01.2021 the maximum bundled external platform fee is 2.52%. Actual fees may vary by size and type of portfolio.

Please refer to the Performance Disclosure found on page 5.

Global Leaders SMA Commentary

4th Quarter 2022

Exited positions:

Adobe: Adobe retains an attractive portfolio in media software with products for content creation and digital experience. However, we think there is potential for competitive disruption from mid-size companies gaining traction in some of Adobe's core markets.

Boston Scientific: This company is a medical device leader in several categories including cardiovascular health. However, one theme we are seeing across cardiovascular device markets is sluggishness, with major structural cardiology categories all showing underwhelming volume trends.

Cellnex: Cellnex is a Spanish wireless telecommunications infrastructure and services company that provides site rentals for telecom operators, broadcast infrastructure activity, and other network services. We think the mergers and acquisitions (M&A) market for towers, which materially fuels the Cellnex growth algorithm, may stall due to competitive incursion and capital market constraints.

Coloplast: Coloplast develops and provides products and services for ostomy, incontinence, mastectomy, wound healing, and skin care. The current environment presented several challenges within its business in China, and rising costs are pressuring margins. Finally, the company experienced speed bumps within its innovation portfolio.

First Republic Bank: The high-touch bank specializing in urban coastal markets is experiencing difficulty adjusting its liability-sensitive balance sheet to the rising rate environment in addition to facing other cost pressures, tamping earnings growth.

PayPal: The payments network faced difficulty re-discovering its business model as its COVID-19-fueled 'super app' playbook floundered when consumer trends failed to support it.

Ritchie Brothers: The heavy equipment auction operator announced a questionable acquisition that strayed from its previously articulated strategy, leading our view that management's style drift may buffer earnings outlooks.

Techtronic: This company remains a leader that designs, manufactures, and markets power tools, hand tools, accessories, outdoor power equipment, and floorcare and cleaning products. However, weakening consumer trends have the potential to materially slow profit growth in the medium term.

Take-Two Interactive: The game publisher recently reported mixed results driven by weakness in the Zynga business that the company just acquired in 2022, leading us to question the growth ahead.

Petco Health: Petco operates as a pet health and wellness company and provides pet nutrition products and supplies in addition to pet health services including veterinary care, grooming, and training. We think the company's bet on customer wallet share and services may ultimately pay off as the pet industry grows, but the current environment may stay challenging for a considerable time.

Global Leaders SMA Commentary

4th Quarter 2022

New positions:

Ashtead Group: Ashtead is a rental equipment leader headquartered in the U.K., which posted a strong result in their most recent quarter and continues to raise dividends while also expanding its footprint. We believe Ashtead's management has a strong execution history and the stock's valuation has now reached pre-COVID-19 levels, making the investment attractive from a valuation perspective.

Brookfield Asset Management: This company is a Canada-based global alternative asset manager that recently completed a partial spin of its asset-light management business. We like the growth and margin profile of this business as well as its dividend-paying capacity.

Dassault Systemes: Dassault Systemes is a global leader in 3D product software which allows customers in manufacturing, healthcare, and infrastructure to design, simulate, and build 3D products. Similar to Ashtead, Dassault is trading at similar valuation levels prior to COVID-19, growing software revenue in the high-single digits across Europe, Asia Pacific, and the Americas both year to date (YTD) and in their most recent quarter.

Alphabet: We think that although 2022 was a difficult year for discretionary ad spend, Google Search is an enduring business with wide moats and strong free cash flow (FCF) generation that can help fuel the company's success in other important segments such as Google Cloud Platform, YouTube, Maps, and more.

Shopify: This company is a Canada-based leader in e-commerce tooling that we think has a line of sight towards continued growth in subscription services, including payments over the long term. Shopify may also enjoy the ability to penetrate larger enterprise clients as its platform matures.

Zoetis: Zoetis is a global leader in medicines, vaccines, and diagnostic products for companion animals and livestock. In animal health, Zoetis is the market leader in North America, Latin America, and Asia, and is within the top three in Europe. Zoetis was originally a subsidiary of Pfizer before it spun out in 2013 and detects, prevents, and treats animal illness. The company has a number of growth opportunities, including generating steadier diagnostic revenues and building its vet service franchise and portfolio of therapies.

Conclusion

While 2022 saw a large correction in equities, we feel confident that the portfolio is now better prepared to handle 2023 with a potential pivot towards recovery. We believe our longstanding preference for quality businesses with strong market positioning will help the strategy navigate through choppy waters and tack our sails to capture the strong tailwinds we think will emerge as the macroeconomic storm eventually passes.

Before concluding, we'd like to congratulate Jeremy Lopez, a past co-portfolio manager of the strategy, on his move to co-manage our group's Equity Income strategy. Jeremy continues to be a trusted colleague and counselor to us all in the Equity Opportunities Group.

Thank you for your investment and confidence 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.

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Sterling Capital does not provide tax or legal advice. You should consult with your individual tax or legal professional before taking any action that may have tax or legal implications.

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 MSCI World Index: The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across all 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country.

Technical Terms: Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets. Unlike earnings or net income, free cash flow is a measure of profitability that excludes the non-cash expenses of the income statement and includes spending on equipment and assets as well as changes in working capital from the balance sheet. (Technical definitions are sourced from Corporate Finance Institute.)

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.

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Sterling Capital Management – Global Leaders SMA Composite

January 1, 2012 – December 31, 2021

Description: Consists of all discretionary separately managed Global Leaders portfolios. Sterling'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.

Year	Total Return		No. of Portfolios	Composite Assets		Total Firm Assets (\$MM)	Dispersion (%)	Benchmark	MSCI World (Net)	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
	Gross of Fees	Net of Fees		End of Period (\$MM)	Firm Assets (\$MM)						
2021	13.19	10.40	25	17	75,308	0.59	21.82	21.82	16.06	17.06	
2020	20.58	19.19	42	30	70,108	0.62	15.90	15.90	16.50	18.27	
2019	29.39	27.85	51	29	58,191	0.87	27.67	27.67	10.44	11.14	
2018	-4.23	-5.41	57	26	56,889	0.50	-8.71	-8.71	9.90	10.38	
2017	19.80	18.34	63	29	55,908	0.51	22.40	22.40	9.54	10.07	
2016	5.25	3.99	88	37	51,603	0.30	7.51	7.51	10.07	10.80	
2015	-0.63	-1.81	80	38	51,155	0.37	1.38	-0.87	10.05	10.47	
2014	10.40	9.06	89	41	47,540	0.40	13.69	4.94	9.31	8.97	
2013	30.51	28.94	96	43	45,638	0.48	32.39	26.68	12.38	12.11	
2012	11.28	9.88	105	37	4,422	0.40	16.00	15.83	14.59	15.30	

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-, five-, and ten-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. Inception date of composite: December 31, 2000. Creation date: December 31, 2000. Effective 1/1/2016, the composite was renamed from "Leaders" to "Global Leaders." The appropriate benchmark index is the S&P 500 from inception to 12/31/2015 and the MSCI World Net index from 1/1/2016 forward. The MSCI World Index is a broad global equity benchmark that is rebalanced quarterly, and represents large and mid-cap equity performance across 23 developed markets countries. 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. The S&P 500 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. 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.
2. 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. Prior to July 1, 2020, portfolio returns were calculated using the Modified Dietz Method and revalued for cash flows greater than 10%. Composite returns are calculated by weighting the individual portfolio returns using beginning of period market value plus weighted cash flows.
3. "Pure" gross of fees returns are presented as supplemental information and do not reflect the deduction of any fees including trading costs. Effective January 1, 2021, the net of fee return reflects the maximum bundled external platform fee of 2.52%. Prior to January 1, 2021, the net of fee return reflects the actual SMA fee of the individual account. 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. Since inception, the composite is comprised 100% of wrap fee portfolios.
4. 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.
5. 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.