Global Leaders SMA Commentary

3rd Quarter 2021

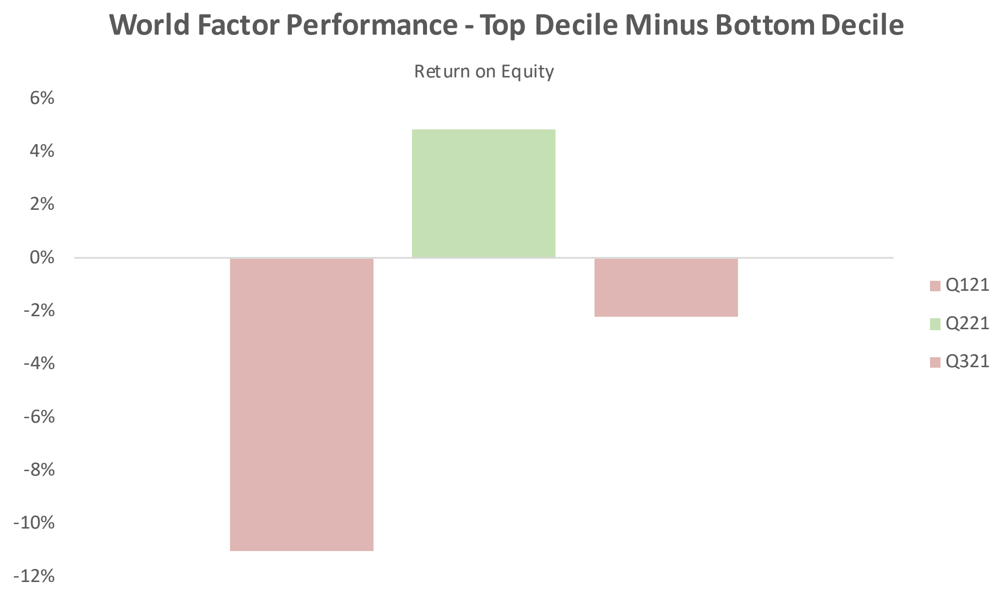
Simply stated, the philosophy behind the Sterling Capital Global Leaders portfolio is that global companies who establish themselves as #1 in their respective markets tend to stay #1 in those markets. Size usually translates to cost advantages in production, marketing, and R&D expenditures that can be 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 portfolio's return of -4.0% (gross of fees) and -4.3% (net of fees) underperformed the -0.01% return for the MSCI World (net).

As we have discussed for a few quarters, style factor volatility plays a material role in the relative performance in Global Leaders, and this quarter was no exception. Recall that in Q1, quality factors such as return on equity (ROE) underperformed in the face of directional changes in exogenous factors such as interest rates. Then in Q2, these factors reverted in Global Leaders' favor. In Q3, we saw a second reversal, as quality "went on sale" again in the face of exogenous factors such as rates and energy prices played a prominent role in the financial markets (particularly in the last month of the quarter). More specifically, ROE, as a style factor, declined by a low single-digit percentage, after rising last quarter and sharply declining in Q1, according to Ned Davis Research.



Note: Green consitutes quarter with positive return, while red constitutes a down quarter.

Source: Ned Davis Research

Please refer to the Performance Disclosure found on page 6.

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3rd Quarter 2021

Quarterly Attribution

In addition to volatility around quality attributes, we note our holdings with material exposure to China also underperformed in the quarter. This spanned names based in mainland China, as well as companies relying on China for a material portion of their business. There were two broad issues driving the underperformance in the quarter. First, the Chinese government continued to press on large domestic technology companies from a regulatory perspective, while simultaneously outlined an ethos of "shared prosperity" in response to rising wealth inequality. Second, later in the quarter, a high-profile real estate company (Evergande) began to encounter significant financial challenges. As real estate development is a large driver of the broader economy and of Chinese nationals' investment portfolios, these developments – combined with national energy constraints – elicited concern around the macro outlook in China.

As a result, **Alibaba** and **Tencent**, combined, represented 263 basis points (bps) of negative contribution in the quarter, or roughly two-thirds of our divergence with our benchmark. **LVMH**, which generated 38% of total sales year-to-date from Asia (excluding Japan), cost another 45 bps of negative contribution. The other two bottom contributors in the quarter were **PayPal** and **Amazon**. We do not cite any material company-specific drivers to this negative contribution other than a rotation to more value-oriented names in the quarter.

On the plus side, we generated roughly 115 bps of positive attribution from three of our software exposures: **ServiceNow**, **Microsoft**, and **Constellation Software**. For the former of these two, we note that, in many cases, large enterprises coming out of COVID-19 are accelerating their investments in cloud and digital transformation as a means to adapt to a new world of work-from-home, labor constraints, and other factors. **Alphabet** benefitted from continued improvement in key areas such as its travel vertical in paid search, as well as a reacceleration of branded advertising in its YouTube segment. **IHS Markit** was also a modest contributor in the quarter – we believe the acquisition by S&P Global will be completed in the coming months.

3Q21 Contributors and Detractors

Leading Contributors	Portfolio Weight	Total Return	Contribution to Return	Leading Detractors	Portfolio Weight	Total Return	Contribution to Return
ServiceNow, Inc.	4.96	13.23	0.56	Alibaba Group Holding Ltd. Sponsored ADR	3.96	-34.72	-1.61
Alphabet Inc. Class A	4.48	9.49	0.42	Tencent Holdings Ltd. Unsponsored ADR	4.09	-21.18	-1.02
Constellation Software Inc.	5.69	8.37	0.41	PayPal Holdings, Inc.	7.14	-10.73	-0.75
Microsoft Corporation	4.99	4.27	0.18	LVMH Moet Hennessy Louis Vuitton SE Unsponsored ADR	4.17	-9.20	-0.45
IHS Markit Ltd.	5.87	3.69	0.18	Amazon.com, Inc.	3.62	-11.13	-0.37

Performance returns for attribution are gross of fees and presented before investment management fees, custodial fees and trading expenses; a client's return will be reduced by the management fees and other expenses it may incur. Source: Factset.

Portfolio Changes

We added five new positions to Global Leaders and sold four. Below, we briefly summarize these activities. For a full discussion, please refer to our buy and sell write ups.

Please refer to the Performance Disclosure found on page 6.

Global Leaders SMA Commentary

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Summary of additions:

- **Amazon:** We purchased shares following a quarter in which Amazon sold off on the company lapping strong comparables due to COVID-19, and on the company's plans to aggressively invest in its labor and logistics network to enhance delivery times. We view these issues as transient, and continue to believe Amazon has significant scale and other structural advantages in both ecommerce and cloud services. Near-term, we highlight the cloud division, Amazon Web Services (AWS), which saw material acceleration in revenue growth, from the high-20% range year-over-year two quarters ago, to the high 30% range. Considering AWS generates 40% of consolidated operating profits (versus only comprising 12% of sales), this acceleration is material to broader results. Also, ecommerce trends remain healthy on a two-year stack basis, and we believe the market may be penalizing the company for its investments without giving credit for the potential positive revenue impacts. Overall, with Amazon's valuation on a forward EV/EBITDA basis versus the S&P 500® Index near a five-year low, we like the long-term upside in shares.
- **CapGemini:** CapGemini is a leading global IT services company based in Paris, France. We like CapGemini's exposure to digital transformation trends and its ability to help large global enterprises modernize their IT infrastructure. We also believe COVID-19 is accelerating the digital transformation efforts at many large enterprises. Digital is roughly 65% of the company's business, with key strengths residing in cloud, Internet of Things (IoT), Artificial Intelligence (AI), and other key growth markets. CapGemini's ability to marry these capabilities with real-world outsourced engineering services is also attractive, as manufacturing companies in key verticals like automotive increasingly integrate software development in their real-world product development. Finally, we purchased shares at a high-teens forward multiple versus north of 30x for Accenture. We believe there is an opportunity to close *some* of this gap over time, as trends in labor utilization and operating margins also potentially improve.
- **Taiwan Semiconductor:** TSMC is the dominant provider of outsourced manufacturing services (also known as foundry services) into the semiconductor industry. Our thesis on the company is based on our conviction in TSMC's competitive positon and scale advantages. We believe these factors endow the company with resources to invest in leading edge manufacturing processes at a rate faster than peers, which in turn ensures broad and even exclusive customer sponsorship at leading nodes. TSMC's process node dominance is so pronounced that Intel (i.e., from which Moore's Law originated) will use TSMC's foundry services at leading process nodes. Finally, we like the company's broad exposure to key semiconductor end markets, including those with attractive growth trends, such as cloud infrastructure, 5G/mobile phones, and electric vehicles/autonomous driving.
- **Cellnex:** Cellnex is a wireless tower operator based in Barcelona, Spain, with well over 100,000 sites spanning Western Europe. We like the stable, long-term recurring attributes associated with the wireless tower operators, as well as Cellnex's contractual protection against inflation in 65% of the company's tower portfolio. Our long-term thesis is predicated on European wireless carriers operating in a period of divesting their tower assets, and the possibility that the valuation gap between towers and networks will continue to motivate the sale of these assets to leaders like Cellnex. On valuation, we prefer a multiple, like recurring levered free cash flow (RLFCF) that bifurcates the company's steady state of ongoing recurring free cash flow from the company's growth investments, which are incurred upfront but should generate returns over a very long time horizon. RLFCF yield sits at roughly 4%. We like this return profile along with the steady characteristics of the business and protection from inflation.

- **Veeva:** Veeva is a leading provider of cloud solutions used by the life sciences industry to automate sales and marketing, compliance, and drug discovery efforts. The company's roots are in customer relationship management (CRM) software used by big pharma companies to enhance direct sales effectiveness. We believe the company has ~50% share in this niche. Veeva also pioneered solutions that help big pharma remain in compliance, with regulatory bodies in both their marketing materials and discovery efforts. Finally, it is a newer entrant to clinical trial automation. We view the core CRM business as a mid-teens long-term grower, with faster growth likely to come from the other two areas under its Vault brand. Veeva also distinguishes itself versus software-as-a-service (SaaS) peers with a unique combination of high margins, capital returns (ROE greater than 20%) and net cash on top of strong growth. The combination of these attributes, and Veeva's recurring business model, speak to the overall quality of the business franchise, in our view.

We funded the purchase of these five names with the sale of **London Stock Exchange, Stryker, Ferrari,** and **Texas Instruments**, as well as trims of other names in the portfolio.

Outlook

With experiencing a quarter of performance divergence from our benchmark, it's perhaps helpful to review the types of developments that might elicit a change in portfolio strategy versus those that will not. To that end, we remind clients that Global Leaders will sell holdings for one of three reasons. First, our price/return objectives in the stock have been met. Second, we identify a potential idea that we believe has a superior risk/reward versus an existing holding in the portfolio. Third, we identify a change in our investment thesis.

Global Leaders greatly prefers a portfolio with a high quality bias. Since the term "quality" could be interpreted ambiguously, let's review what we mean by that term. In our view, quality pertains to business attributes that lend themselves to capturing above-average returns on capital invested over a long time horizon. These attributes include attractive business models (in particular, those that are recurring, whether by subscription or razor/razor blade models), and/or sustainable competitive advantages (i.e., economies of scale, high switching costs, and/or intangible assets such as brand). Management talent is also a key driver of quality, in our view. The *output* (or evidence) of quality includes three things in our mind: one, above-average capital returns, whether through ROE or return on invested capital (ROIC); two, above-average earnings growth; and three, business durability/consistency in a variety of market/macro environments.

The reason we focus on these quality attributes is because the evidence shows over long-time series that metrics such as ROE, earnings growth, and stability of earnings tend to outperform in both up and down markets. The latter of these conditions is an easy one to overlook, because we have only had two annual market draw-downs over the past 15 years, where the defensive attributes of quality have an opportunity to shine. Therefore, when style factors drift away – even far away for a period – from quality, we have a very strong preference to stay the course, if not buy companies with these attributes into weakness.

This is somewhat in contrast to our experience with our China-focused stocks. Here, we initially observed a series of regulatory actions by the Chinese government to curb certain types of corporate and consumer behaviors and to pivot the country away from rising wealth inequality. Having prior experience with such actions before, we were inclined to “ride it out,” as we believe the large Chinese tech companies play a central role in the government’s long-term objectives. However, the addition of macro-related concerns added an additional fundamental concern that was unexpected and worthy of our monitoring. In short, we are willing to tolerate some pain in the context of quality companies like Alibaba and Tencent trading at an attractive valuation, but there are thresholds where fundamental risks may warrant action. In this case, we continue to hold Alibaba, Tencent, and LVMH, but we reduced our cumulative exposure to these three names during the quarter and will continue to monitor developments to the upside and downside, relative to other perceived investment opportunities.

Thank you for your investment and confidence in us.

Jeremy Lopez, CFA®
Co-Portfolio Manager

Chip Wittmann, 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 investment management fees and trading expenses. "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. **Moore's Law**: the prediction that the number of transistors in a dense integrated circuit doubles every two years as technological progress advances. The observation was made by Gordon Moore, co-founder of Intel, who saw that the size of transistors was shrinking rapidly due to continuous innovation. **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**. Levered Free Cash Flow** (LFCF): Levered cash flow is the amount of cash a business has after it has met its financial obligations. (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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Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful.

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STERLING CAPITAL

Sterling Capital Management – Global Leaders SMA Composite

December 31, 2000 – December 31, 2020

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 (%)
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
2011	-2.81	-4.03	133	43	3,932	0.49	2.11	-5.54	16.98	18.97
2010	14.77	13.32	137	46	3,548	0.32	15.06	11.76	22.25	22.16
2009	44.06	42.13	141	43	2,839	1.59	26.46	29.99	20.88	19.91
2008	-38.43	-39.26	165	33	1,907	1.19	-37.00	-40.71	17.86	15.29
2007	16.61	15.06	151	52	2,059	0.76	5.49	9.04	7.50	7.79
2006	17.79	16.18	141	41	1,314	0.38	15.80	20.07	7.02	6.92
2005	8.18	6.67	105	28	904	0.39	4.91	9.49	8.85	9.17
2004	15.61	13.90	62	16	522	0.98	10.88	14.72	13.80	15.07
2003	21.32	19.34	41	10	158	2.10	28.68	33.11	17.96	18.47
2002	-19.50	-20.80	39	7	51	0.40	-22.10	-19.89		
2001	-14.71	-15.94	12	4	24	0.10	-11.89	-16.82		

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. 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. 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.
4. 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.
5. "Pure" gross of fees returns are presented as supplemental information and do not reflect the deduction of any fees including trading costs. "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. The maximum SMA or bundled external platform fee is 2.57% annually and includes Sterling's actual management fee of 0.32%. Sterling's actual management fees are 32 basis points annually. Since inception, the composite is comprised 100% of wrap fee portfolios.
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, 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.