COMMENTARY
Focus Equity | 1st Quarter 2020

Percentage Change[1]

Period	Gross	Net	Russell 3000	Difference (Net - R3000)	Russell 1000 Growth	Difference (Net - R1000G)
CY16	12.2%	12.1%	12.7%	-0.7%	7.1%	+5.0%
CY17	29.9%	29.7%	21.1%	+8.5%	30.2%	-0.6%
CY18	4.2%	4.0%	-5.2%	+9.2%	-1.5%	+5.5%
CY19	44.0%	43.7%	31.0%	+12.7%	36.4%	+7.3%
1Q20	-12.8%	-12.8%	-20.9%	+8.1%	-14.1%	+1.3%
Since 31 Dec 2015 Inception	16.4%	16.2%	7.2%	+9.0%	11.8%	+4.4%
Overall Gain*	90.6%	89.2%	34.1%	+55.1%	60.9%	+28.3%

*[1] Performance for periods greater than one year are annualized, except where noted. *Not annualized. Performance note: The results for your account may differ somewhat from the composite figures above due to variations in account holdings, trade timing, and other client-specific circumstances. Past performance is not indicative of future results. Please refer to Performance Disclosures found on page 6. The volatility of an index varies greatly; investments cannot be made directly in an index.*

Team,

Before we dive into this quarter's letter, we'd like to make special mention extending our best wishes to all readers as we each navigate the COVID-19 pandemic's effects on our families, communities and businesses. We *will* get through this crisis and persevere to the other side, together.

That said, what a difference a quarter makes.

You may recall Focus Equity had no portfolio changes in 4Q19. By contrast, during 1Q20 we shifted *over a quarter* of portfolio assets into new exposures. This level of activity is *highly* anomalous and was predicated on price dislocations created by the unprecedented COVID-19 market volatility. Leveraging this febrile backdrop, we stayed on front-foot offense throughout the period, tactically upgrading our portfolio positioning as opportunities arose. You'll find all changes detailed in the *Activity Notes* below.

Also, based on client demand, we've added the Russell 1000 Growth index to our performance tables above, and discussion below, to better assist investors using Focus Equity for growth allocations. This new disclosure does *not* alter our investment strategy, which remains steadfast.

Worth highlighting, the strategy achieved two important milestones during the quarter:

First, in the first quarter, Morningstar released CY19 manager rankings. Our sales and analytics teams quickly benchmarked this new data revealing that, over its first four years since inception, Focus Equity outperformed 99% of 497 Large Cap Growth manager peers listed in the database. As a reminder, since our 2015 inception, Large Cap Growth has been the best performing Morningstar style box (of nine total), and therefore presents the highest hurdle to clear for active managers like us. [2]

Second, despite the 1Q20 headwind on market values, our total quarter-end assets[3] surpassed $115 million for the first time, in just our sixth full quarter since opening to outside investors. Assets grew +49% during the period, which included our largest inflows ever. We were fortunate, and flattered, to experience accelerating client interest amid the market ructions and were excited to welcome many new investors.

Performance Notes

In the first quarter of 2020, domestic markets suffered their worst first quarter since 1938, and the broad Russell 3000 index experienced its fastest -35% decline in history. The VIX index – a barometer we use to gauge market anxiety – closed above 82 intra-quarter, its highest level ever. Such an environment provided an extreme stress test of Focus Equity's ability to achieve its goal to protect and grow your long-term investment capital.

The strategy responded, outperforming the Russell 3000 and Russell 1000 Growth indices, growing Focus Equity's cumulative outperformance versus those benchmarks to +55.1% and +28.3%, respectively – our highest figures since inception. For the full quarter, Focus Equity generated net outperformance of +8.1% versus Russell 3000, and +1.3% versus Russell 1000 Growth.

[2]Past performance is not indicative of future results. Please refer to Performance Disclosures found on page 6. The volatility of an index varies greatly; investments cannot be made directly in an index. [3]Total assets are preliminary and include assets under management (AUM) and assets under advisement (AUA) for both Focus and Focus Equity strategies at 03.31.2020.

Broadly speaking, our exposures to online retail, logistics, and analytics services helped relative performance during the quarter. Stock selection was essential – look no further than our exposure to Industrials for supportive evidence here. Apart from Energy, this sector in Q1 was the market's worst performing – though it remains one of Focus Equity's largest overweights versus the Russell 1000 Growth index. Yet our picks there (which, on average, declined less than half as much as the broader sector) actually drove the bulk of our relative returns during the quarter.

A more detailed view of Focus Equity's first quarter performance attribution revealed top return contributors **Amazon** (+37 basis points versus R1000G), **Coupa** (+40 bps), **MSCI** (+36 bps), **Old Dominion Freight Lines** (+31 bps) and **Veeva Systems** (+35 bps). Bottom contributors to total returns were **Bright Horizons Family Solutions** (-188 bps), **Mastercard** (-178 bps), **HEICO** (-179 bps), **Brookfield Asset Management** (-158 bps) and **Guidewire Software** (-93 bps).

Activity Notes

As foreshadowed above, in Q1 we recycled over a quarter of portfolio assets – a rare level of activity precipitated by exceptional, and abundant, price dislocations. We added seven new positions, and exited six others. Each is covered below.

We exited **Ashtead Group** (+116% since initial purchase through final exit versus +53% for R3000 and +80% for R1000G over same time period), the parent of heavy equipment rental operator Sunbelt Rentals, which serves commercial construction and industrial customers. Though we regard the Ashtead team as one of the industry's best, we believed the multiple had not yet discounted our concerns about slowing end markets and high GDP sensitivity, and decided to redeploy proceeds from strong outperformance into other watch list candidates.

We exited **Ecolab** (+91% versus R3000 +61%, R1000G +89%), which provides water and hygiene products and services to institutions like hotels and industrial clients, such as food and beverage manufacturers. We believed business risks to Ecolab's core customers arising from COVID-19, for example hospitality and retail client closures, combined with possible longer-term developed market downsizing during recession, may pressure the company's key business drivers going forward.

We exited early education and child care provider **Bright Horizons Family Solutions** (+51% versus R3000 +27%, R1000G +55%). The pandemic's social distancing restrictions required the company to temporarily close the majority of its domestic centers and the attendant effects from spiking unemployment on child care demand are difficult to quantify.

We exited discount broker and financial services provider **Charles Schwab** (+86% versus R3000 +73%, R1000G +94%) as the interest rate backdrop placed increasing pressure on the company's spread-based model. Though we applaud CEO Walt Bettinger's aggressive tack to further consolidate the industry amid tougher macros (e.g. Schwab recently announced deals for USAA and TD Ameritrade), we also acknowledge the difficulty of generating margin gains in a lower growth, lower rate environment.

We exited composite materials manufacturer **Hexcel** (+65% versus R3000 +71%, R1000G +91%) as build rates for core customers Boeing and Airbus came under increasing pressure. While we didn't foresee Hexcel's announced merger with control systems maker Woodward, or the depth of the aerospace industry's woes from the novel coronavirus, we had seen incremental signs of sluggish demand and closed our position at prices nearly twice the level Hexcel shares finished the quarter.

Finally, we exited used auto retailer **CarMax** (+28% versus R3000 +41%, R1000G +67%). Our medium term concern for the business stemmed from pandemic-related store closures and surging unemployment – neither of which is conducive to putting used car shoppers in seats for test drives. While we think the company remains the highest quality operator in the industry, and its omnichannel rollout will buoy forward growth (though COVID-19 has delayed the pace), we viewed watch list candidates as more opportunistic.

Our sale proceeds from the above exits fueled the addition of seven new positions.

We built a new core holding in **Microsoft**. This is a story of cultural evolution we too long underestimated. Our sidelined stance notwithstanding, we've since adjusted our thinking – in part driven by our recent Redmond visit, but also informed by talking to customers, closely monitoring operating results, and digesting trade press. Historically a closed system (selling monolithic applications via compact discs), Microsoft has more lately embraced open architecture under CEO Satya Nadella's tenure.

We can't underscore enough how profound, and difficult, achieving such a transformation is – especially for a scaled business with legacy products still enjoying monopoly positions that provide powerful incentives to maintain status quo. Yet Nadella, via thoughtful M&A, new industrial partnerships and an embrace of outside developer communities has successfully opened the platform – in our view, a precondition for growth in the $1 trillion Cloud IT market of tomorrow. Today, we believe the company is well positioned to leverage its assets across public infrastructure and enterprise services to capture momentum amid the ongoing transformation of edge and cloud computing.

We also added **IDEXX Laboratories**, which primarily serves the veterinary market for companion animal diagnostic products and software. We believe global pet diagnostic spending today, approximately $4 billion, is primarily driven by developed markets and is growing at a high-single digit pace. IDEXX takes an ecosystem approach in addressing this opportunity, providing vets a variety of offerings covering several practice needs. For example, Cornerstone practice information management system (PIMS) software helps automate client interactions and digitize records, Catalyst point-of-care diagnostic instruments run consumable IDEXX tests to provide rapid results on site, and the IDEXX reference lab network offers fast turnarounds with accurate results for more specialized panels. Our recent meeting with CEO Jay Mazelsky shed further light on the self-reinforcing nature of this product and service menu – which clients often seamlessly tie together via PIMS implementation. By deeply embedding its bundles into practice workflows, IDEXX enjoys cross-selling opportunity, revenue stability and longer average customer tenure. Furthermore, the model has attractive incremental margins, enabling each additional revenue dollar to drop through to profits at higher rates, fueling per-share earnings growth in the double digits. With a spending tailwind from the secular "humanization of pets" growth trend, the company has room to expand domestically and we believe can export the model to boost its share internationally as well.

We added **Adobe**, the longtime share leader in creative software. Whereas the company has historically offered well-known products such as Acrobat, Photoshop, and Illustrator to just *create* and *publish* content, Adobe has pivoted more recently to also provide enterprise applications addressing *marketing*, *measurement* and *monetization* of that content over the entire customer journey, from advertising ('top of funnel') to commerce ('bottom'). Grouping these newer apps together within the Digital Experience Cloud, the segment was built by CEO Shantanu Narayen via an M&A journey started a decade ago through a series of strategic deals, beginning with Omniture (2009) and more recently including Marketo and Magento (both 2018). Today, this growing segment diversifies Adobe's cash generation (accounting for 19% of gross profit in FY19) and facilitates exposure to longer term digital marketing and ecommerce growth. Meanwhile, the core creative business, Digital Media, still enjoys share penetration potential and can bolster revenues with pricing levers. We believe the company's broadened ambitions, market leadership and deft execution place Adobe on an attractive path for the future.

We added **Apollo Global Management**, a $331 billion (at year-end 2019) alternative asset manager specializing in credit, private equity and real assets. Long familiar with the company via our industry coverage and investment interest in **Brookfield Asset Management** (BAM), we have seized more opportunities in recent years to visit personnel, both at the company and at important strategic affiliates, to deepen our understanding of the business. Like many of its alternatives peers, Apollo has been diversifying its platform by scaling new businesses (like real assets) and adding new investment vehicles (for example Athene, Athora, and Acra to exploit its insurance market opportunity). The firm's culture sets it apart – a point made clear via our recent meeting with Co-President and Chief Investment Officer (Credit), Jim Zelter. First, the firm operates on a single P&L, aligning expense and profit goals across business groups. Second, the largest incentive compensation component for many executives is directly tied (via restricted shares and/or dividends) to the same stock we own – and Apollo doesn't use stock options. Third and finally, the firm's fee-related earnings (FRE) margins, a measure of operating efficiency, are some of the industry's best – finishing 2019 at 55%. That level compares favorably to peer Carlyle (28%) and the industry's largest player – $571 billion AUM Blackstone – at 48%. The cultural message these numbers convey is meaningful when considering that, as is true for many professional service models, human capital is not just these business' most significant value driver, but also their largest expense – and ownership mindsets are best incentivized through actual share ownership versus high cash payouts, which reduce FRE margins. We think Apollo's culture is a key enabler of the company's plan to nearly double its assets over the next five years.

We added **Kinsale Capital Group**, which writes U.S. excess and surplus lines (E&S) insurance, covering hard-to-place personal lines and small business property and casualty (P&C) risks. Risks within E&S are often more difficult, or impossible, to underwrite in the standard market, which focuses on the most common policy types (e.g. auto, home). We've followed this space for years, in part through the lenses of other underwriters we respect, and appreciate attractive E&S industry features like firmer pricing levers and fewer competitors. It's often characterized as a market of niches, where insurers can generate attractive returns that are harder to find in more standard, commodified areas. In Kinsale, we believe founder and CEO Mike Kehoe has created a proprietary underwriting and technology platform that is highly efficient, keeping expense ratios low to help buffer the inevitable variability in pure underwriting profits and allowing more cash to drop to the bottom line.

As Kehoe and the team diversify the firm's end markets in coming years, we believe Kinsale has an opportunity to expand market share significantly from today's low-single-digit percentage levels.

We added **Coupa Software**, a provider of Business Spend Management (BSM) software to large enterprise customers. Simply put, Coupa's BSM platform is a transactional engine used to manage a company's business spend – including procurement, invoicing, expense transparency and payment. The consumer internet experience, influenced heavily by Amazon, has had a ripple effect in enterprise commerce such that employees tasked with BSM (e.g. buyers of raw materials, accounts payable representatives) at the office are often dissatisfied using legacy IT backbones, including those from Oracle and SAP, that lack the convenience and ease-of-use featured in home web applications. Coupa's products offer a new alternative, are delivered natively via cloud subscription and can be implemented in as little as a few weeks versus the years-long processes legacy vendors typically require. We believe the core business already possesses an attractive growth runway, even as management works to layer on newer opportunities such as payments capability and integration of more third-party applications.

Finally, we added **MSCI**, an information services and analytics vendor to buy- and sell-side investment clients. Its index business, including well known benchmarks like MSCI World, drives the bulk of firm profits, yet the company also features a growing analytics platform with ever-broadening risk management, performance attribution and portfolio management functionality. The investment industry shift from active-to-passive flows, a trend we believe is not yet complete, has boosted MSCI's index segment in recent years though more recent management attention has focused on additional growth vectors such as Environmental, Social, and Governance (ESG) factor investing – a market we think consolidates around a handful of winners in coming years. Concisely put, we believe MSCI is well positioned atop secular trends and also has a well-conceived strategy to expand into new ones.

Last, it's important to reemphasize that Focus Equity (and Focus) remains your manager's largest family investment, and the majority of his annual compensation is 1) variable, and 2) directly linked to the strategy's performance. Put simply, we eat our own cooking and are strongly incentivized to continue to protect and grow your Focus Equity investment. So please share our story with your friends.

Just below the text of this letter, you will find Focus Equity's year-end position list. The strategy remains concentrated in 21 active positions with 39% of assets in the top five, 65% in the top 10, and 85% in the top 15 positions. We have relatively few eggs but watch our basket closely.

Stay healthy. Stay safe.

Thanks for your trust and investment in us.

Colin Ducharme

Colin Ducharme, CFA®
Executive Director

31 March 2020 Positions*

Mastercard	9.2%
Moody's	9.2%
Microsoft	8.1%
CoStar Group	6.7%
Alphabet	6.0%
S&P Global	5.6%
IDEXX Laboratories	5.4%
Brookfield Asset Management	5.3%
Amazon	5.0%
HEICO Corporation	4.9%
Visa	4.4%
Adobe	4.1%
Old Dominion Freight Line	4.0%
Veeva Systems	3.4%
Verisk Analytics	3.2%
Guidewire Software	3.2%
Apollo Global Management	2.9%
Kinsale Capital Group	2.8%
Coupa Software	2.5%
Workday	2.4%
MSCI	1.8%
Cash	0.0%

Top 5 Total	39.2%
Top 10 Total	65.4%
Top 15 Total	84.5%
Top 20 Total	98.2%

**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.*

Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the investment management fees and trading expenses. Gross of fees performance returns reflect the deduction of 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 Composite Disclosure Presentation which is attached.

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 – Focus Equity Composite

January 1, 2016 – December 31, 2019

Description: *Consists of all discretionary separately managed Focus Equity portfolios. Sterling's Focus Equity portfolio investments are flexible and may span growth and value, large- and small-capitalization companies. 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 Gross of Fees	Total Return Net of Fees	No. of Portfolios	Total Assets End of Period ($MM)	Percent of Firm Assets	Total Firm Assets ($MM)	Composite Dispersion (%)	Russell 1000 Growth Index	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2019	43.95	43.68	2	0.269	0.0	58,191	not meaningful	36.39	13.79	13.07
2018	4.15	3.96	2	0.187	0.0	56,889	not meaningful	-1.51	13.77	12.13
2017	29.89	29.68	5	0.877	0.0	55,908	not meaningful	30.21	N/A	N/A
2016	12.23	12.06	4	0.452	0.0	51,603	not meaningful	7.08	N/A	N/A
Annualized Since Inception	21.59	21.38						16.98		

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 12/31/18. The verification report(s) is/are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

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.
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: October 31, 2018. Portfolios with an allowance to fixed income securities were permitted in the composite from inception until October 31, 2018. Beginning November 1, 2018, portfolios included in the composite are not permitted to own fixed income securities. 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 their descriptions is available upon request. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.
4. Performance reflects reinvested interest income and dividends and realized and unrealized capital gains and losses. All portfolios are valued monthly as of calendar month-end and utilize trade-date and accrued income accounting. Valuations and performance are reported in U.S. dollars. Composite returns are asset weighted using the average capital base method that reflects both beginning market value and cash flows and uses 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 are revalued for cash flows greater than 5%. Periodic time weighted returns are geometrically linked. Returns are not calculated net of non-reclaimable withholding taxes due to immaterial dollar amounts.
5. Gross of fees returns reflect the deduction of trading costs. Net of fee performance returns are presented after actual management fees and trading expense. The stated fee schedule is: 0.70% on the first $25 million; 0.60% on the next $25 million; 0.50% on the next $25 million; and 0.40% on all amounts exceeding $75 million on an annual basis as described in Sterling Capital Management's Form ADV, Part 2A.
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. It is not meaningful when there are less than six portfolios in the composite for the entire year. The three year annualized standard deviation measures the variability of the composite and benchmark returns over the preceding 36 month period. 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.