Global Leaders SMA Commentary

4th 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 return of +5.1% on a gross basis and +4.8% on a net basis underperformed the +7.8% return for the MSCI World (net).

Style factors were not a headwind the quarter, with the MSCI World Index Growth cohort outperforming Value, and quality measures such as return on equity (ROE) positively contributing in the period, according to Ned Davis research. Looking at stock selection, we note that both owned and unowned names factored into attribution. On the latter, Apple, Tesla, and Nvidia (all large weights in the benchmark that Global Leaders does not own) combined to account for a ~225 basis point headwind to Q4 performance. We note the average price-to-earnings (P/E) on fiscal 2022 earnings for these three stocks is 71x – more than double the median forward P/E of the Global Leaders portfolio.

In terms of stocks we own, PayPal fell 27% in the quarter and accounted for roughly 200 basis points of headwind to portfolio performance versus our benchmark. Meta (formerly Facebook), Cellnex, Petco, and Veeva were also headwinds, while United Health, IHS, Capgemini, Mettler-Toledo, and Constellation all drove positive attribution in the quarter (see the table on the following page). PayPal's stock weakness started late last quarter when a rumor surfaced that it was close to acquiring Pinterest – PayPal's management later refuted this rumor. The stock sold off further in Q4 when PayPal reported Q3 results, and its outlook was disappointing relative to expectations.

We continue to like PayPal and maintain our position, supported by the following points:

1. E-commerce trends remain healthy, as growth in online gross merchandise value (GMV) continues to outpace trends in physical retail. Coming off a year in which COVID-19 drove robust e-commerce growth in 2020, Mastercard reported that online sales through the holiday period (11.01-12.24) grew at a low-double-digit pace versus 8% for traditional retail. We believe PayPal is well-positioned to ride this trend.
2. PayPal has shown it has pricing power, and its business model naturally hedges against inflation with its transaction fees calculated as a percentage of GMV. Most notably, PayPal increased its take rate in August from 2.99% to 3.49%. This increase will cycle through the business for the majority of 2022.

Please refer to the Performance Disclosure found on page 10.

3. The company's Venmo app has more than 80 million users in the United States. The app accounts for roughly 15% of overall volume, but only represents a low-single-digit percent of revenue, by our estimate. Venmo's monetization is in a very early stage, but we estimate it has the potential to contribute as much as 200-300 basis points to revenue growth, supported by wins such as Amazon and Booking.com.
4. The company is broadening the functionality of its PayPal app. Recent examples of this include the ability to buy/sell crypto currency and the addition of savings account functionality. We believe these activities position PayPal to be a "super-app" that may, in particular, serve as a banking substitute for Gen Y/Gen Z.
5. Three directors bought stock in November and early December. More specifically, John Donahoe, PayPal's Chairman and CEO of Nike, purchased in November. David Dorman, Director and former CEO of AT&T, purchased shares in November. Finally, Enrique Lores, Director and CEO of HP, bought shares in December. We appreciate when insiders show conviction by purchasing stock.

4Q21 Attribution Effect

Top 5 – Attribution Effect	Average Weight	Total Return	Attribution Effect	Bottom 5 – Attribution Effect	Average Weight	Total Return	Attribution Effect
UnitedHealth Group Incorporated	4.70	28.92	0.73	PayPal Holdings, Inc.	5.36	-27.53	-2.03
IHS Markit Ltd.	6.46	14.15	0.37	Meta Platforms Inc. Class A	6.16	-0.90	-0.45
Capgemini SE Unsponsored ADR	3.76	17.38	0.34	Cellnex Telecom S.A. Unsponsored ADR	3.17	-5.74	-0.41
Mettler-Toledo International Inc.	3.22	23.22	0.33	Petco Health and Wellness Company Inc Class A	1.22	-20.93	-0.39
Constellation Software Inc.	6.20	13.24	0.33	Veeva Systems Inc Class A	2.01	-11.34	-0.38

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.

For the year, the Global Leaders strategy return of +13.1% on a gross basis and +12.0% on a net basis underperformed the +21.8% return for the MSCI World (net).

We estimate that, of the 21.8% return for the MSCI World, the top ten holdings in the index contributed almost 900 basis points to that performance, namely Apple, Microsoft, Amazon, Alphabet, Tesla, Meta (Facebook), Nvidia, J.P. Morgan, Home Depot, and United Healthcare. We owned, or have owned, roughly half of these names in 2021, but the half we did not own contributed more than 400 basis points of headwind in the year – once again, mainly owing to Apple, Tesla, and Nvidia. Looking at performance another way, the top five performing stocks in the MSCI World Index in 2021 with a market cap of greater than $10B included AMC Entertainment (a "meme" stock), Lucid Motors (a speculative electric vehicle company), and Devon Energy (oil and gas producer), each of which lost money in 2020. The point is that sometimes index performance comes from pockets within the market that simply do not meet our quality/valuation criteria.

As for positions we did own, we generated positive attribution from IHS Markit, driven by its merger with S&P Global, which we believe will close in early 2022. Alphabet outperformed on improvements in paid search, YouTube advertising, and overall expectations in global commerce and travel. Constellation, ServiceNow, and UnitedHealth also generated positive attribution. More than offsetting this were PayPal (discussed above), Tencent, Alibaba, London Stock Exchange and Ferrari. The latter three were sold during the year – we sold Alibaba in Q4 (see rationale below), while LSE and Ferrari were sold in prior quarters.

We maintain our position in Tencent. We view the company as a global leader in both video game and social media content (WeChat boasts 1.2 billion users worldwide). In addition, the company has strategic investments in a number of global tech and entertainment companies, many of them based in China though we also note investments in Spotify, Snapchat, Universal Music, Epic Software (privately-held, Fortnite game producer), and Tesla. While the company is experiencing regulatory headwinds as the Chinese government, for example, placed curbs on the amount of time children are allowed to play video games (a small overall percentage of the company's game usage), Bernstein calculates the value of these holdings to be worth over $180B USD versus more than $500B USD in market value.

	Valuation (US$mn)	Ownership (%)	Value to Tencent (US$mn)	Value per share (HK$)	Comments
E-commerce and life services					
Meituan	189,829	17%	32,651	26.7	Market value
JD	121,523	17%	20,780	17.0	Market value
Didi Chuxing	29,277	6%	1,874	1.5	Market value
Pinduoduo	68,229	16%	10,917	8.9	Market value
KE Holdings	21,389	12%	2,481	2.0	Market value
Tongcheng Elong	4,836	22%	1,074	0.9	Market value
Yonghui	5,551	5%	279	0.2	Market value
Rakuten	16,068	4%	586	0.5	Market value
Others			809	0.7	Market value
Total e-commerce and life services			**72,196**	**59.0**	
Gaming					
Epic	28,700	40%	11,480	9.4	Last transaction value
Sea Ltd	140,564	23%	32,189	26.3	Market value
Activision Blizzard	44,677	5%	2,191	1.8	Market value
NetMarble	8,793	18%	1,545	1.3	Market value
Shanda	4,380	12%	518	0.4	Last transaction value
Krafton	20,696	14%	2,811	2.3	Market value
Ubisoft	5,837	5%	290	0.2	Market value
Others			1,385	1.1	Market value
Total gaming			**52,409**	**42.9**	
Media					
Snap Inc.	75,322	12%	9,039	7.4	Market value
Spotify	43,654	9%	3,798	3.1	Market value
Universal Music	50,837	20%	10,167	8.3	Market value
Kuaishou	43,701	18%	7,648	6.3	Market value
Bilibili Inc	21,294	12%	2,640	2.2	Market value
Others			295	0.2	Market value
Total media			**33,588**	**27.5**	
Financials					
WeBank	21,000	30%	6,300	5.2	Last transaction value
CICC	27,898	5%	1,381	1.1	Market value
ZhongAn Online	4,893	10%	500	0.4	Market value
Total financials			**8,181**	**6.7**	
Other					
Tesla	1,019,299	<1%	8,154	6.7	Market Price
NIO	54,395	11%	6,239	5.1	Market Price
Total other			**14,394**	**11.8**	
Total investments			**180,766**	**147.8**	

Source: Bernstein Research

Importantly, in recent weeks we saw Tencent take steps to monetize some of these investment stakes, which we believe may, in turn, help reverse the historical under-representation of these investments in the company's market valuation (sometimes by as much as 30%). Specifically, in late December, the company announced it was selling the majority of its stake in JD (an Alibaba ecommerce competitor) and issuing a special dividend to shareholders in either stock or cash (U.S. investors will receive cash).

The value of this sale at the time of announcement was more than $16B USD. All shareholders of record on January 25 will receive this dividend in March. Furthermore, in January, management announced its divestiture of 14.5M shares of Sea Ltd., which at that time was worth more than $3B USD. Combined with a sizable share repurchase plan that management enacted in early 2022, we find the implied mid/high teens multiple of the core business attractive in the face of tangible realization of value in the company's investment portfolio.

2021 Attribution Effect

Top 5 – Attribution Effect	Average Weight	Total Return	Attribution Effect	Bottom 5 – Attribution Effect	Average Weight	Total Return	Attribution Effect
IHS Markit Ltd.	5.75	49.07	1.20	Alibaba Group Holding Ltd. Sponsored ADR	3.83	-38.30	-2.77
Alphabet Inc. Class A	3.95	63.36	1.14	PayPal Holdings, Inc.	6.65	-19.48	-2.08
Constellation Software Inc.	5.60	43.06	0.97	Tencent Holdings Ltd. Unsponsored ADR	4.89	-19.25	-1.93
ServiceNow, Inc.	2.81	30.34	0.84	London Stock Exchange Group plc Sponsored ADR	1.15	-18.92	-1.20
UnitedHealth Group Incorporated	4.31	45.21	0.73	Ferrari NV	1.71	-8.46	-0.89

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 four positions to Global Leaders in Q4 and sold five. Below, we briefly summarize these activities. For a more full discussion, please review our buy and sell write ups.

Summary of additions:

- **AstraZeneca (AZN):** We added shares of AstraZeneca ADR in November. Based in the United Kingdom, AstraZeneca is one of the world's leading pharmaceutical producers. At a high level, we like AstraZeneca's above-average revenue and earnings per share (EPS) growth potential, which is estimated to be above-average through 2025, relative to a broad basket of U.S. and European biopharma peers. This growth is supported by the company's oncology franchise, which represents more than 40% of revenue and is driven by a few key blockbuster and emerging drugs that are collectively growing well above the corporate average. In addition, we like opportunities in areas such as diabetes and respiratory care, as well as cost/revenue synergy potential from the company's recent acquisition of Alexion. While shares trade at a premium to the company's large pharma peers, we believe AstraZeneca's strong growth/capital return attributes warrant a premium valuation to peers. We also note shares trade at a notable discount to broader market averages.
- **Petco (WOOF):** We added shares of Petco in November. The company is a leading pet supplies retailer with over 1,500 locations throughout the United States and Mexico. We like the secular drivers underlying the broader market, including the rising prevalence of pet ownership and increase in spending per pet. The recurring nature of the customer relationship in pet retail and Petco's competitive position as one of only two national pet retailers is also notable. We see several company-specific drivers for Petco that we believe will drive differentiated performance relative to its retail peers, including the rollouts of veterinary services and fresh foods across the company's footprint, and what we believe to be structural advantages versus digital-focused peers, including the ability to cost effectively offer same-day delivery and curbside pickup. We believe this store-productivity story will roll up to durable topline growth and improving capital return – at our purchase, shares traded at a discount to the S&P 500. We also note both the CEO and CFO purchased shares in the open market prior to our purchase.

- **Take-Two (TTWO):** We added shares of Take-Two Interactive in November, a leading global developer and publisher of video games that boasts popular titles such as Grand Theft Auto (more than 350 million units sold worldwide) and NBA2K (more than 110 million units sold worldwide). We like the secular backdrop for video game companies, including the increasing percentage of the world's population that play video games and the increasing time spent per user versus legacy forms of media. Monetization of games has improved over the years, thanks to the addition of in-game micro transactions and advertising on top of the initial purchase price of the game itself. Specifically for Take-Two, we like the company's existing IP, attractive slate of games over the next two years, and its combination of growth, profitability and balance sheet characteristics, especially in relation to a multiple that is close to broader market indices.
- **Adyen (ADYEY):** We added American Depository Receipts (ADRs) of Adyen in December. Headquartered in Amsterdam, the company is a leading global digital payments company. We will provide a more fulsome discussion of our investment rationale at a later date.

Summary of sales:

- **Vertex (VRTX):** We sold Vertex in November to make room for our AstraZeneca purchase. Over our holding period, the stock pulled in (-15%) versus a roughly 10% return for the MSCI World Index. Our Vertex thesis was that the company had an attractive opportunity to continue its dominance in providing life-saving medicines to treat cystic fibrosis (CF), and several attractive "shots on goal" outside of CF. However since our purchase, Vertex missed on its first attempt during our ownership with a failed trial to treat alpha-1 antitrypsin deficiency. The company showed positive data within sickle cell anemia and diabetes, but sentiment struggled given uncertainty over a competitive treatment that Abbvie is developing. While we could have given more time for our Vertex thesis to play out, we simply preferred AstraZeneca and its growth profile, which we view as more diversified and de-risked relative to valuation.
- **Alibaba (BABA):** We sold Alibaba in the fall, with our final position sold in November. Over the course of our holding period, the stock fell more than 26% versus an almost 80% gain for the MSCI World Index. Shares were purchased in the initial throes of the COVID-19 crisis, in hopes of capitalizing on the company's strong competitive position in e-commerce, cloud computing, and other markets in the Asia-Pacific. While the shares performed well through the fall of 2020, a number of factors began to chip away at our investment thesis. In particular, the Chinese Communist Party (CCP) began to take a number of steps to control/reduce the influence of large technology platforms in the country, especially those, we believe, with "larger-than-life" leadership like founder Jack Ma. Simultaneously, the CCP also began to "saber-rattle" companies into activities that discouraged/counteracted rising wealth inequality. Already a dominant force in e-commerce, our concerns grew that these interventions would cap growth in key markets, disadvantage Alibaba versus competitors, encourage investment in areas in which Alibaba was less successful, and increase costs by way of labor inflation. In addition, we also began to fear supply-side macro factors in China, given labor, infrastructure and energy supply constraints. As a result, we opted to recycle capital to areas we felt had fewer exogenous headwinds.

- **LVMH (LVMUY):** We sold our LVMH positon over the course of the fall, with the culmination of a final sale in December. Since our purchase in July 2020, shares returned more than 70% versus a roughly 40% return for the MSCI World Index. We purchased shares of a luxury-goods maker at a more than 4% free cash flow (FCF) yield and as the wealth effects of appreciating financial assets created a favorable environment for LVMH. In addition, we believe the Tiffany acquisition has the potential for material financial and strategic synergies. However, over the course of our ownership period, we saw earnings per ADR surge to what is projected to be close to $5.00 per ADR in 2021, and strong recovery over 2020 levels of $2.25 (not surprising given the pandemic), but also handily over the $3.14 earned in 2019. Anecdotal feedback from stores indicates that some degree of purchasing arose from the COVID-19 stimulus. In addition, we note that 36% of revenue is derived from the Asia-Pacific. Two years ago, this percentage was 31%, driven by rapid growth in China. Given the macro and political headwinds we noted in our Alibaba sale, particularly around wealth inequality, we wonder whether results over the past year are “as good as it gets” in the context of a stock that trades at roughly 30 times earnings. On balance, we are pleased with the outperformance of shares and have redirected capital to what we perceive may be better ideas for Global Leaders investors.
- **Visa (V):** We sold our positon in Visa in December. Over our holding period, shares declined approximately (-1)% versus a roughly 32% appreciation for the MSCI World Index. Shares were purchased in September 2020 with the view that the company’s position as one of two primary payment networks for consumer transactions worldwide would continue to ride the secular wave from cash and checks to modern electronic payments. These trends continued over our holding period, with the exception of an elongation in the recovery of international travel, which is still indexing below 2019 levels. As these transactions require currency translation and other services, Visa historically generated healthy profits from this area. While we think Visa is well-positioned for an eventual recovery in cross-border travel, we opted to consolidate our bet in our Mastercard position. Both companies are highly correlated, however we believe Mastercard has the potential for slightly higher growth on a go-forward basis with, for example, the smaller market share positon versus Visa.
- **Alphabet (GOOGL):** We sold our shares in Alphabet in December. During our holding period, beginning in May 2010, shares appreciated just over 400% versus a roughly 118% return for the MSCI World Index. Over this time, the company established dominant competitive positions in key internet verticals such as Search and Maps and, with Android, established itself as one of two dominant mobile operating system providers. With these dominant positions, the company created tremendous shareholder value riding key secular themes such as the adoption of mobile phones and cloud computing, and the adoption of the internet itself. We note shares are up 65% year-to-date – this is notably higher than other large tech stocks such as Apple, Microsoft and the rest of “FANG” (Facebook, Amazon, Netflix and Google). This is juxtaposed against an environment, where an international travel recovery has been elongated and domestic travel may be at risk from COVID-19 variants. Prior to COVID-19, travel accounted for 10% of Google Search revenue. Given its quality characteristics (strong growth, profitability, balance sheet), we will likely continue to consider investment in Alphabet, but we prefer the upside of other large-/mega-cap tech ideas better at the moment.

Global Leaders SMA Commentary

4th Quarter 2021

Outlook

Furthering our discussion from last quarter regarding the quality attributes of the Global Leaders portfolio, we highlight the following favorable comparison versus the MSCI World Index. More specifically, we estimate the median name in the portfolio offers two-thirds higher earnings growth, almost double the cash flow return on invested capital (ROIC) (a measure similar to ROE, but one that we believe better measures the underlying core performance of a business), and lower financial leverage than our benchmark. Indeed, almost half of the portfolio has a neutral or net cash position – only two names have a net-debt to forward-EBITDA of more than 2.5x. We generally prefer companies that are able to self-fund their growth objectives and/or (in the case of Equinix and Cellnex) enter into long-term customer contracts that offer business visibility commensurate with financial obligations.

Global Leaders - Median Portfolio Attributes vs MSCI World Index

	EPS CAGR 2YR to 2023E	Cash Flow ROIC 2020	Net Debt to EBITDA
Global Leaders	16.2%	25.9%	0.0x
MSCI World Index	9.8%	13.7%	1.2x
% Difference	65%	89%	NA

Source: FactSet

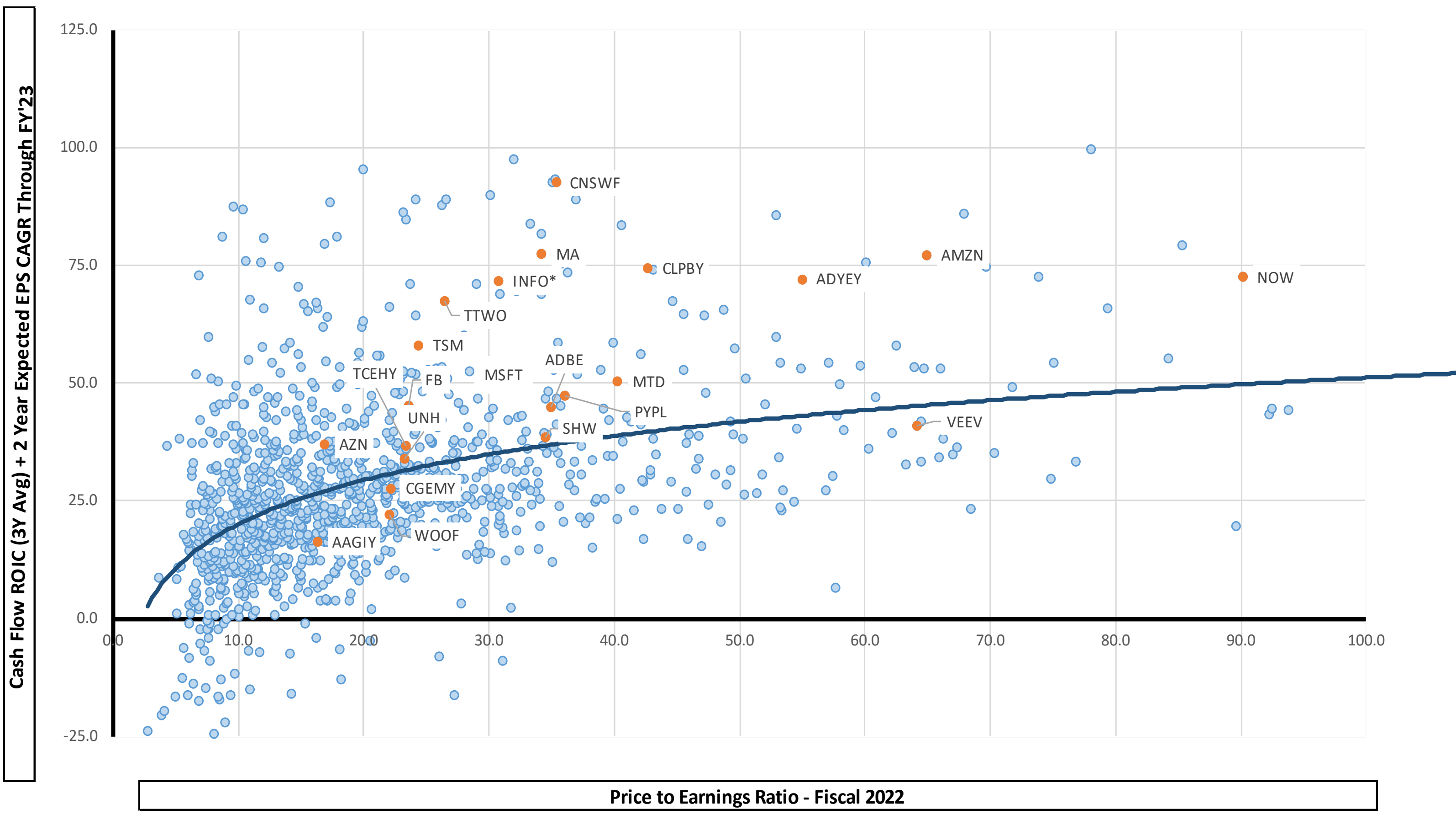
Unfortunately, the market does not favor these fundamental attributes in the near term. We believe this owes partly to rising interest rates (the ten-year treasury yield rose roughly 40 basis points in the past six months), and partly to anticipation that the Federal Reserve may respond aggressively to fight inflation. We try not to opine on the direction of future interest rates, though we do note that stocks with higher growth (and multiples) often function similar to “long duration” bonds, albeit with a variable “coupon” in the form of to-be-determined future FCFs. However, we believe that in these exogenous shifts, the market often neglects to parse the differences in long-term earnings outlook within the cohort. By focusing on quality attributes (the inputs of which are qualitative assessments of economic moat, business model, and management, and the outputs of which are metrics such as earnings growth and ROIC), we believe we maximize our chances of long-term success and upside.

Source: FactSet

Taking this thought a step further, we believe the potential for price dislocation occurs when one identifies securities in which potential future growth and quality are underappreciated relative to valuation along a spectrum. To illustrate this point, we highlight the scatterplot below, whereby we combine expected earnings growth through 2023 with cash flow ROIC plotted against fiscal 2022 P/E. The light blue dots below represent the constituents in the MSCI World Index, while the orange dots represents Global Leaders holdings. Real estate constituents are excluded from the MSCI World Index, including Global Leaders holdings Equinix and Cellnex. The dark blue line represents a frontier of these metrics whereby we view dots above the line as an efficient balance of growth/profitability versus valuation.

We believe the Global Leaders portfolio is efficient relative to the benchmark, with most (although not all) of the holdings above the blue line. Additionally, we view those near or below the line as opportunities for further analysis. For example, in the case of Veeva (VEEV), expectations for low-double-digit earnings growth reflects near-term investments that should fuel future growth. We expect revenue growth to remain in the high-teens to 20%+ range. In the case of Petco (WOOF), our thesis is that the potential for improving capital returns (driven by store productivity) is under-appreciated. For Capgemini, part of our thesis is that labor utilization will improve over time, in turn leading to an upward shift in capital returns.

Global Leaders (Orange) & MSCI World Index (Blue) - Efficiency Frontier of Capital Returns and Expected Growth versus Valuation



Note: INFO is being acquired by S&P Global – given equity component of the deal and our expectation that deal closes soon, metrics represent that of S&P Global. Source: FactSet, MSCI

Global Leaders SMA Commentary

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Our view is that, despite underperformance in 2021, we believe Global Leaders is efficiently positioned from a quality and growth perspective. Exogenous factors may represent a headwind over certain time periods, but we believe durable business fundamentals will tend to shine over the long term. When we experience draw-downs in individual names, we re-evaluate. As was the case with PayPal, we will sit tight when we believe our long-term thesis is intact. In the case of an Alibaba, in which our investment thesis materially changes, we will sell and find a replacement (such as more-recent additions Capgemini and ServiceNow) that we believe have a higher likelihood of outperforming.

In closing, we wanted to highlight a few material developments in the quarter. In December, Colin Ducharme joined as Co-Portfolio Manager of Global Leaders. We have worked closely with each other over the duration of my (Jeremy) tenure at Sterling Capital and we look forward to working even more closely together on Global Leaders. Second, during the quarter, I (Jeremy) initiated an investment position in Global Leaders. We believe in tangible financial alignment with our clients and we appreciate the opportunity to partner with you on our journeys together to achieve our financial goals.

Thank you for your investment and confidence in us.

Jeremy Lopez, CFA®
Co-Portfolio Manager

Colin Ducharme, CFA®
Co-Portfolio Manager

Important Information

Disclosures

Performance Disclosure: Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the 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. **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. **Free Cash Flow (FCF):** measures a company’s financial performance. It shows the cash that a company can produce after deducting the purchase of assets such as property, equipment, and other major investments from its operating cash flow. **Earnings Per Share (EPS)**: a key metric used to determine the common shareholder’s portion of the company’s profit. EPS measures each common share’s profit allocation in relation to the company’s total profit. **Price Earnings Ratio (P/E)**: is the relationship between a company’s stock price and earnings per share (EPS). The P/E ratio shows the expectations of the market and is the price you must pay per unit of current earnings (or future earnings, as the case may be). **Compound Annual Growth Rate (CAGR):** the measure of an investment’s annual growth rate over time, with the effect of compounding taken into account. It is often used to measure and compare the past performance of investments, or to project their expected future returns. **Net Debt to EBITDA**: The net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio measures financial leverage and a company’s ability to pay off its debt. Essentially, the net debt to EBITDA ratio (debt/EBITDA) gives an indication as to how long a company would need to operate at its current level to pay off all its debt. (Technical definitions are sourced from Corporate Finance Institute.)

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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.