

Global Leaders SMA Commentary

4th Quarter 2023

Quarterly Review

Performance	QTR	YTD	1YR	3YR	5YR	10YR	Since Inception ¹
Sterling (Gross)	21.33%	41.54%	41.54%	4.65%	12.33%	9.01%	7.13%
Sterling (Net)	20.49%	37.52%	37.52%	1.60%	9.08%	5.85%	4.01%
Blended Benchmark ²	11.42%	23.73 %	23.73%	7.11%	12.66%	9.64%	6.79%

The Global Leaders portfolio outperformed the Bloomberg Developed Markets Large & Mid Cap NR Index in Q4, generating a +21.33% gross return (+20.49% net return) versus a +11.42% benchmark return. Additionally, the Global Leaders strategy outperformed its benchmark in the full calendar year with a gross return of +41.54% (+37.52% net return) in 2023 versus a +23.73% benchmark return.

We think the U.S. equity market bullish narrative is partly fueled by the Federal Reserve (Fed)'s expected pivot in 2024 to policy rate cuts, and by the large amounts of credit market cash invested in fixed income instruments, which may reallocate to stocks if interest rates fall. According to Reuters, there was a record \$1.3T inflow into money market funds/cash in 2023, which followed high interest rates and eclipsed the \$1.0T of inflows in 2020. However, we think that investors in 2020 were primarily using cash as a safe asset class due to fear caused by the COVID-19 pandemic instead of higher yields, as seen in 2023.

As the Fed begins to reduce interest rates, bulls believe this will lead to lower yields, making equities more attractive from a relative perspective, which could push markets higher. By contrast, market bears hold onto the fear of higher for longer rates as well as the lagged effects of Fed tightening, which may lead to restrictive financial conditions and cause a U.S. recession.

4Q23 Attribution

Leading Contributors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return
Adyen N.V. Un-sponsored ADR	10.02	6.27	6.19
Shopify, Inc. Class A	4.62	1.91	1.87
ServiceNow, Inc.	5.37	1.55	1.51
Microsoft Corporation	5.95	1.29	1.25
S&P Global, Inc.	5.82	1.25	1.21

Sources: FactSet; Sterling Capital Management Analytics.

¹Inception date is 12.31.2000. ²Blended benchmark: the current benchmark is the Bloomberg Developed Markets Large & Mid Cap NR Index. Prior to 12.31.2015 the benchmark was the S&P 500 Index. Data is as of 12.31.2023. The benchmark is the Bloomberg Developed Markets Large & Mid Cap NR. Performance results prior to 01.01.2013 are considered "predecessor performance" and were achieved by the Equity Opportunities team when they were known as CHOICE Asset Management, a division of Scott & Stringfellow. Effective 06.30.2023, the net of fee performance reflects the deduction of the maximum SMA bundled fee of 3.00% annually for all periods presented. Performance is preliminary and is annualized for periods longer than one year. Net of fees performance returns are presented net of the SMA bundled fee, which includes all charges for trading costs, advisory services, portfolio management, custody and other administrative fees. "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. Please refer to the attached GIPS Composite Report for additional disclosures. Sources: MSCI; eVestment Alliance; Sterling Capital Management Analytics.

Please refer to the Performance Disclosure found on page 5.



Global Leaders SMA Commentary

4th Quarter 2023

For the quarter, the top five contributors for Global Leaders included **Adyen** (6.19%), **Shopify** (1.87%), **ServiceNow** (1.51%), **Microsoft** (1.25%), and **S&P Global** (1.21%).

In Q4, Adyen hosted an Investor Day, which provided granularity surrounding the business and included a quarterly update for net revenue as well as a more detailed forward guidance. The additional disclosure appeared to provide investors with greater comfort. The Investor Day served as a platform for Adyen to better communicate with its investor base, allowing the stock to rerate.

Shopify delivered strong third quarter results with 25% revenue growth, driven by the 22% gross merchandise value (GMV) expansion to \$56B. Operating income inflected positively to reach \$122MM compared to a prior year loss, reflecting disciplined cost control and the 16% free cash flow (FCF) margin. Growth remains broad-based across online commerce, offline retail, and business-to-business (B2B), with international tailwinds where Shopify continues share gains.

ServiceNow outperformed its Q3 quarterly earnings across all major business metrics, with current remaining performance obligations (cRPO) rising 24% in constant currency and exceeded consensus by 250 basis points (bps). Additionally, ServiceNow increased guidance for Q4 in both subscription revenue and operating margin given the strength in U.S. federal customers. ServiceNow has also hit the market with its new generative artificial intelligence (AI)-related tools, which helped the company sign four large deals in Q3.

Microsoft announced in its most recent earnings call that it beat earnings estimates across the board, with strong growth coming from Azure. The company benefited from increasing contribution from AI services, and management reiterated its commitment to matching capital expenditure with revenue and demand.

S&P Global printed strong numbers following their Q3 earnings call, with revenue growing 8% and management increasing its operating margin by 100 bps through continued expense management and realized cost synergies. Additionally, we believe the Ratings segment recovered nicely following debt issuance weakness in 2022, and management increased its guidance to close out 2023. Given the most recent trends, the team sees the Ratings business pivoting from a headwind to a tailwind in 2024.

Leading Detractors	Portfolio Weight	Gross Contribution to Return	Net Contribution to Return
Veeva Systems Inc Class A	4.46	-0.49	-0.52
Accenture Plc Class A	0.48	0.08	0.07
LVMH Moet Hennessy Louis Vuitton SE Unsponsored ADR	0.94	0.09	0.09
Canadian Pacific Kansas City Limited	1.61	0.11	0.10
Mastercard Incorporated Class A	2.63	0.13	0.11

Sources: FactSet; Sterling Capital Management Analytics.

For the quarter, the bottom five detractors for Global Leaders included **Veeva** (-0.52%), **Accenture** (0.07%), **LVMH** (0.09%), **Canadian Pacific** (0.10), and **MasterCard** (0.11%).

Peter Gassner, Veeva's CEO, sees a challenging macro with higher interest rates. This creates a tough funding environment for smaller biotechs and causes industry-wide pressure, leading to service revenue weakness. However, we believe Veeva management still feels confident in achieving their longer-term guidance goals, and the core customer relationship management (CRM) business remains robust.

Global Leaders SMA Commentary

4th Quarter 2023

Recently, bookings for Accenture have fluctuated, and management has guided down next quarter estimates. However, we believe the AI opportunity is large in addition to the trend for continued cloud migration. Accenture management has reaffirmed the full year guide, which implies a strong recovery in the back of the year.

In Q3, LVMH underperformed in its largest segment (fashion and leather goods), and most geographical segments decelerated sequentially. Additionally, the smaller wine and spirits segment was softer, with management calling out weakness in demand for Hennessy cognac in the U.S. as well as persistently high inventory levels among retailers. We believe LVMH management remains focused on enhancing the desirability of its brands, which is we think is critical for long-term growth. However, in the shorter term, the company may experience some weakness if the demand for luxury products wanes.

Canadian Pacific recently cut earnings per share (EPS) guidance, but six months after closing the large merger with Kansas City Southern, the company highlighted progress towards achieving expected cost and revenue synergies. Our team believes Canadian Pacific remains attractively priced, and assuming there is no further macro deterioration in 2024, we are optimistic in the near term.

The consumer spending environment remains resilient, and we believe MasterCard benefits from strong travel demand, with cross-border volumes up 21%. However, the ever-increasing rebate and incentives story is an overhang, and we believe weaker retail metrics over the November-December 2023 timeframe weighed on the stock.

Portfolio Changes and Diligence Updates

Purchases:

LVMH is a European luxury goods company with a diversified brand strategy and a portfolio of in-house brands. The business is led by Bernard Arnault, who has grown the business into the largest luxury brand conglomerate. Our team believes that through LVMH's brand portfolio, it can maintain strong pricing power and the stock could compound at a higher internal rate of return (IRR) over our investment horizon.

Accenture is a leading global professional services company that helps clients optimize their operations, accelerate revenue growth, and drive change. Accenture is a first mover in digital transformation and benefits from strong secular tailwinds like cloud migration and AI integration, which we believe is fueling demand for their consulting services.

Removals:

While we believe **UnitedHealth Group** is a powerful compounder, the team felt there were greater opportunities elsewhere.

Global Leaders SMA Commentary

4th Quarter 2023

Outlook

As the Global Leaders team looks toward 2024, we remain optimistic as inflation moves lower and unemployment remains low. Additionally, the Fed currently sees the policy rate at or near its peak, but remains cautious given that the rate is dependent on how the economy performs. There is still a high degree of uncertainty surrounding economic outlook.

Finally, geopolitical tensions may also be concerning, but our team feels that the portfolio is well positioned to navigate a variety of macroeconomic conditions, and our consistent focus on quality gives us conviction in both expansionary and contracting environments.

Thanks for your trust and investment in us.

Colin Ducharme

Colin Ducharme, CFA®

Portfolio Manager

Important Information

Disclosures

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Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

The **Bloomberg World Large & Mid Cap (Net) Index** is a float market-cap-weighted benchmark that covers 85% market cap of the measured market.

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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: **Customer relationship management (CRM)** refers to the principles, practices, and guidelines that an organization follows when interacting with its customers. **Earnings per share (EPS)** is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution. **Free cash flow (FCF)** is the money that remains after a company pays for everyday operating expenses and capital expenditures. Knowing a company's free cash flow can give insight into its financial health. **Gross merchandises value (GMV)** is the total value of merchandise sold over a given period of time through a customer-to-customer (C2C) exchange site. It is a measure of the growth of the business or use of the site to sell merchandise owned by others. The **internal rate of return (IRR)** is a metric used in financial analysis to estimate the profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis. A **money market fund** is a kind of mutual fund that invests in highly liquid, near-term instruments. These instruments include cash, cash equivalent securities, and high-crediting, debt-based securities with a short-term maturity (such as U.S. Treasuries). (Technical definitions are sourced from Corporate Finance Institute.)

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Sterling Capital Global Leaders SMA

	Total "Pure" Gross Return AWR	Total Net Return AWR	Primary Benchmark	Secondary Benchmark ⁸	3Yr Ex-Post Std Dev Composite Gross	3Yr Ex-Post Std Dev Primary Benchmark	3Yr Ex-Post Std Dev Secondary Benchmark	Internal Asset Wtd. Dispersion	Number Of Portfolios	Composite Assets (MM)	Total Firm Assets (MM)
2022	-28.45%	-30.61%	-18.29%	-18.29%	21.13%	20.46%	20.46%	0.23%	20	7	62,842
2021	13.19%	9.92%	21.56%	21.56%	16.06%	17.09%	17.09%	0.59%	25	18	75,309
2020	20.58%	17.11%	15.60%	15.60%	16.50%	18.31%	18.31%	0.62%	42	30	70,108
2019	29.39%	25.69%	27.77%	27.77%	10.44%	11.15%	11.15%	0.87%	51	29	58,191
2018	-4.23%	-7.03%	-8.80%	-8.80%	9.90%	10.38%	10.38%	0.50%	57	26	56,889
2017	19.80%	16.36%	22.40%	22.40%	9.54%	10.04%	10.15%	0.51%	63	29	55,908
2016	5.25%	2.19%	7.51%	7.51%	10.07%	10.77%	10.83%	0.30%	88	37	51,603
2015	-0.63%	-3.53%	1.38%	-0.86%	10.05%	10.47%	10.73%	0.37%	80	38	51,155
2014	10.40%	7.20%	13.69%	4.77%	9.12%	8.97%	10.21%	0.40%	89	41	47,539
2013	30.51%	26.78%	32.39%	26.30%	12.20%	11.94%	13.57%	0.48%	96	43	45,638

Benchmark: 01.01.2016 - Present: 100% Bloomberg Developed Markets Large/Mid Cap Net Index. Composite Creation 12.31.2000 Inception Date: 01.01.2001
Prior to 01.01.2016: 100% S&P 500[®] Index Date:

- Consists of all discretionary separately managed wrap Global Leaders portfolios. SCM'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.
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- The performance presented represents past performance and is no guarantee of future results. Market and economic conditions vary from year to year and can result in a decline in market value due to material market or economic conditions. Please refer to the slide titled "Performance" for the one-, five-, and ten-year returns of the composite.
- 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.
- 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. Composite returns are calculated by weighting the individual portfolio returns using beginning of period market values.
- "Pure" gross of fees returns are presented as supplemental information and do not reflect the deduction of any fees including trading costs. Net returns are calculated by deducting the highest applicable wrap fee of 3.00% annually from the pure gross composite return. As of 6/30/23, the composite model fee was updated to 3.00% annually for all periods presented. Prior to this change, the net of fees returns reflected the maximum bundled external platform fee of 2.52%. Prior to 1/1/21, the net of fees returns reflect the actual SMA fee of the individual portfolios in each platform except for one platform where the maximum fee is deducted from the gross return. The SMA fee includes all charges for trading costs, portfolio management, custody and other administrative fees. The actual fee may vary by size and type of portfolio. The maximum SMA or bundled external platform fee is 2.52% annually and includes Sterling's actual management fee of 0.27%. Sterling's actual management fees are 50 basis points annually or less. Since inception, the composite is comprised 100% of wrap fee portfolios.
- Effective 1/1/22, portfolios are removed from the composite for flows 10% or greater of prior month portfolio market value. Portfolio remains out of the composite for the month of the flow and for one additional period. Prior to 1/1/22, portfolios were not removed from the composite for flows.
- As of 6/30/23, the benchmark was changed from the MSCI World Net Index to the Bloomberg Developed Markets Large/Mid Cap Net Index beginning 1/1/16. The Bloomberg Developed Markets Large & Mid Cap Net Return Index is a float market-cap-weighted equity benchmark that covers 85% market cap of the measured market. Effective 1/1/16, the composite was renamed from "Leaders" to "Global Leaders" and the benchmark was changed at that time to the MSCI World Net Index. 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. Prior to 1/1/16 the benchmark was the S&P 500[®] Index. The S&P 500[®] Index 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.
- 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 when a full three years of composite performance is not yet available.