COMMENTARY
Global Leaders SMA | 1st Quarter 2020

Simply stated, the philosophy behind the Sterling Capital Global Leaders portfolio is that global companies that have established themselves as #1 in their respective markets tend to stay #1 in their markets. Size usually translates to cost advantages in production, marketing and R&D expenditures that can be re-invested in 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 have already enjoyed 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 strategy return of -17.4 % on a gross basis and -17.7% on a net of fee basis outperformed the -21.1% return for the MSCI World (net). A few comments on the performance this quarter:

- *Skin in the Game*. As someone with a material portion of their liquid net worth invested alongside our clients in this strategy, any decline in value is painful. But we know it is the nature of the stock market that over the long term we will have quarters such as these. That is why we believe it is important to have "skin in the game" to maximize risk adjusted returns. Part of generating attractive risk-adjusted returns over the long haul is having a portfolio that tries to anticipate quarters such as the first quarter 2020. In our case, anticipation involves owning quality stocks that are leaders in their markets.

- *Expectations of Performance*. In last quarter's report we described our focus on owning quality stocks with compelling returns on capital, attractive profit margins, and resilient sales growth. We ended our commentary with the following:

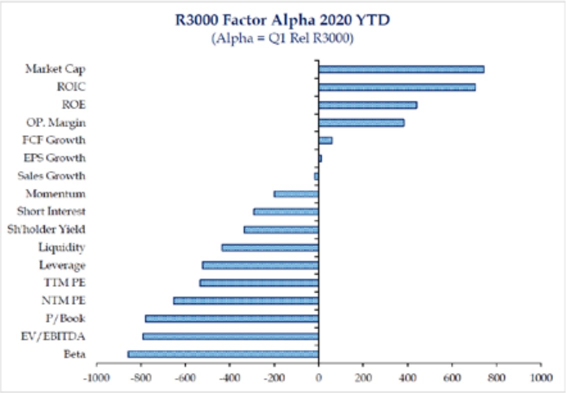
In terms of the strategy, we continue to maintain our focus on quality. Per Bloomberg, the strategy has meaningfully higher returns on capital than the benchmark and the companies we own boast impressive profit margins that enable them to reinvest in their business and gain market share as can be demonstrated through their higher sales growth relative to the benchmark.

	Global Leaders	MSCI World
Return on Equity	68.0%	23.0%
Gross Margin	58.1%	47.7%
Operating Margin	20.0%	11.5%
Sales Growth/Share	14.8%	11.9%

Source: Bloomberg 12.31.2019, sales growth last 12 months

With a strategy full of companies with dominant and growing market shares combined with stellar operating track records, our strategy proved resilient in the face of the most challenging quarter for global stocks since 2008, according to the Wall Street Journal. In fact, the Global Leaders strategy posted its second-best relative performance quarter (on a gross of fees basis) since 2014 when we began tracking our quarterly performance, protecting client capital during the challenging market environment.* Why focus on global leaders with compelling quality characteristics? As seen in the following graphic from Strategas Research, market leaders with high returns on equity in the U.S. comprised the top three characteristics that generated outperformance in the U.S. market last quarter.

**Past performance is not indicative of future results. Please refer to the Performance Disclosure found on page 8 for additional information.*



Source: Strategas

- *Focus on consistency of returns.* With four years under our belt, we will soon be able to assess the consistency of rolling three year returns for the strategy after assuming responsibilities for managing the strategy.* In these last two commentaries, we would note the strategy outperformed in 2019 when the market was up close to 30% and recently in a quarter where the market was down over 20%.

First Quarter Winners & Losers

Our top performer was **Domino's Pizza** (+11%), which generated the quarter we were anticipating, a positive inflection in top line trends as its business model proved resilient and competition faded from delivery aggregators such as Uber Eats and Grubhub. The geographic diversity of our holdings also generated alpha as **Tencent** (+2%) benefitted from demand for its social media services and operated smoothly as the Coronavirus swept through China. Our Canadian software company, **Constellation Software** (-7%) was also a relative outperformer with investors confident in its steady license cash flow streams. On the other side of the coin, **Amadeus IT** (-42%) provides software to book airline tickets and sold off in the face of lower air traffic. The company's cloud based solution is mission critical for airlines to book flights and we expect the stock to rebound when air travel resumes. **Phillips 66** (-40%) was impacted by what RBC research called "the 2nd war on shale" by Saudi Arabia and Russia. While production activity did not decline for the first time in 2014, this quarter the upstream reductions in oil field activity were around 50%. We trimmed the position. **HDFC Bank** (-39%) declined as the virus and stay at home order were instituted in India leading to concerns consumer credit costs may rise for this high quality bank. While capital levels are strong, we trimmed the position during the quarter.

First Quarter Purchases

The dislocation in the markets provided a number of opportunities to establish positions in compelling opportunities resulting in greater activity than normal.

Alibaba (BABA). Headquartered in Hangzhou, China, Alibaba Group Holding Ltd. is the largest online and mobile commerce company in the world on a gross merchandise volume (GMV) basis. Its core consumer marketplace businesses consist of Taobao Marketplace (China's largest consumer-to-consumer online shopping destination) and Tmall.com (China's largest third-party platform for brands and retailers). Additionally, Alibaba operates the leading cloud platform in China (AliCloud), digital media services, international ecommerce operations, and has several strategic investments, including Alipay (leading China payment platform).

Defining BABA can be a challenge but the best analogy would be that it is China's Amazon. The company has a 64% share of online retail and a 43% share of China's public cloud market. Stepping back, BABA's dominant market position provides exposure to a more prosperous emerging middle class that has the potential to drive consistent and meaningful longer-term growth as the China economy matures.

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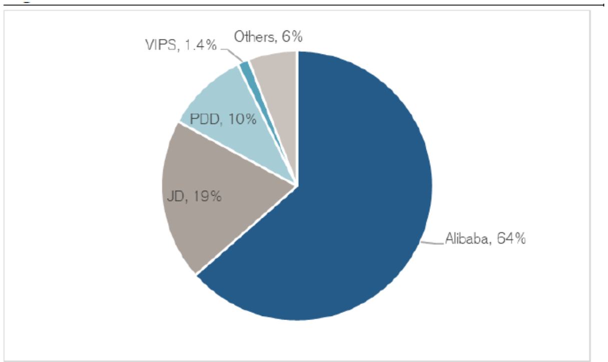
Retail sales ($mb bn) and online penetration rate

Source: Ministry of Commerce, Credit Suisse estimates

Online retail market share, 2019E



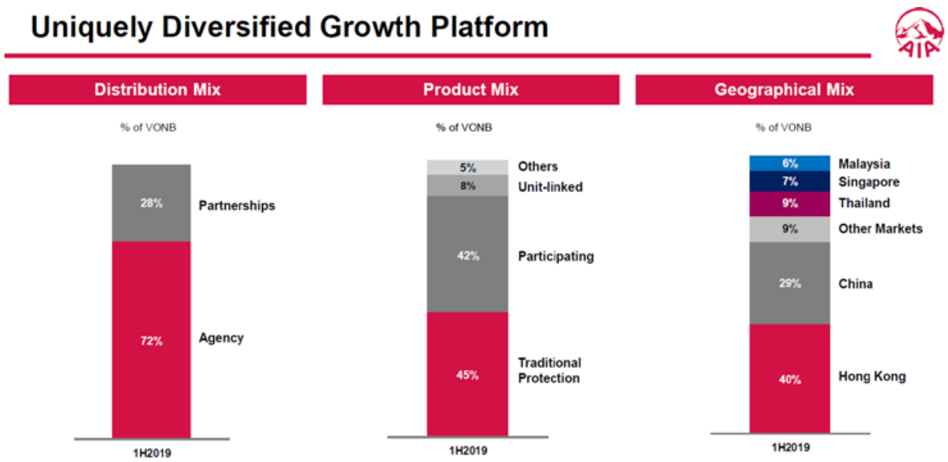
Source: Ministry of Commerce, Credit Suisse estimates

BABA appears to provide an opportunity to buy a global leader in e-commerce with higher than average returns on capital, no debt, superior earnings growth, at a free cash flow yield higher than the S&P 500. With growing growth optionality from greater e-commerce adoption and material earnings growth from the cloud business, BABA shares appear poised for outperformance.

Mastercard (MA). Mastercard is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments, digital partners, businesses and other organizations worldwide, enabling them to use electronic forms of payment instead of cash and checks. Mastercard makes payments easier and more efficient by providing a wide range of payment solutions and services using a family of well-known brands, including Mastercard®, Maestro® and Cirrus®. An investment in Mastercard takes advantage of the global secular move to non-cash transaction growth.

There are simply very few stocks that offer Mastercard's combination of top-line growth, operating margins above 50%, and attractive range versus recent history. Our investment process focuses on employing market dislocations to buy great companies at good prices and the apparent indiscriminate market sell-off at the end of February 2020 provided what appeared to be an attractive entry point for Mastercard shares. The recent approval to enter the China market should provide Mastercard the opportunity to extend its large international franchise into a large and rapidly growing emerging economy.

AIA Group. AIA is the leading insurer in Asia Pacific and traces its roots in the region back more than 90 years. The company is the largest publicly traded, listed pan-Asian life insurer in its key operating markets. AIA was formerly the crown jewel subsidiary of New York-based AIG (American International Group). During the global financial crisis, AIA was spun off into an independent company with the proceeds used to pay down troubled AIG's debt. AIA subsequently went public in 2010 in the third largest initial public offering at that time. AIA is unique as the only foreign insurer with 100%-owned operations in Mainland China, and also has large operations in the Malaysia, Indonesia, and Australia markets. In 1H19, the biggest contributions to group revenues were Hong Kong (40%) and Mainland China (29%). For perspective, MetLife is the largest life insurer in the U.S. and has a market capitalization roughly a third of AIA, and its investment-grade long-term debt is rated lower one notch below AIA by S&P.



Source: Company reports

With the opening of Mainland China to foreign firms in 2020, AIA is in a pole position to garner new business at a rapid clip, as high net worth and the affluent middle class seek its life, health, and investment products. As the current trade, virus, and economic concerns in the region abate, we look for the crown jewel of Southeast Asia to find more admirers for its shares.

Phillips 66 (PSX). Phillips 66 is a diversified energy manufacturing and logistics company. With a portfolio of Midstream, Chemicals, Refining, and Marketing and Specialties businesses, the company processes, transports, stores and markets fuels and products globally. Phillips 66 Partners, the company's master limited partnership, is an integral asset in the portfolio. Headquartered in Houston, the company has 14,800 employees committed to safety and operating excellence. Its unique business mix enables it to grow cash flows and earnings in a sector dominated by commodity prices. The diverse nature of PSX's business model has reduced the impact of changes in the commodity prices, enabling PSX to generate consistent cash flows that have been returned generously back to shareholders through higher dividend payments and share buybacks. During the quarter we subsequently trimmed our position as dynamics in the energy space have rapidly changed. As RBC research puts it, "the 2nd war on shale" announced this month by Saudi Arabia and Russia has put pressure on North American producers that supply PSX's refining, chemicals, and pipeline operations.

Texas Instruments (TXN). Texas Instruments engages in the design and sale of semiconductors to electronics designers and manufacturers worldwide. The company's analog segment offers high-performance analog products comprising standard analog semiconductors, such as: amplifiers, data converters, and interface semiconductors; high-volume analog and logic products; and power management semiconductors and line-powered systems. Its embedded processing segment performs mathematical computations to process and enhance digital data, and microcontrollers, which are designed to control a set of specific tasks for electronic equipment. The company was founded in 1938 and is headquartered in Dallas, Texas.

Source: Company Reports

J.P. Morgan states they "expect Texas Instruments to deliver best-in-class free cash flow per share and dividend growth" as it continue to grow its business. Bank of America notes "Texas Instrument's best-in-class trailing 12-month free cash flow margin remains resilient," demonstrating, in our view, the strength and dominance of the business model. At the current price, the market correction appears to offer investors the ability to purchase a "best-in-class" franchise at a compelling valuation.

First Quarter Sales

To fund these purchases we removed several holdings:

Checkpoint Software. Checkpoint was described by Credit Suisse as "a leading security software company" when we purchased the shares in 2018. For large corporations, Checkpoint's "firewall" products protect an organization's computers from harmful viruses and malicious attacks. Our well-timed entry point seemed ideal for a stock that checked every one of our investment pillars. At the time, a reshuffling of the salesforce caused revenue growth to take a pause and resulted in investor pessimism surrounding the stock. During our holding period, the salesforce was rebuilt, but sales failed to sustain their growth as the industry became more competitive and Checkpoint has had to reinvest into its products at a higher level than anticipated. Although the shares appear inexpensive, our research indicates further investment may be needed to accelerated revenues in the near future. We preferred to redeploy our capital into alternative investments that appear to have better long term prospects.

Monster Beverage. We purchased the maker of the leading energy drink with the investment thesis that growth in emerging markets would "fuel" Monster's earnings growth over our investment timeframe. We were also drawn to Coca Cola's 19% ownership in the company and potential for Coke to buy the remaining shares of Monster. Over our holding period, the benefits of owning the market leader were realized as Monster flexed its distribution muscle to repel the competitive threats from upstarts and rolled out new products across the world to the benefit of shareholders. Recently, Coke has introduced its own energy drink, however, and with more resources than upstarts, not to mention ability to leverage its own global distribution network, the Coke threat may be more significant and become more of a protracted battle. In light of the competitive dynamic, we decided to allocate our capital in more attractive opportunities.

RELX. RELX is the leading provider of academic publications in the science, health, and technical fields, with its customers comprising the leading foundations, academic and research departments within universities, governments, and business. As Jefferies research stated: "It provides content, analytics and decision tools for scientists, health professionals and students worldwide and is the global #1 in the scientific, technical, and medical market." We purchased the shares with the thesis that the strength of its branded titles would enable RELX to continue to increase prices back to their historical rate when faced with tougher negotiations with universities and academic organizations. While RELX was able to modify certain terms, buyers around the world have become increasingly more organized to collectively bargain contract renewals with RELX. Despite its dependable revenue streams, the top line growth we expected to reaccelerate does not appear likely to materialize. With this challenge to our investment thesis confirmed through recent contract negotiations, we redeployed capital into better perceived opportunities.

HCA. We were attracted to HCA due to the company's leading market shares in growth markets and its ability to leverage its scale through low-cost healthcare delivery throughout its footprint. While the company had above-average financial leverage, its prodigious free cash flow and attractive valuation made for a compelling investment case. Indeed from date of purchase until now, the company reduced the share count by over 22% and initiated a shareholder dividend to boot. While we maintain that HCA is a great franchise, we sold our final shares with valuation appearing full and the pace of share repurchase tapering off relative to history.

O'Reilly Automotive. We bought O'Reilly Automotive in the teeth of the Amazon competitive concerns in 2017 and the stock is a great case study for how we buy stocks in the Global Leaders strategy. The competitive concerns enabled the team to buy a best-in-class operator in the industry with great returns on capital, impressive earnings growth over time, at a meaningful discount to its well-deserved premium valuation. While early in our purchase, management continued to execute, and our view that the barriers to entry in the retail auto parts industry would be formidable even for Amazon proved correct. As O'Reilly continued to execute its business plan, concerns over Amazon abated, enabling our clients to benefit from the one-two punch of strong earnings growth and valuation improvement to generate a higher stock price. In the following graphic, we provide a look at O'Reilly's competitive advantage – its large distribution centers that are close to city centers, enabling fast delivery of thousands of parts to repair shops and retail stores in a region.

O'Reilly Distribution Center, Denver, CO

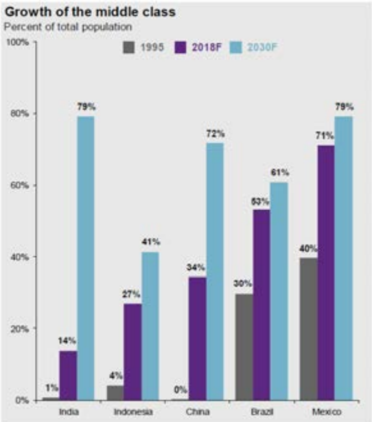
Source: O'Reilly Investor Day, August 2019

Tax Efficiency

A byproduct of the Global Leaders strategy is boosting after-tax returns, and while not all clients are taxable, we do carefully monitor holding periods for our stocks. We seek to invest in #1 companies that can be owned for the long term. Our best performing stock in 2019, Microsoft, was a stock purchased in 2008. We'd also note that the last short-term capital gain taken by the overall strategy, outside realizing the proceeds of an acquisition, was in 2012. Finally, our approach has been consistent and we believe long-term investors in the strategy will find that their tax cost (a measurement of interest and capital gains tax paid divided by asset value similar to a management fee) has been lower in the past five years than the previous five, in the year ending 2019, with trades year-to-date resulting in tax losses to carry forward into the remainder of 2020.*

Outlook

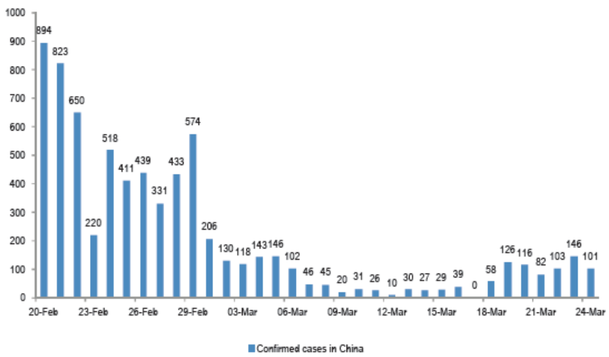
This quarter we actively steered the Global Leaders strategy into areas where dominant companies could benefit from strong secular trends that can augment growth and where economies are emerging from the economic slowdown caused by COVID-19. Long term, the growth of the emerging middle class can provide a strong tailwind for companies such as Alibaba to sell more goods online, Texas Instruments to sell more semiconductors, and AIA to sell more insurance and wealth products.



Source: J.P. Morgan

In the near term, Asia also appears to be recovering from a health and economic perspective from the economic malaise caused by containing the epidemic. With current holding Restaurant Brands opening 90% of its stores in China, the rebounding economy sets the stage for potential economic and earnings improvements for companies operating in the region while the economic recovery in the rest of the world remains uncertain and may take an extended period of time to rebound.

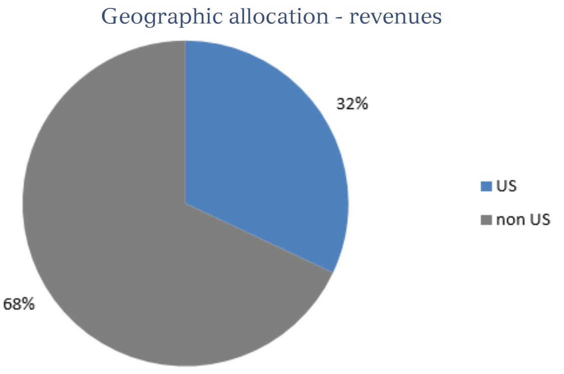
COVID-19 new cases in China



Source: WHO, J.P. Morgan

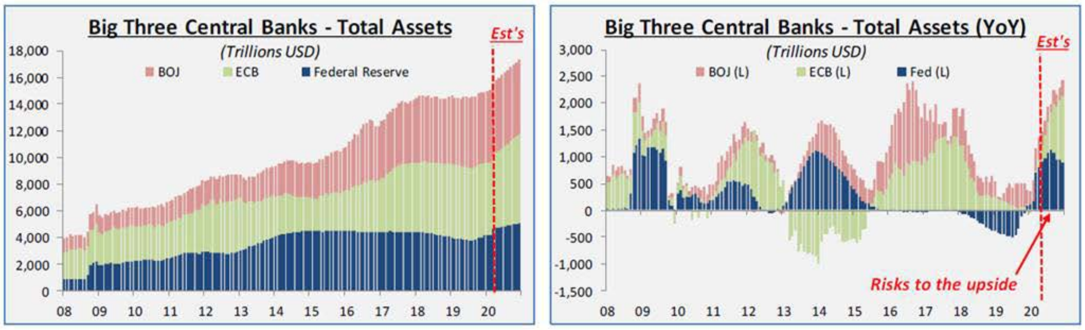
**Sterling does not provide tax advice, therefore clients should consult with their tax advisor with any questions related to tax implications.*

As a result, we have made active portfolio moves to invest in companies where the majority of revenues are outside of the United States and in areas such as China that appear poised to exit the crisis first. We have noted that it is where revenues come from, rather than were a company is headquartered, that is important as this is the source of economic growth. A prime example is recent addition Texas Instruments, which is headquartered in Dallas but 87% of its revenues in 2019 were derived from outside the U.S. according to Bloomberg. The geographic contribution to revenues for the strategy is provided in the following graphic.



Source: Bloomberg, position weighted equity holdings as of 03.31.2020

With headlines looking somber, where can we point to areas of potential opportunity for global equities? As we noted in our preamble, we remain vigilant and focused on downside risk through the quality of the portfolio and our other investment pillars such as investing in strong balance sheets, growing earnings, and attractive valuations. At the same time, we have an eye on opportunities and we'd note the coordinated effort of central banks globally has reached new levels of engagement. The following graphic provides a perspective on the efforts not only in the U.S. but across the globe to reinvigorate the economic environment for companies and investors.



Sources: Wolfe Research Portfolio Strategy, BOJ, ECB, Federal Reserve, News Reports and Bloomberg

"Don't fight the Fed" has been a good mantra over the years and currently the Fed in the U.S. is joining forces with central bankers around the globe to fight the drop off in economic activity caused by COVID-19. Our effort will remain to work to find opportunities for our clients and generate "above-average returns with below-average risk."

Thank you for your investment and confidence in us.

Chip Wittmann, CFA®
Portfolio Manager

Performance disclosure: *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. Pure 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.*

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Sterling Capital Management – Global Leaders SMA Composite

December 31, 2000 – December 31, 2019

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 ($MM)	Percent of Firm Assets	Total Firm Assets ($MM)	Composite Dispersion (%)	Benchmark	MSCI World (Net) Index	Composite 3-yr St Dev (%)	Benchmark 3-yr St Dev (%)
2019	29.39	27.85	51	29	0.0	58,191	0.87	27.67	27.67	10.44	11.14
2018	-4.23	-5.41	57	26	0.0	56,889	0.50	-8.71	-8.71	9.90	10.38
2017	19.80	18.34	63	29	0.1	55,908	0.51	22.40	22.40	9.54	10.07
2016	5.25	3.99	88	37	0.1	51,603	0.30	7.51	7.51	10.07	10.80
2015	-0.63	-1.81	80	38	0.1	51,155	0.37	1.38	-0.87	10.05	10.47
2014	10.40	9.06	89	41	0.1	47,540	0.40	13.69	4.94	9.31	8.97
2013	30.51	28.94	96	43	0.1	45,638	0.48	32.39	26.68	12.38	12.11
2012	11.28	9.88	105	37	0.8	4,422	0.40	16.00	15.83	14.59	15.30
2011	-2.81	-4.03	133	43	1.1	3,932	0.49	2.11	-5.54	16.98	18.97
2010	14.77	13.32	137	46	1.3	3,548	0.32	15.06	11.76	22.25	22.16
2009	44.06	42.13	141	43	1.5	2,839	1.59	26.46	29.99	20.88	19.91
2008	-38.43	-39.26	165	33	1.7	1,907	1.19	-37.00	-40.71	17.86	15.29
2007	16.61	15.06	151	52	2.5	2,059	0.76	5.49	9.04	7.50	7.79
2006	17.79	16.18	141	41	3.1	1,314	0.38	15.80	20.07	7.02	6.92
2005	8.18	6.67	105	28	3.1	904	0.39	4.91	9.49	8.85	9.17
2004	15.61	13.90	62	16	3.1	522	0.98	10.88	14.72	13.80	15.07
2003	21.32	19.34	41	10	6.3	158	2.10	28.68	33.11	17.96	18.47
2002	-19.50	-20.80	39	7	13.7	51	0.40	-22.10	-19.89		
2001	-14.71	-15.94	12	4	16.7	24	0.10	-11.89	-16.82		
Annualized Since Inception	6.86	5.44						6.30	5.52		

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. In March 2016, Charles J. Wittmann, CFA, became the portfolio manager with the retirement of Guy W. Ford, CFA. Guy W. Ford, CFA, managed the portfolio from January 2012 to March 2016, succeeding George F. Shipp, CFA, who had 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, 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.
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 US dollars. Portfolio returns are calculated monthly using the Modified Dietz method. Portfolios are 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. Periodic time weighted returns are geometrically linked.
5. "Pure" gross of fees returns do not reflect the deduction of any fees including trading costs. 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. Sterling's actual management fees are 32 basis points annually.
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.