Global Leaders SMA Commentary

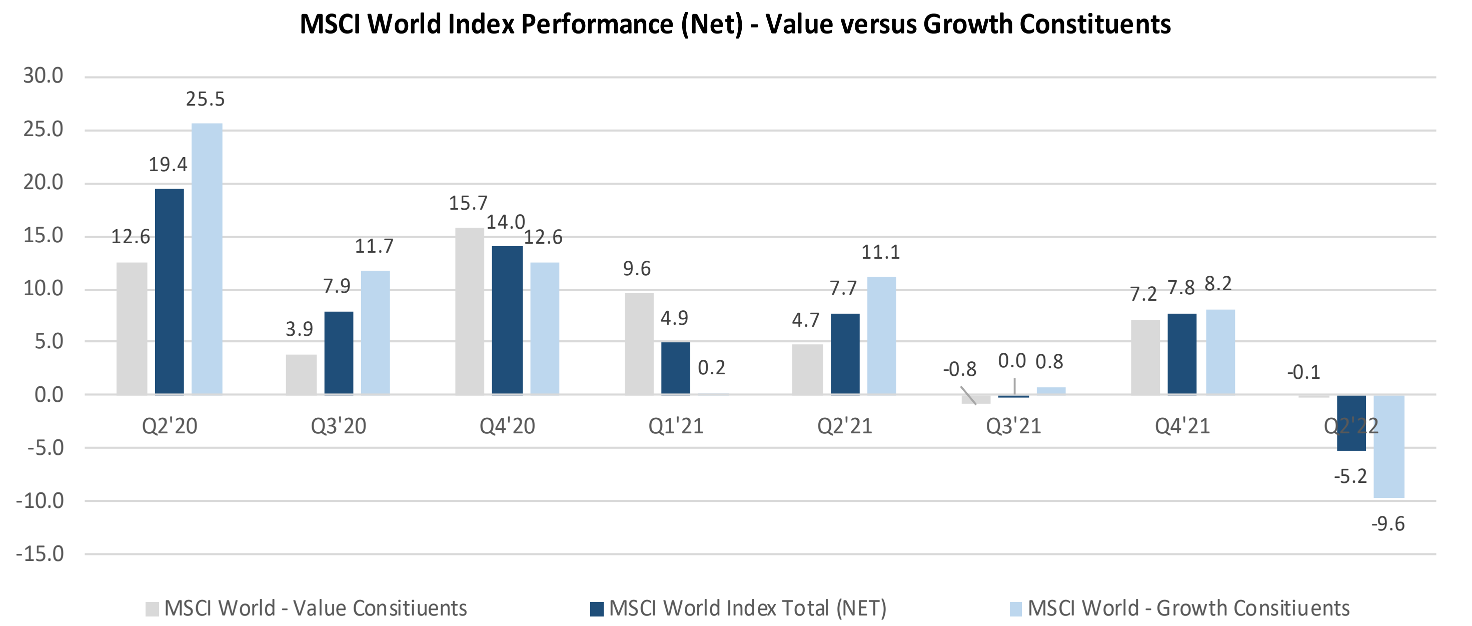
1st Quarter 2022

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 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 Review

For the quarter, the Global Leaders strategy return of -10.8% (gross of fees) and -11.4% (net of max bundled fees*) underperformed the -5.2% return for the MSCI World (net). Once again, style factors played a significant role in performance in the quarter. On the value/growth spectrum, we estimate the growth constituents in the MSCI World Index returned -9.6% in the period versus a -0.1% return for the index's value constituents. We continue to observe a large dispersion between the growth and value investment styles on a quarterly basis. The figure below shows an average dispersion of 650 basis points (bps) between these two categories, and in five out of the past eight quarters, the dispersion was greater than 500 bps.



Source: MSCI, FactSet

Please refer to the Performance Disclosure found on page 12.

*The maximum bundled external platform fee is 2.52%. Actual fees may vary by size and type of portfolio.

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We attribute a lot of this dispersion to the choppiness of the global macro environment in recent years – the pandemic, recovery, supply chain shortages, inflation/interest rate changes, and geopolitical events. We believe volatility in exogenous inputs were material factors in index performance in the quarter. For example, the ten-year U.S. Treasury yield surged more than 50% to 2.3%, while Brent Crude oil prices rose 33% in the quarter to more than $104/barrel as a result of Russia's invasion of Ukraine. Tying this to Global Leaders, energy index constituents (~4% of the MSCI World Index) surged 30.6% in the period, and the only other two sectors with positive returns in the quarter were Materials and Utilities. We calculate these three sectors combined comprise about 11% of the index, but only roughly 2% of Global Leaders holdings.

Looking at style factors, we also observed that according to Ned Davis research, return on equity (ROE) was the fourth worst-performing style attribute tracked across more than 60 global factors measured by the firm in the quarter. Earnings growth oriented factors also tended to underperform, whereas factors such as dividend yield, cash flow yield, and book value yield notably outperformed. As we have previously discussed, we continue to believe there is a strong historical evidence basis to orient around quality and growth factors over the long-term. Global Leaders remains positioned to this end; in the short term, these dynamics have been a headwind.

Stock selection was also a factor in performance during the quarter. **PayPal** lagged again, as e-commerce trends decelerated into quarter end on supply chain woes and as the company pivoted to growth within its user base after a period of high user growth during the pandemic. We continue to like the long-term story as PayPal brings key digital payment assets to bear on both the consumer (a broad array of in-app financial services) and merchant sides (digital check-out buttons), especially at current valuations. **Meta's** (formerly Facebook) outlook also disappointed. On its fourth quarter conference call, management noted competitive incursion by TikTok impacted user metrics. It also announced plans to invest aggressively in its metaverse opportunity. The combination of this and other factors were material to our investment thesis and we exited our positon (see below for additional discussion). **Sherwin-Williams** (supply chain challenges) and **Adobe** (growth decelerated optically because of one less week in the quarter) were also negative attributors.

On the positive front, **Astrazeneca** released positive data on a couple of key drugs in development during the quarter. **Mastercard** positively contributed as overall results continue to show improvements in key areas such as travel. Finally, **United Health** and **Petco** also offered positive attributions. We note **IHS Markit** was acquired in the quarter in an all-stock deal by **S&P Global**. The former posted negative attribution going into the deal's closure, but shares of S&P rallied post-deal. We like the S&P franchise given its strong position in credit ratings, global indices, and ESG. IHS will bring a number of data-oriented services in key verticals such as Energy, and we also like the potential for both cost and revenue synergies between the two companies.

Top 5 – Attribution Effect – Q1 2022 | **Bottom 5 – Attribution Effect – Q1 2022**

Leading Contributors	Average Weight	Total Return	Attribution Effect	Leading Detractors	Average Weight	Total Return	Attribution Effect
Astrazeneca PLC Sponsored ADR	4.30	15.78	0.79	PayPal Holdings, Inc.	4.04	-38.67	-1.34
Mastercard Incorporated Class A	6.39	-0.41	0.42	IHS Markit Ltd.	4.05	-18.14	-0.71
S&P Global, Inc.	2.43	9.18	0.35	Meta Platforms Inc. Class A	2.00	-40.52	-0.59
UnitedHealth Group Incorporated	5.59	1.86	0.32	Sherwin-Williams Company	2.11	-28.96	-0.54
Petco Health and Wellness Company Ir	3.18	-1.11	0.12	Adobe Incorporated	3.54	-19.65	-0.49

Source: FactSet

Please refer to the Performance Disclosure found on page 12.

ESG Risk: The use of ESG factors could result in selling or avoiding 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.

STERLING CAPITAL

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Portfolio Changes

We added three positions to Global Leaders in Q1 and sold four. Below we summarize these activities.

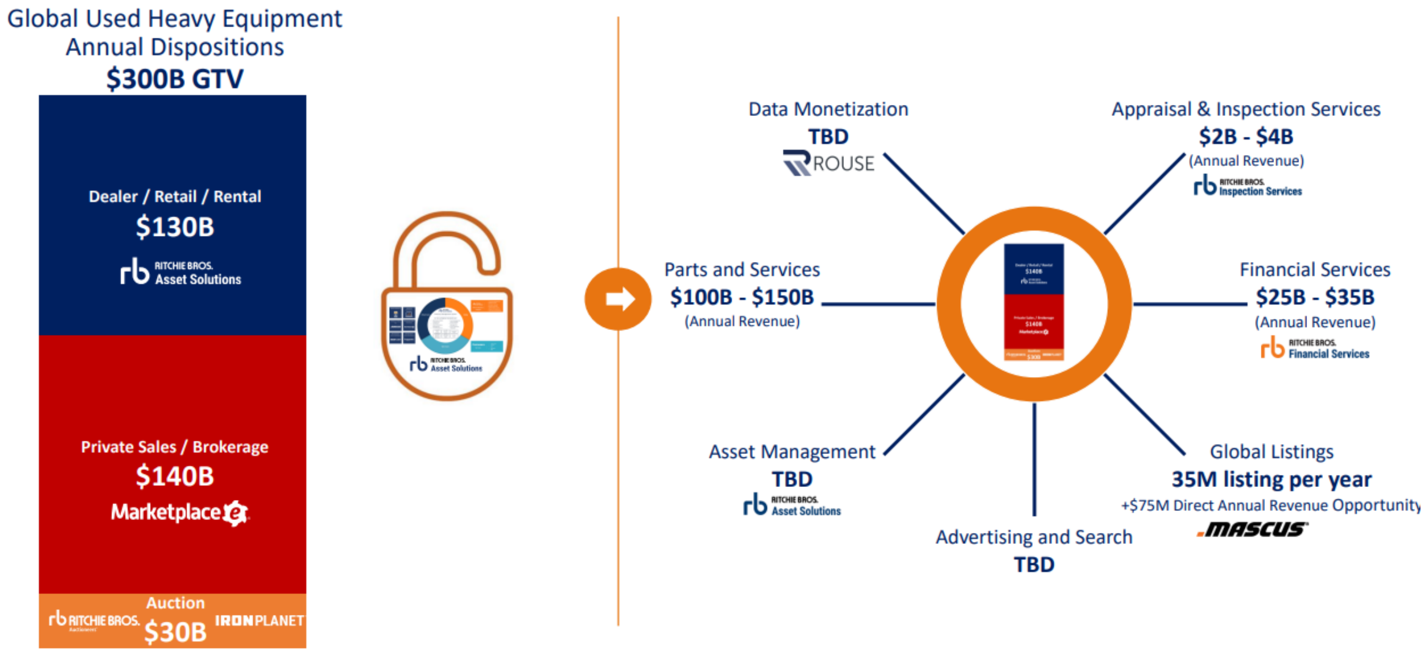
Summary of additions:

Ritchie Brothers (RBA): We added shares of Ritchie Brothers to Global Leaders in January. Based in Burnaby, British Columbia, the company is a leading provider of auction and information services into a number of capital goods industries. Ritchie was established in 1958 with the objective of helping owners of construction, agriculture, and industrial equipment receive a fair price for their used/depreciated assets. The company began as a traditional 'open outcry' physical auction company with sites all around the United States and Canada. However, in 2017, Ritchie Brothers acquired Iron Planet, bringing online auction and digital listing marketplace capabilities to bear. In 2021, Ritchie helped move almost 500,000 lots of goods at a total gross transaction value (GTV) of $5.5 billion to hundreds of thousands of bidders worldwide.

We like this business for a number of reasons. Key aspects of our investment thesis include the following:

- We like Ritchie's competitive positon in its core business. The company established itself as the primary asset auction/liquidation facilitator of used capital equipment. While regional and other online players exist, Ritchie has a significant scale advantage on the buy and sell side of the auction equation, which we believe in turn creates a network effect that would be hard for a competitor to replicate.
- We like management's ambition, starting with the move into the digital auction/online listing marketplaces. More recently, moves into areas such as information services further expand the company's addressable market and create more 'hooks' into key stakeholders, such as equipment rental companies, equipment dealers, and even the original equipment manufacturers (OEMs) themselves. In late 2021, Ritchie announced their intent to acquire Euro Auctions, further densifying its presence and network effect internationally.
- We like that Ritchie Brothers offers exposure to diverse cyclical trends across industrial, agriculture, and energy end markets, but with a business model that is asset light and that we believe offers a defensible moat. Additionally, we believe business trends can be durable in a variety of macro environments, as capital goods owners, for example, often liquidate equipment during recessionary periods.

We believe an opportunity rose in the stock, driven by a couple of key factors; namely, that supply chain challenges in key end markets have made it difficult for OEMs to supply enough product as the market demands. Therefore, end users in these markets have continued to 'limp along' with depreciated assets until new equipment becomes available. As supply chain issues resolve and Ritchie laps easy comparisons, we believe auction trends will begin to improve on a year-over-year basis. In addition, the company is waiting on regulators in the United Kingdom to approve its the Euro Auctions deal noted above. We believe the deal will happen and that it will be competitively and financially accretive to the business longer-term.

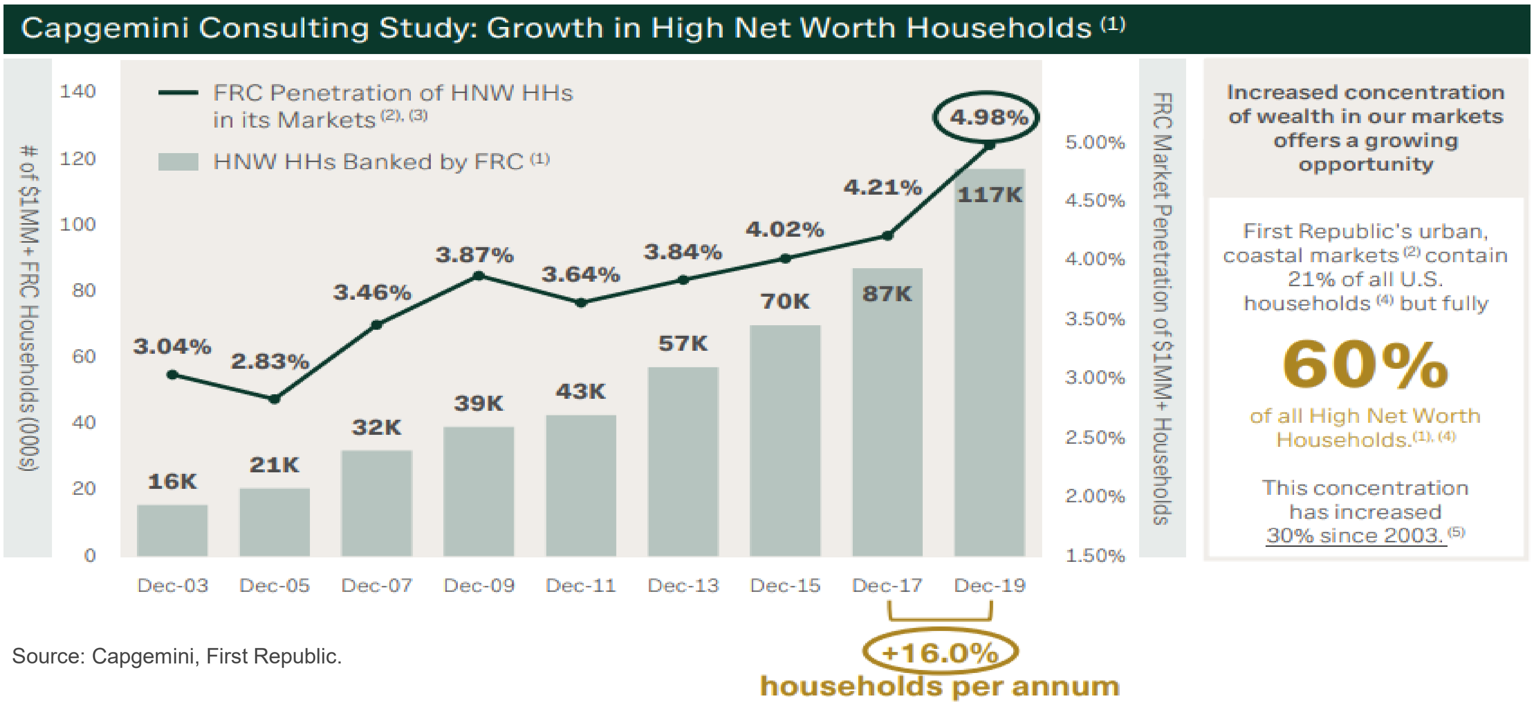


Source: Ritchie Brothers.

With respect to the investment pillars, we highlight that Ritchie Brothers has grown earnings at a low double-digit to mid-teens pace over the past decade. We use this level as a baseline on a go-forward basis, with potential for upside should Ritchie's market expansion into information services and others prove successful. ROE has trended in the mid-to-high teens, which is a very attractive number in our view. Post-deal, Ritchie Brothers will have a net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio of 3.5-4.0 times. We anticipate the company getting that ratio well below three in a couple of years. On valuation, we estimate the stock trades at a forward price over earnings (P/E) ratio (post deal) in the mid-20x range. Given the potential for end market conditions to improve over the next several quarters, Ritchie's long-term growth opportunity, the ability of the business to perform in good and bad macro environments (earnings per share (EPS) grew in 2008 and 2009), we believe a multiple somewhat higher than broader market averages is attractive.

First Republic (FRC): We added shares of First Republic Bank in March. Founded in 1985, First Republic is a retail and commercial bank with more than 90 offices spanning key cities in coastal states such as California, Florida, Massachusetts, and New York, where 60% of all high net worth (HNW) individuals reside. At of the end of 2021, the company had more than $180 billion in assets on its balance sheet, including more than $150 billion in deposits. The company also had more than $275 billion in assets under management and advisement in its wealth advisory group.

We were attracted to several aspects of First Republic's business, starting with its corporate culture, which is heavily focused on relationship and client-focused banking in the HNW arena. Clients of the bank begin with a single relationship manager that assesses client needs and brings in incentivized sales professionals as needed in areas such as residential lending, commercial lending, and wealth management. Evidence of this distinctly positive and client-focused culture includes the fact that about 50% of the company's growth comes from existing clients, while another 25% comes from referrals. In addition, First Republic's Net Promoter Score (NPS) was 79 in 2021 – more than two times the U.S. banking average NPS of 34.



Source: Capgemini, First Republic.

Our investment thesis for the company includes the following points:

- First Republic's culture appears to beget superior results. Approximately 75% of the company's bankers have been with the company for more than ten years, and 99% have been with the company more than 2.5 years. We believe this has led to strong client retention (deposit retention is 99% annually, for example), and 95% of the loan portfolio is funded with client deposits (clients with accounts on both sides of the balance sheet is common). Stability among bankers also has led to strong underwriting. The company has only nine bps of cumulative net losses since 1985.
- First Republic's history of market share gains are impressive, particularly among HNW households (defined as individuals with $1 million in investable assets – this is 50% of the client base). According to Capgemini, First Republic's market share grew from 3% in 2003 to almost 5% in 2019. The company's playbook and business model are proven, and we believe these share gains will continue.
- First Republic has a history of conservatism in its lending businesses and we believe this will continue to serve us and other shareholders well. More than 60% of the lending book is single-family primary or secondary residential mortgages (SFR); another 20% is multi-family/commercial real estate, which means 80% of the book is collateralized. The average FICO score of First Republic's SFR loan portfolio is more than 775, for example. The loan-to-value on the residential side offers a margin of safety at almost 60%. This rolls up into a superior charge-off rate that's almost nine times better than its top 50 peers; we estimate a 0.23% average net charge-off rate from 2008-2011 versus a 1.3% rate for its peers.
- First Republic does not have a high degree of interest rate sensitivity with the liability side oriented around HNW deposits (primary deposit consideration is not a competitive interest rate) and single family mortgages on the asset side (often fixed). According to the company's simulation, a 200 bps parallel increase in the Treasury yield curve would provide a 12% lift in earnings 24 months out. While many banks are more sensitive to such changes, we prefer First Republic's lack of rate sensitivity. We like the fact that market share and asset growth are the key business drivers instead of exogenous factors such as changes in rates, as it provides First Republic with more control over its own destiny.

Regarding the stock, First Republic historically trades at a premium to its banking peers, but we were presented with the opportunity to purchase shares down year-to-date after founder Jim Herbert stepped away as co-CEO for medical reasons. Co-CEO Hafize Gaye Erkan left the firm soon thereafter, which we deduced was because she was not named the sole CEO on Mr. Herbert's leave. We took time to diligence whether this departure reflected on First Republic's culture and came away sufficiently satisfied it did not. Since then, in March, Mr. Herbert returned in an Executive Chairman role, and CFO Mike Roffler was named CEO. Roffler joined First Republic in 2009 and, based on our checks, we believe he is a good choice for continuity and preservation of the company's distinct culture.

The characteristics of this bank are strong in our view. Both earnings and book value per share have grown at a low double-digit clip since 2011, supported by an asset growth of roughly 20% over this time period, as well as wealth management growing as a percentage of revenue and earnings. Return on tangible equity is strong at 16% in 2021. In our view, the balance sheet is well capitalized, particularly in light of the relative stability of the lending portfolio discussed above. We noted the stock trades at a high-teens forward earnings multiple – this is higher than the peer average in the low double digit to mid-teens range. In our minds, quality and long-term trajectory wins – we like First Republic's long-term organic growth opportunity and the optionality of acquisition should a large retail/investment bank seek to gain exposure in the HNW arena.

Techtronic Industries ADR (TTNDY): We added American Depository Receipts (ADRs) of Techtronic Industries in March. The company is a leading provider of power tools used by both commercial contractors and consumers under brands such as Milwaukee, Ryobi, and HART. Power tools represent approximately 90% of revenue, with the remaining 10% generated by floor care and cleaning products under brands such as Hoover, Dirt Devil, Oreck, and Vax. The company was founded in 1985 by Horst Julius Pudwill and Roy Chi Ping Chung. It is incorporated in Hong Kong, although almost 80% of revenue was generated in North America in 2021 through retailers such as Home Depot and Walmart. Manufacturing is global with Techtronic's production footprint spanning across countries such as China, Vietnam, Germany, Mexico and the United States.

Source: Techtronic Industries.

Our investment thesis on Techtronic begins with its strategic origin and Mr. Pudwill's engineering background and vision to apply rapidly-developing battery technology to the power tools industry. The company made a number of acquisitions in the 1990s and 2000s (including Milwaukee in 2005), all centered on the idea that over time, the market would migrate from wired and gas-powered tools to battery-operated tools. These acquisitions were followed by considerable organic investment. According to Morgan Stanley research, Techtronic spends 3% of revenue on research and development (R&D) – 50% more than the number two player in the industry, Stanley Black & Decker. Moreover, we believe Techtronic has been investing much longer than its peers in battery technology, the benefits of which we believe have compounded over time and resulted in a much broader ecosystem of tools (hundreds of tools for each brand) that feed off the same battery platforms. Key tenets of our thesis include:

- A narrow set of battery stock keeping units (SKUs) fed into a tool ecosystem spanning hundreds of products across multiple brands (Milwaukee, Ryobi, Hart), creating both customer lock-in and repeat business as customers expand and replace batteries owned.
- Strong marketing flywheel/distribution, including leading professional distribution and retail channels (i.e., Home Depot and Walmart); this is in addition to an extensive group of sales/marketing specialists trained to interact as product experts in retail locations in order to assist customers with decision support.
- Secular forces supporting adoption of cordless tools, including persistent shortages of housing in the United States, and legislative/policy preferences in states such as California discouraging the purchase of gas-powered outdoor tools, which, by definition, favor cordless substitutes.
- The combination of factors listed above drove the adoption of Techtronic tools (particularly in the Milwaukee and Ryobi brands) and future market share gains, following on a historical trend in which Techtronic saw its market share in power tools double over six years to 12% in 2020. One example of this opportunity is Techtronic's move into Walmart. Bank of America Merrill Lynch estimates that this channel could reach $1 billion in sales in 2024 with the rollout of product across Walmart stores, which would almost triple SKUs sold in two years. There was also the addition of product in Sam's Clubs in 2022.

Source: Bank of America Merrill Lynch.

- The possibility of operating margin leverage over time. Operating margins have been flattish in the high-single-digit range over the past five years, while the gross margin has improved 300 bps to 39% over this same time period. We believe the disconnect revolves around strategy and investment rate, as Techtronic sees its product/marketing flywheel working. Over time, we believe operating margins could have material upside as share opportunities play out and management calibrates its investment rate accordingly.

Regarding the investment pillars, we note that Techtronic offers roughly 20% EPS growth, a return on invested capital (ROIC) in the high teens (we believe this is an attractive return and well above its cost of capital), debt-to-EBITDA ratio of below one, and a high teens forward earnings multiple at the time of purchase. With stocks associated with China under scrutiny as of late, we highlight that Deloitte has been the company's auditor (i.e., an auditor among the 'Big Four') for a number of years, and that three of the four individuals on the Audit Committee are independent board members. While audits conducted were done to Hong Kong regulatory standards, we also noted that a super majority of the firm's revenue is generated in the United States. Finally, insiders own 27% of the company, and 90% of this is owned by the company's co-founders and their families.

Summary of sales:

Mettler-Toledo (MTD): We sold shares of Mettler-Toledo in January. Over the duration of our holding period, the stock generated a roughly 40% cumulative total return since our initial purchase versus roughly 18% for the MSCI World benchmark over the same period. At the time of purchase in November 2019, we were drawn to the company's position in precision lab and measuring equipment, proclivity to gain market share, improving margins, and high capital returns. However, over the duration of our holding period, we noted that the forward PE rose over 30%, therein comprising the majority of our return in the stock. At the time of sale, shares approached 40x earnings versus an expectation of low-double-digit earnings growth, increasing supply chain and macro concerns, and a material portion of business in China. As a result, we shifted to companies like Ritchie Brothers where we perceive more favorable risk/reward.

Meta (FB): We sold shares of Meta (formerly known as Facebook) beginning in February in front of the first quarter results and was culminated by a final sale in March. Over the duration of our holding period, we estimate that the stock generated a roughly 14% return from our initial purchase in December 2018, versus a roughly 17% return for the MSCI World Index. We initially purchased shares based on the optimism that new monetization opportunities would begin to manifest with respect to newer formats such as video and an ad inflection on the Instagram platform.

Our thesis began to change in 2021 when Apple started to reduce the amount/type of data that Meta could extract from users under the auspice of 'data privacy'. We inferred at the time this was actually competitive with Apple itself seeking to grow its mobile ad business. In late 2021, Meta responded with a rebrand of the company around the metaverse – a digital universe with immersive gaming and social characteristics. While we share optimism regarding the potential of this opportunity, management signaled its importance level as warranting a rebrand of the company and a multi-year investment in the billions of dollars per year. Then, in early 2022, we began to note competitive incursion from TikTok, with a large portion of content in Meta's competitive Reels platform consisting of short videos first created and branded on TikTok, then reposted on Meta. This dynamic negatively impacted results, but we believe there may be another 'shoe to drop' as TikTok begins to shift from experimental to more mainstream in advertiser budgets.

Net-net is the cumulative effect of these developments simply overwhelming Meta's favorable business attributes and valuation. Also, we doubt competitive dynamics will lessen over time, and antitrust scrutiny likely prevents the company from acquiring its way out of trouble. While the metaverse is an exciting opportunity, it is also likely existential to Meta's long-term outlook and it's far from clear if the company will win in this market. Finally, valuation support levels may be hard to discern because existing shareholders may incrementally need to underwrite higher investment levels as time progresses.

AIA (AAGIY): We sold ADRs of AIA in March. Over our holding period beginning in February 2020, shares generated a cumulative loss of approximately -1% versus a roughly 9% gain for the MSCI World Index. At the time of purchase, we highlighted our favorable view of AIA's organic growth opportunity to sell life and other insurance products into key Asian markets (including China and Hong Kong) where economic development is driving a burgeoning middle class. While the penetration of insurance products has continued and AIA has executed relatively well, macro, COVID-19, geopolitical, and other factors limited both earnings growth and the stock. Juxtaposed against the opportunity to buy a high-quality U.S. banking franchise in First Republic while it was down roughly 20% year-to-date, we opted to pivot to what we perceive to be a better opportunity.

Tencent (TCHEY): We sold Tencent in March. Over our holding period beginning in August 2018, shares generated a cumulative total return of approximately 5% versus a roughly 13% return for the MSCI World Index. Coming into the year, we were optimistic that Chinese government scrutiny of large technology platforms had reached peak levels and would perhaps moderate. While 2021 was a challenging year for the company and stock, we were also attracted to what seemed to be a margin of safety, as Tencent owned large stakes of companies that competed with other large technology companies, such as Alibaba, that the Chinese government had also set its sights on. These challengers seemed well positioned on a relative basis.

However, what we actually found was that this government scrutiny continued. The possibility of further reductions in the number of hours Chinese individuals could spend playing video games (a key end market for Tencent) was speculated in the quarter, for example. Beyond this, the U.S. government also turned its sights on Chinese stocks listed in the U.S. The chief concern of regulators is a lack of transparency and visibility into Chinese auditing practices. This is in addition to U.S. scrutiny of variable interest entities (VIEs), Tencent's equity structure, during 2021/2022. Combined with a potential tie-in with trade dynamics and geopolitical conflict (i.e., China's seeming alignment with Russia in its Ukraine invasion) and macro-related factors (COVID-19 shutdowns in key Chinese cities), we were left with a valuation argument on one side and, in our view, external/policy/business headwinds that make our chances for success suboptimal on the other. Therefore, we exited our final position into strength and reallocated to what we perceive as a better opportunity in Techtronic Industries.

Conclusion

As 'bottom's up' investors at a foundational level, we are resistant to framing our performance and investment approach around macroeconomic factors. The reality is, over the past two years in particular, external drivers such as interest rates, inflation levels, energy prices, and geopolitical factors have been material to stock prices. The problem we identify is that while it is easy to draw conclusions on what worked and why with hindsight, these observations do not tend to be useful to discern which 'top down' factors will drive future stock prices.

There are numerous examples we can draw upon to illustrate this point above, especially when applying a longer-term lens. For the sake of brevity, we highlighted four of the top five banks in the U.S. business models highly tied to interest rate levels, and the rate curve/spreads have significantly lagged broader market indices, including the S&P 500, over the past ten years (the time span chosen to exclude the financial crisis). Within the energy exploration and production companies, we highlighted that all of the top five publicly-traded producers underperformed broader indices over the past ten years. However, we noted the batting average improved over 20 and 30 year periods, with two of the top five companies outperforming. The overall point is that we believe the degree of difficulty of outperforming over long periods is difficult with companies/business models heavily dependent on external drivers such as interest rates and commodity prices.

Once again, this brings us back to our longstanding preference for quality. What is quality? Metrics such as ROE and ROIC are often cited as quality, but we view these as outputs of quality. We would argue that the inputs of quality are qualitative, and they include but are not limited to:

- The size and contour of the market opportunity;
- The ability for a company to validate the market opportunity and build/sustain competitive advantages;
- Business models and strategy that help capture appropriate value for goods and services rendered;
- Balance sheets that are not overly dependent on the capital markets to fund growth initiatives;
- Management teams that establish corporate cultures that help attract/retain talent, meet or exceed business objectives, and institutionalize value creation efforts aligned with long-term shareholders.

Companies that have these qualitative attributes should have stable/durable earnings growth over long periods, high capital returns, and appropriate levels of financial leverage. Unlike companies heavily dependent on energy prices or interest rates to execute their business plans, business franchises with quality and durability tend to have more control over their own destinies. They often trade at a premium to market averages – this is a tradeoff we are willing to make when we believe growth/capital returns are sustainable over the long term. Indeed, we estimate the median holding in the Global Leaders portfolio has roughly 70% higher expected earnings growth and ROE with less financial leverage than the median company in the MSCI World Index. Median forward PE of the portfolio is just over 50% higher than our primary benchmark. We regard our quality orientation as a feature, not a bug; it is intentional and we believe it has an evidence basis.

Global Leaders – Pillar Median vs. MSCI World Index

	EPS CAGR two-year to 2023E	ROE 2020	Net Debt to EBITDA	PE FY2
Global Leaders	16.8%	24.3%	0.1x	25.6x
MSCI World Index	10.0%	13.9%	1.3x	16.8x
% Difference	68.0%	75.0%	-89%	52%

Source: FactSet

In closing, we wanted to highlight a few developments during the quarter. Last quarter, we welcomed Colin Ducharme as Co-Portfolio Manager of Global Leaders. This quarter, we wanted to highlight that he initiated an investment position in the strategy. We also noted last quarter that Jeremy Lopez initiated a position in the strategy after joining as Co-Portfolio Manager in the third quarter. In the face of the market drawdown this quarter, this position was materially added to in the first quarter. We highlight these investments because we believe alignment with clients is important. Ownership in the strategies that we manage is one tangible demonstration of this goal congruence.

Thank you for your investment and confidence in us.

Jeremy Lopez, CFA®

Co-Portfolio Manager

Colin Ducharme, CFA®

Co-Portfolio Manager

Important Information

Disclosures

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.

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: **Return on Equity (ROE)**: the measure of a company’s annual return (net income) divided by the value of its total shareholders’ equity, expressed as a percentage. Return on Equity is a two-part ratio in its derivation because it brings together the income statement and the balance sheet, where net income or profit is compared to the shareholders’ equity. The number represents the total return on equity capital and shows the firm’s ability to turn equity investments into profits. **Return on Invested Capital (ROIC)**: a profitability or performance ratio that aims to measure the percentage return that a company earns on invested capital. The ratio shows how efficiently a company is using the investors’ funds to generate income. **EV/EBITDA**: ratio that compares a company’s Enterprise Value (EV) to its Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA). The EV/EBITDA ratio is commonly used as a valuation metric to compare the relative value of different businesses. **Earnings per share (EPS)** is a financial ratio that divides net earnings available to common shareholders by the total outstanding shares over a certain period of time. The EPS formula indicates a company’s ability to produce net profits for common shareholders. **The Price Earnings Ratio (P/E Ratio)** is the relationship between a company’s stock price and earnings per share (EPS). It is a popular ratio that gives investors a better sense of the value of the company. The P/E ratio shows the expectations of the market and is the price you must pay per unit of current earnings (or future earnings, as the case may be). **The net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio** measures financial leverage and a company’s ability to pay off its debt. Essentially, the net debt to EBITDA ratio (debt/EBITDA) gives an indication as to how long a company would need to operate at its current level to pay off all its debt. The ratio is commonly used by credit rating agencies to determine the probability of a company defaulting on its debt. **American Depositary Receipts (ADRs)** are negotiable security instruments that are issued by a US bank that represent a specific number of shares in a foreign company that is traded in US financial markets. ADRs pay dividends in US dollars and trade like regular shares of stock. Companies can now purchase stocks of foreign companies in bulk and reissue them on the US market. ADRs are listed on the NYSE, NASDAQ, AMEX and can be sold over-the-counter. **A variable interest entity (VIE)** may be any type of legal business structure. It can be, for instance, a trust, a partnership, a corporation, or joint venture. It is created such that even if an investor does not hold a majority of the voting rights, they are able to exercise a controlling interest in it. A VIE is almost always created to protect a business from legal action by its creditors. It may also be an accounting structure wherein the equity investors are unable to finance the working capital needs or operating costs of the business. **Net-net** is a term used for a company with a market capitalization that is less than the difference between the company’s current assets and total liabilities. The equation does not consider long-term assets, such as property, plant, and equipment (PP&E), and intangibles. Net-net investing is used with the underlying understanding that if the net-net (company) is sold, the current assets would be used to settle the obligations or liabilities, and the leftover amount (cash) will be worth more than the market capitalization of the company. (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

Sterling Capital Management – Global Leaders SMA Composite

January 1, 2012 – December 31, 2021

Description: Consists of all discretionary separately managed wrap 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 "Pure" Gross of Fees	Total Return Net of Fees	No. of Portfolios	Composite Assets End of Period ($MM)	Total Firm Assets ($MM)	Composite Dispersion (%)	Benchmark	MSCI World (Net)	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
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 12/31/19. 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.

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. 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.
3. 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.
4. "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.
5. 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.