Simply stated, the philosophy behind the 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 reinvested 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 on 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 so doing, we believe we distinguish our portfolio from other large-capitalization investment alternatives, ideally boosting long-term after tax returns without taking on commensurate risk.

Quarterly Review

"What I've learned over time is that I've really made my life much harder than it needed to be. I have overcomplicated a lot of decision making. As I've gotten older, what I realize is that the best decisions are the ones that are really instinctive and the most simple. You can use enormous amounts of data and find all kinds of clever ways of slicing and dissecting things. But at the end of the day, the simple decision tends to be the best and most defensible and most enduring decision. One of the simplest decisions you can make is to buy the category winner and wish that the whole category does well. Because if it does, so long as the category winner stays on top of the category, they will get the disproportionate amount of the gains. And that's been completely true in markets since time immemorial."

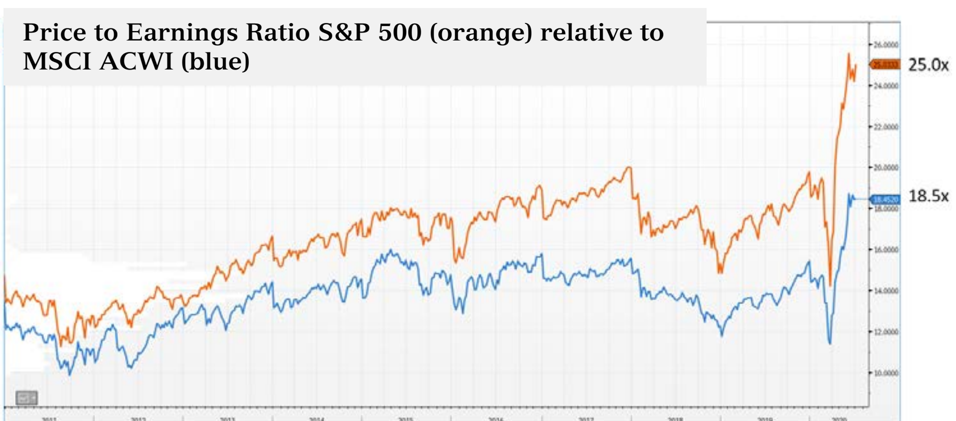
Chamath Palihapitya, June 2020, UnChained podcast

For the quarter, the strategy return of 23.4% on a gross basis and 23.0% on a net of fee basis outperformed the 19.4% return for the MSCI World (net). On a year-to-date basis, the strategy has returned 1.9% on a gross and 1.3% on a net of fee basis, outperforming the -5.8% return for the benchmark.*

A few comments on the performance this quarter:

- *Recent all-weather performance in double digit up and down quarters*. The first two quarters of 2020 provided a unique period to evaluate the strategy as this most recent quarter was the best quarter for the MSCI World Index since the third quarter 2009 after the worst quarter for the index since December 2008. We outperformed the benchmark in both quarters.
- *The past two quarters are also encouraging from a consistency-of-returns perspective.* We believe the investment philosophy of investing in market leaders who exhibit sustainable advantages that can generate impressive returns on capital have the ability to perform well through the ups and downs of the market. We are heartened to have produced a positive return on a year-to-date basis for our clients (and ourselves as investors in the strategy) relative to the negative return of the benchmark.

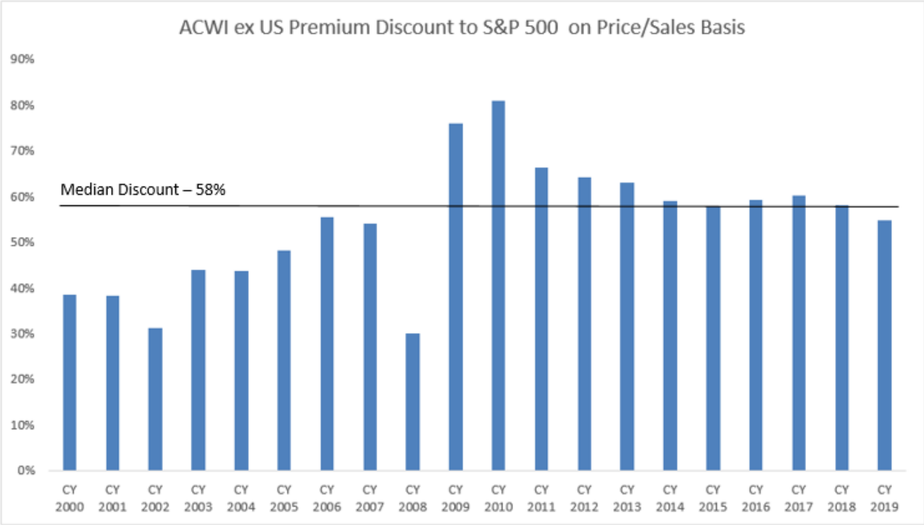
Last quarter we highlighted our focus on quality when selecting stocks to hold in the strategy and this quarter we responded to client questions regarding whether relative value outside the U.S. was offering opportunity. Our response has been consistent with our investment pillars where we seek stocks that possess both growth and value. Stocks outside the U.S. are less expensive than those inside the U.S., as seen in the chart below. In many cases, they are cheap because they are closely tied to cyclical businesses such as commodities or they are owned by the government (and run primarily in the interest of the government).



Source: Bloomberg as of 06.30.2020

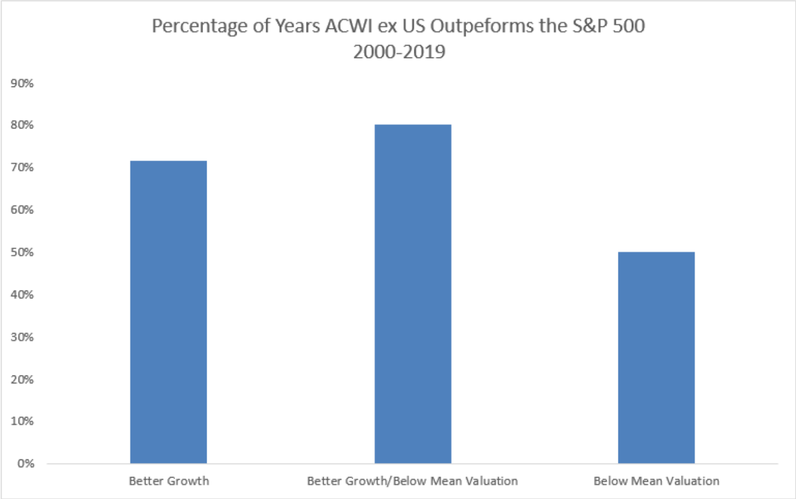
Past performance is not indicative of future results. Please refer to the Performance Disclosure found on page 8 for additional information.

In the following chart, we highlight that "being cheap" appears insufficient to generate outperformance, looking back over the past two decades. There are a number of ways to assess relative valuation; we took a straightforward price-to-sales ratio for each region over the past two decades and tracked annual relative performance when the MSCI ACWI ex-U.S. traded below median.



Source: Bloomberg

On a valuation basis, it's a coin flip (50% probability) whether non-U.S. stocks will outperform the S&P 500. But if one overlays relative earnings growth, the combination of growth and value appears to increase the probability of outperformance to 80%. As renowned global investor Sir John Templeton once stated, *"Looking for a good investment is nothing more than looking for a good bargain."*



Source: Bloomberg, data annually 2000-2019

We define a "good bargain" as an opportunity that offers growth and value in high quality businesses with strong balance sheets and are leaders in our favored investment themes such as online gaming, digital payments, and cloud computing. The stocks we invest in globally can benefit from the strength of the underlying geography as we have seen from our China equity exposure thus far in 2020. Through these investments, we believe we have the potential to add value to clients' broad market exposure over time.

Second Quarter Winners and Losers

2Q20 Contributors and Detractors

Leading Contributors	Portfolio Weight	Total Return	Contribution to Return
PayPal Holdings Inc	5.2	82.0	3.3
Facebook, Inc. Class A	5.7	36.1	1.9
Tencent Holdings Ltd. Unsponsor	5.7	31.5	1.6
Chr. Hansen Holding A/S Sponso:	4.7	37.8	1.6
S&P Global, Inc.	4.4	34.7	1.5

Leading Detractors	Portfolio Weight	Total Return	Contribution to Return
Markel Corporation	0.7	-6.3	-0.1
InterContinental Hotels Group PLC	0.0	-11.9	-0.1
HDFC Bank Limited Sponsored AD	0.0	-2.3	0.0
Amadeus IT Group SA Unsponsore	0.7	-1.8	0.0
Stryker Corporation	2.5	-0.9	0.0

Source: Factset

This quarter crystalized **PayPal's** position as the right company at the right time, with its digital payments offering experiencing accelerating demand through e-commerce, and the opportunities to address the need for contactless payments between individuals and retailers. Demand for **Facebook's** digital advertising platform was also recognized this quarter as its ability to provide targeted, high-return advertiser's dollars has few rivals. Its announcement to enable small businesses to provide e-commerce solutions through its platform, as well as integrating its payments function into the Instagram offering, boosted investor optimism in Facebook's long-term growth potential. Our other social media holding, **Tencent**, reported strong earnings results despite COVID-19, as users flocked to its mobile app while advertisers spent more money to gain access to Tencent's user base. **Charles Hansen's** reassuring financial guidance and steady improvements in the China market for natural flavorings helped boost shares this quarter. Finally, **S&P Global** has been undeterred by the economic slowdown as debt issuance, and the need to provide ratings on newly issued debt, have yielded consistent earnings growth.

We had a number of small positions that were sold in the quarter that were detractors. **Markel Corporation** was the largest detractor due to challenges in the underwriting and ventures businesses, while **Intercontinental Hotels** was hurt by the slowdown in global travel. **HDFC Bank** was also a small position sold this quarter amid the challenging outlook for consumer credit in India with COVID-19. **Amadeus IT** was the final stub position sold, due to the challenging outlook for volume-based travel software. **Stryker** is a new position that is gaining its footing as the recovery in elective surgeries in the U.S. experience a non-linear recovery.

Second Quarter Purchases

The dislocation in the markets provided a number of opportunities to establish positions in compelling opportunities. The incremental changes to the strategy have the impact of boosting the strategy's overall return on equity.

Ferrari (RACE). We view RACE as a luxury brand misunderstood as a car company. 60% of customers are repeat purchasers and 36% own more than one Ferrari, providing embedded demand and pricing power where new offerings command 10%+ premiums to their predecessors. How does a car company generate a 49% return on equity, have modest leverage, and grow earnings at a 20% pace? RACE has a unique focus on fixed costs. Mass producers of automobiles have a ratio of fixed costs to variable costs that are approximately 40:1. At RACE, that ratio is closer to 4:1 by doing things such as hyper optimizing research and development to run three tests on one prototype rather than running tests separately. While optically expensive, the company has high incremental margins, with 2020 the largest new product rollout year in history. Finally, the company's family ownership enables it to take a long-term mindset in creating value. Of note, management has no short-term compensation targets, with the CEO able to make eight times his current compensation by hitting long-term performance goals including total shareholder return.

Ferrari

Source: Company Reports

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

Ferrari is among the world's leading luxury brands, focused on the design, engineering, production and sale of the world's most recognizable luxury performance sports cars and is also known for selling the world's first 12-cylinder car. The brand symbolizes exclusivity, innovation, state-of-the-art sporting performance and Italian design through its engineering heritage, and RACE believes its cars are the epitome of performance, luxury and styling.

RACE's combination of return on equity, earnings growth, and modest leverage are unique in the global market. In fact, if you were to look at the S&P 500® to find companies with the same combination of characteristics combined with consistency of earnings, one would find only five stocks at the time of our purchase. While the stock looks rich on current earnings, forward estimates appear too low and increasing diversification of product lines should yield a valuation that acknowledges even greater visibility and consistency of future earnings streams. With new cars introduced in late 2020, earnings appear poised to inflect higher, making the entry opportunistic given the relative performance of the stock. RACE appears to be in "pole position" to generate above-average returns with below-average risk for our clients.

Stryker (SYK). Stryker Corp. is a global manufacturer and provider of medical devices and equipment for the treatment of musculoskeletal and spinal disorders, trauma, neurosurgery, endoscopy, general surgery and patient care. Below is SYK's robotic surgery platform, marketed under the Mako brand.

Source: Company Reports

Within the Global Leaders strategy we look for companies that have established themselves with competitive advantages in their industries. This position 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. If we can combine strong secular demand for the products with the ability to win market share, the combination has the potential for these companies to become strong performers. SYK shares appear to possess this powerful "one-two punch." Given its exposure to an increasing need for healthcare from an aging population, primarily in the U.S., via its innovative Mako robotic surgery platform, SYK has impressive revenue potential from secular growth and has captured 600 basis points of market share in the U.S. knee market since 2014.

Source: Company Reports

In our view, the panic selling of great companies in early 2020 created the opportunity to purchase best of breed companies on sale. In this regard, SYK fits the bill. With secular tailwinds from sustained demand from an aging America, along with the potential for earnings and improved sentiment as hospitals resume elective surgery, the near term growth prospects should brighten. Longer term, the aggressive share gains through the robotics unit should add a final additional layer of optionality by putting incremental free cash to work.

Second Quarter Sales

To fund these purchases we removed several holdings.

Waters Corporation. We were drawn to Waters due to its quality metrics and history of innovating from within versus acquiring technology. With a lull in the development pipeline and its traditional premium to its peers reduced from a valuation perspective, the shares offered the potential for improved earnings and valuation re-rating. Unfortunately, the promised new product introductions did not materialize at the rate we and management anticipated. While the company repurchased 15% of the shares during our holding period, a retrenchment in growth plans with COVID-19 overhangs will most likely push growth targets further into the future. With more attractive investment opportunities in the offing, we elected to sell our remaining shares.

Markel Corporation. As we noted when we purchased the stock in late 2013, Markel is not a typical insurance company and had multiple ways to win. The stock was attractively valued at the time due to negative investor sentiment surrounding its purchase of Bermuda based insurer Alterra Capital Holdings. Needless to say, Markel successfully integrated the acquisition and has since built up its Markel Ventures operation, providing another source of value creation for the company. While we called it the "mini Berkshire Hathaway" when we purchased the shares, we'd note that it has outperformed Berkshire over our investment timeframe, a testament to Markel's ability to create value for shareholders. We trimmed the position on strength over time, and with a relatively small position in the strategy we sold our remaining shares on reservations that COVID-19's longer-term impact may weigh on the insurance and Markel Ventures operations.

Amadeus IT Group. Headquartered in Spain, Amadeus' travel booking software business spans the globe. Airline clients include Southwest in the U.S. and Malaysia Airlines in Asia, hotel companies in over 150 countries including Holiday Inn hotels, passenger railroads in France, and the Hong Kong International Airport. Our investment thesis with Amadeus was that, as the most profitable part of the travel industry, it was poised to extend its market leadership through the industry's first cloud-based platform, enabling flexibility and lower-cost operating functionality to customers. Moreover, the financial strength of Amadeus relative to highly indebted competitors with limited resources to reinvest in the business puts Amadeus in a position to expand its lead going forward. While Amadeus remains the market leader, we now expect lower travel volumes to persist as the global economy slowly recovers from COVID-19, resulting in longer-term impacts on business and leisure travel volumes. After thorough analysis, we concluded that these altered dynamics impact our initial investment thesis, and consistent with our investment process we decided to sell our position.

Intercontinental Hotels Group. We sold our small position in IHG, the leader in the mainstream hotel segment, as it appeared their royalty stream from franchising hotels may experience growth challenges over the intermediate term. While we were attracted to its relative valuation and China exposure, persistent occupancy challenges and uncertain longer-term unit growth from pressured owner/developers impaired our original investment thesis.

HDB Bank. While we were attracted to HDB's dominant retail banking franchise in India, we concluded that uncertain government response to COVID-19 and the potential impact on credit costs and future growth offset our original investment thesis. While capital levels and reserves are robust, these capital resources have the potential to be redeployed away from the technology initiatives into digital consumer banking that we posited could yield higher return on capital for the bank. With a small position remaining after prior trims, we elected to redeploy into more attractive perceived opportunities.

Outlook

Our modest incremental moves in the strategy in 2020 oriented the strategy to where we see the best opportunity for our dominant companies to take their winning playbooks and operate them in regional economies where COVID-19 concerns depressed valuations, offering attractive entry, yet even now challenges outside the U.S. appear to be ebbing. The following forecasts are from Bloomberg and highlight how earnings outside the U.S., driven on a regional basis primarily by China, have the potential to recover at a faster rate than the U.S. With exposure to franchises such as Alibaba, Tencent, AIA, and now Ferrari, we have the potential to benefit from a combination of improving growth and attractive valuations near term.

Source: Bloomberg

Longer term, these franchises should continue to expand their revenue opportunities by extending their platforms. Our Tencent holding is an example that we believe has the elements of an attractive business. Its global position is unique as the #1 global online gaming company, but Tencent is more than gaming, through its other businesses such as its WeChat messaging platform, currently #1 in China with 1.1 billion monthly users. The company provided useful services during the COVID-19 crisis, enabling earnings to grow throughout this period. Earnings are not only growing, but are forecasted to continue to grow 20%+ according to Bloomberg estimates, while maintaining 30% operating margins and generating over $13 billion in free cash flow. By carefully selecting roughly 30 companies, such as Tencent, that benefit from secular tailwinds in attractive markets at attractive valuations, we believe we can generate value for our clients over time.

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.*

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 Chartered Financial Analyst® (CFA) *charter is a graduate-level investment credential awarded by the CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.*

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Sterling Capital Management – Global Leaders SMA Composite

December 31, 2000 – December 31, 2019

<u>Description:</u> 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.

<u>Notes:</u>

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 <u>MSCI World Net</u> 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.