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International Equity Investing Perspectives

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Brandon W. Carl, CFA®
Director | Portfolio Manager

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International Equity Market Overview

- The international equity investment opportunity set is defined by multiple index providers:
    - MSCI ACWI ex USA Index (ACWI = All Country World Index; large cap and mid cap)
    - MSCI ACWI ex USA All Cap Index (includes small cap and micro cap)
    - Russell Global ex-US Index (all cap)
    - Financial Times Stock Exchange (FTSE) Global All Cap ex US Index
- Inclusion criteria for each index provider can vary, but characteristics and constituents are similar across each index.
- Over 75% of the world's publicly-traded companies are headquartered outside the U.S. (11,030 of the 14,447 companies included in the MSCI ACWI All Cap Index were domiciled in international markets as of 2/28/2018).
- International equities make up roughly half of the global equity market capitalization (48.4% of the MSCI ACWI All Cap Index's market capitalization as of 2/28/2018).

MSCI ACWI ex USA All Cap Index

Sector	MSCI ACWI ex USA All Cap Index	Top 5 Countries	Weight
Financials	21.52%	Japan	18.04%
Industrials	13.05%	United Kingdom	11.80%
Consumer Discretionary	12.17%	China	7.13%
Information Technology	11.93%	France	6.66%
Consumer Staples	8.74%	Germany	6.23%
Materials	8.60%		
Health Care	7.55%		
Energy	6.08%		
Real Estate	4.12%		
Telecommunication Services	3.47%		
Utilities	2.76%		

Source: MSCI; as of 02.28.2018

MSCI ACWI ex USA All Cap Index

Company	Index Weighting	Sector	Country
Tencent Holdings	1.20%	Information Technology	China
Nestle	0.95%	Consumer Staples	Switzerland
Alibaba	0.82%	Information Technology	China
Samsung Electronics	0.81%	Information Technology	South Korea
Taiwan Semiconductor	0.79%	Information Technology	Taiwan
HSBC Holdings	0.76%	Financials	United Kingdom
Novartis	0.71%	Health Care	Switzerland
Toyota Motor Corp	0.68%	Consumer Discretionary	Japan
Roche Holdings	0.62%	Health Care	Switzerland
Royal Dutch Shell	0.55%	Energy	United Kingdom
Total	***7.89%***		

Source: MSCI; as of 02.28.2018

International Developed Markets vs. Emerging Markets

- The international equity investment opportunity set is comprised of companies domiciled in developed markets and emerging markets.
  - International Developed Markets
    - Established economies, developed capital markets, high per capita income, robust infrastructure
    - 22 countries (MSCI)
    - Examples include Japan, United Kingdom, Germany, Canada, Australia
  - Emerging Markets
    - Rapidly growing economies, improving infrastructure, rising urbanization, relatively low but growing per capita income
    - 24 countries (MSCI)
    - Examples include China, India, Brazil, Russia
  - Frontier Markets represent a sub-set of the emerging market opportunity set
    - Frontier markets are defined by underdeveloped capital markets, lower levels of market liquidity, higher trading costs
    - Represents less than 0.5% of the global equity market capitalization
    - Just 110 companies in the MSCI Frontier Markets Index
    - 29 countries (MSCI)
    - Examples include Argentina, Vietnam, Nigeria
- Developed vs. emerging market criteria can also vary slightly by index provider (e.g. South Korea is considered to be an emerging market by MSCI and Russell, but is classified as a developed market by FTSE).
- International Developed Markets make up roughly 75% of the MSCI ACWI Index ex USA Index, and 36% of the MSCI ACWI Index.
- Emerging Markets make up roughly 25% of the MSCI ACWI ex USA Index, 12% of the MSCI ACWI Index.

Home Country Bias

- On average, U.S. investors have low exposure international equities relative to global equity indexes.
- For example, Fidelity's analysis of retail account data suggests U.S. investors are significantly under-allocated to international equities.

	Under Age 35	Age 35-50
U.S	87%	86%
International	13%	14%

Source: Fidelity Investments as of 03.01.2017

- "Home Country Bias" plays a role in this underexposure (investor familiarity with domestic companies leads to higher allocations to domestic equities).

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Common International Equity Misconceptions

- International equities consistently generate lower returns when compared to U.S. equities.
- The addition of international equities to a U.S. equity portfolio will not improve the portfolio's risk and return profile.
- Adequate geographic diversification can be achieved through investing in U.S. equities since many U.S.-domiciled companies have significant foreign revenues and operations.
  - Over 40% of S&P 500 Index company revenues are generated in outside of the U.S.
- International end market/customer base is not attractive compared to the U.S. (i.e. lower per capita income)

U.S. vs. International Equity Performance Since GFC

- Significant U.S. equity outperformance since the Global Financial Crisis has led many investors to remain underexposed to international equities.

March 9, 2009 - March 8, 2018	Annualized Return	Cummulative Return
Russell 3000 Index	19.37%	391.88%
Russell Global xUS Index	13.10%	202.76%
Russell Developed xUS Index	12.87%	197.25%
Russell Emerging Markets Index	14.11%	227.89%

Source: Morningstar Direct

Historical U.S. vs. International Equity Performance

- U.S. and international equity market leadership has historically moved in cycles, which has resulted in prolonged periods of relative outperformance for U.S. and international equities.

- Historical relative performance can be more accurately measured by examining two consecutive performance cycles (i.e. one cycle of U.S. outperformance and the following cycle of international outperformance).

- For example, international equities outperformed U.S. equities from 2/2002-10/2009, and U.S. equites outperformed international equities from 11/2009-11/2016.

	2/1/2002 10/31/2009 Annualized Return	11/1/2009 11/30/2016 Annualized Return
S&P 500 Index	0.83%	13.60%
Russell Global xUS Index	9.21%	3.83%

Source Morningstar Direct

- U.S. and international equity returns over the 2/2002-11/2016 period (i.e. one cycle of international outperformance, one cycle of U.S. outperformance) were similar.

	2/1/2002 - 11/30/2016 Annualized Return
S&P 500 Index	6.74%
Russell Global xUS Index	6.61%

Source Morningstar Direct

- More important, a 50% U.S. equity/50% international equity portfolio generated higher returns over 2/2002-11/2016 period when compared to standalone U.S. and international equity returns.

	2/1/2002 - 11/30/2016 Annualized Return
50% S&P 500 - 50% Russell Global xUS (Annual Rebalance)	6.84%
50% S&P 500 - 50% Russell Global xUS (Quarterly Rebalance)	6.80%
S&P 500 Index	6.74%
Russell Global xUS Index	6.61%

Source Morningstar Direct

Historical U.S. vs. International Equity Performance
Calendar Year Relative Returns

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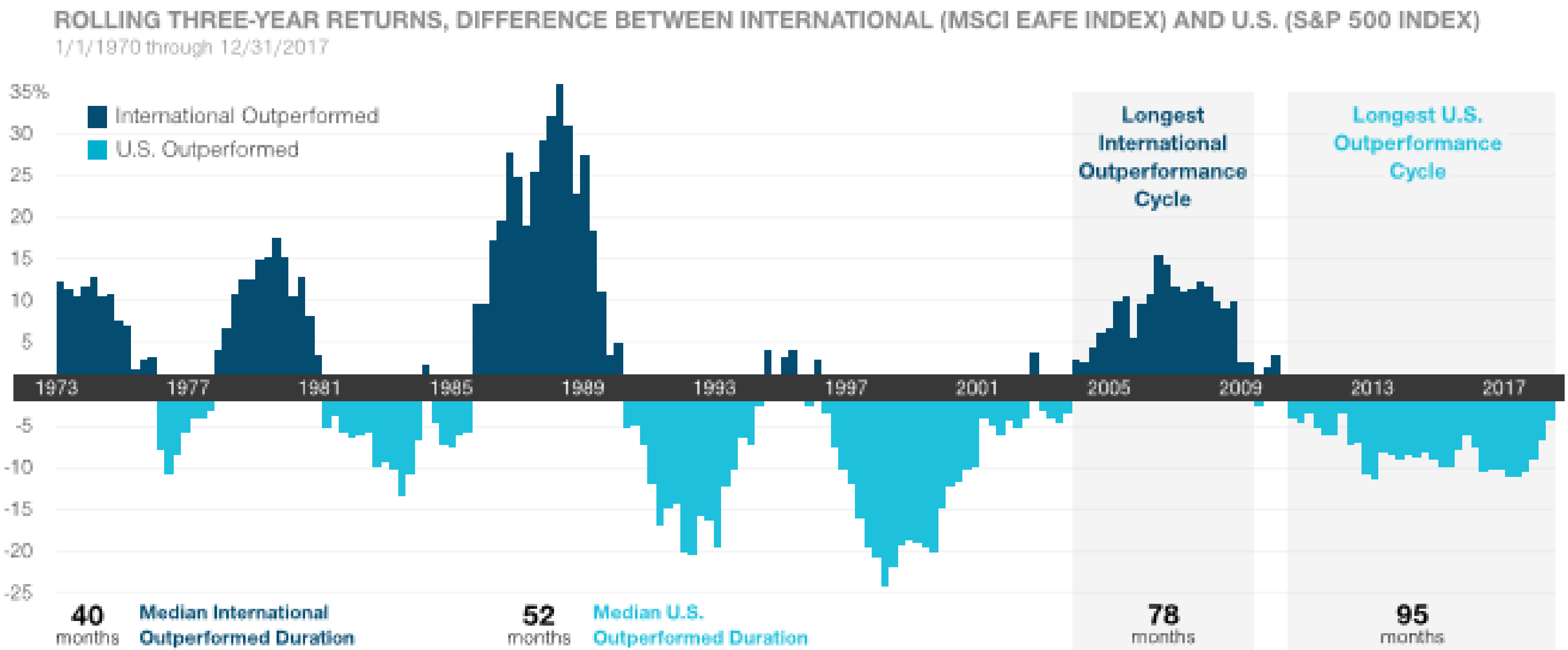
- International equities have outperformed U.S. equities 50% of the time on a 1-year calendar year basis over the past 20 years.

Year	Russell 3000 Index Return (%)	Russell Global xUS Index Return (%)
1998	24.14	14.20
1999	20.90	31.85
2000	-7.46	-14.56
2001	-11.46	-19.57
2002	-21.54	-15.11
2003	31.06	43.29
2004	11.95	21.89
2005	6.12	17.27
2006	15.72	26.62
2007	5.14	17.09
2008	-37.31	-46.86
2009	28.34	45.03
2010	16.93	13.51
2011	1.03	-14.41
2012	16.42	17.20
2013	33.55	16.23
2014	12.56	-3.58
2015	0.48	-4.40
2016	12.74	4.39
2017	21.13	27.83
% of 1 Yr Outperformance	**50%**	**50%**

Source: Morningstar Direct; Russell Global xUS Index inception date: 6/28/1996
Russell 3000 Index inception date: 12/31/1978

Historical U.S. vs. International Equity Performance
Rolling 3-Year Relative Returns



As of 12.31.2017. Sources: FactSet, MSCI, S&P Dow Jones Indices, T. Rowe Price.

International Equity Risks

- International equities have often exhibited higher levels of risk, as defined by standard deviation, on a standalone basis vs. U.S. equities.

Index	3 Year 1/1/2015 12/31/2017 Standard Deviation (Annualized)	5 Year 1/1/2013 12/31/2017 Standard Deviation (Annualized)	10 Year 1/1/2008 12/31/2017 Standard Deviation (Annualized)	20 Year 1/1/1998 12/31/2017 Standard Deviation (Annualized)
Russell 3000 Index	10.23	9.75	15.60	15.25
Russell Global xUS Index	11.93	11.43	19.20	17.24

Source: Morningstar Direct

- International equities have unique risk characteristics (e.g. interest-rate, currency, political, commodity price risks).
- These unique set of risks means that international equities typically have imperfect correlations with U.S. equities.
  - From 1980 through 2017, the correlation of the Russell 3000 Index to the MSCI EAFE Index was .67 (source: Morningstar Direct, monthly return data).
  - From 1997 through 2017, the correction of the Russell 3000 index to the Russell Emerging Markets Index was .75 (source: Morningstar Direct, monthly return data).

International Equity Allocation Impact on Risk and Returns

- The combination of U.S. equities and international equities has historically reduced risk and enhanced risk-adjusted returns while generating similar levels of absolute performance when compared to a portfolio comprised only of U.S. equities.

International stock exposure has historically lowered stock risk and improved risk-adjusted returns over the long term.

1950 to 2016	S&P 500	International portfolio	Global equity portfolio (70% U.S./30% International)
Annualized returns	11.2%	9.3%	10.8%
Standard deviation	14.3%	15.2%	13.2%
Sharpe ratio*	0.47	0.32	0.49

*A higher Sharpe ratio indicates better risk-adjusted returns.
The Sharpe ratio gauges risk-adjusted returns by subtracting the return of a risk-free investment from the return of an investment or portfolio and dividing by standard deviation, which is a measure of risk. Hypothetical "global equit portfolio" is rebalanced annually in 70% U.S. and 30% foreign stocks. U.S. equities: S&P 500 Total Return Index; International equities: MSCI ACWI ex-USA Index. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of Feb. 16, 2017. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index. All indices are unmanaged.

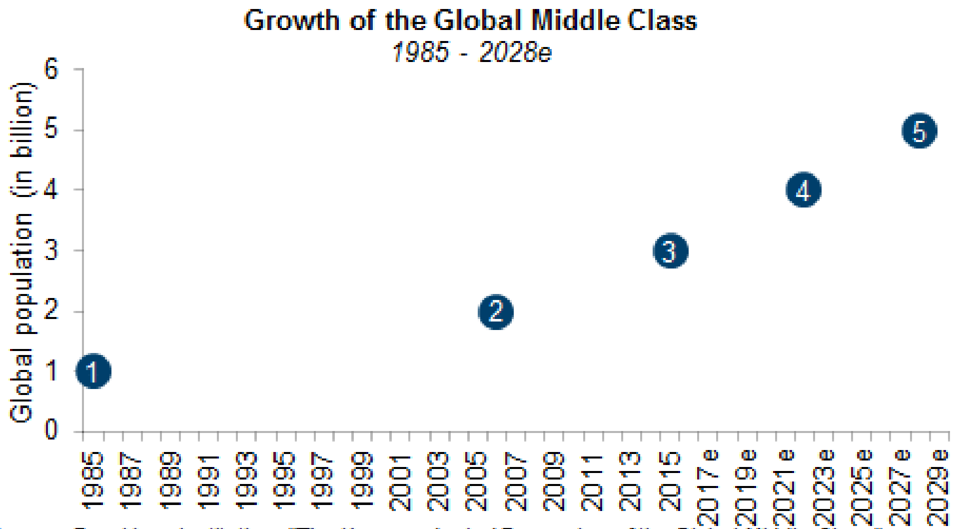
Sector Diversity

- International equity exposure can reduce the risk of being overexposed to a particular sector or sectors.

Sector	MSCI USA All Cap Index	MSCI ACWI ex USA All Cap Index	MSCI ACWI All Cap Index
Information Technology	24.37%	11.93%	18.34%
Financials	15.14%	21.52%	18.23%
Health Care	13.50%	7.55%	10.62%
Consumer Discretionary	13.07%	12.17%	12.63%
Industrials	10.53%	13.05%	11.75%
Consumer Staples	6.86%	8.74%	7.77%
Energy	5.28%	6.08%	5.67%
Real Estate	3.47%	4.12%	3.79%
Materials	3.34%	8.60%	5.89%
Utilities	2.71%	2.76%	2.73%
Telecommunication Services	1.73%	3.47%	2.57%

Source: MSCI; as of February 28, 2018

Global Middle Class Growth



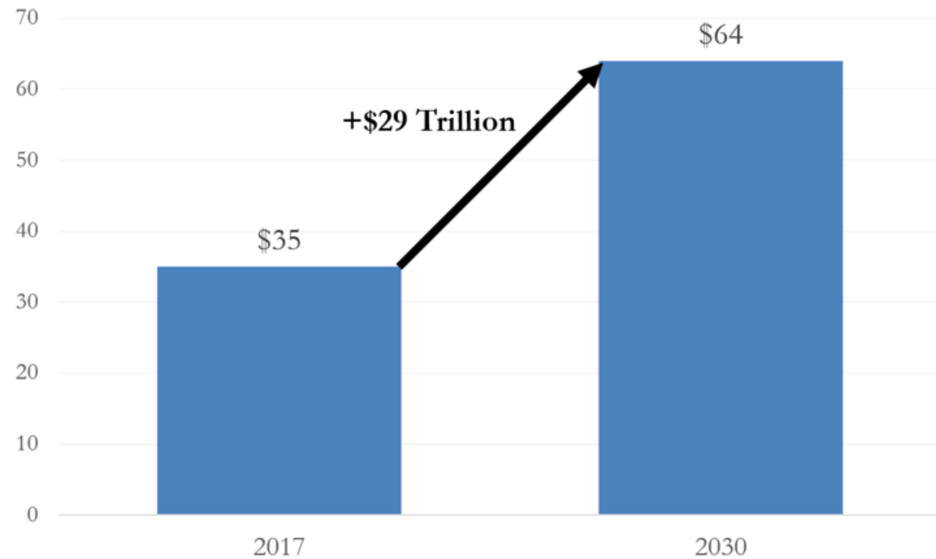
Source: Brookings Institution, "The Unprecedented Expansion of the Global Middle Class", February 2017, Columbia Management Investment Advisers. Past performance does not guarantee future results.

- Almost 90% of the next billion entrants into the global middle class will come from Asia

Source: Kharas, "The Unprecedented Expansion of the Global Middle Class," Brookings Institution, February 2017

- According to Brookings Institute estimates, global middle class spending is estimated to reach $64 trillion per year by 2030 vs. $35 trillion in 2017.

- $28 trillion of the $29 trillion increase is expected to come from emerging markets.



Source: Brookings

International Equity Active Management

- International equity markets are generally less efficient when compared to the U.S.
  - Larger investment opportunity set (over 11,000 companies)
  - Country/region-specific risks are often more difficult to measure
  - Lower levels of analyst coverage for international equities

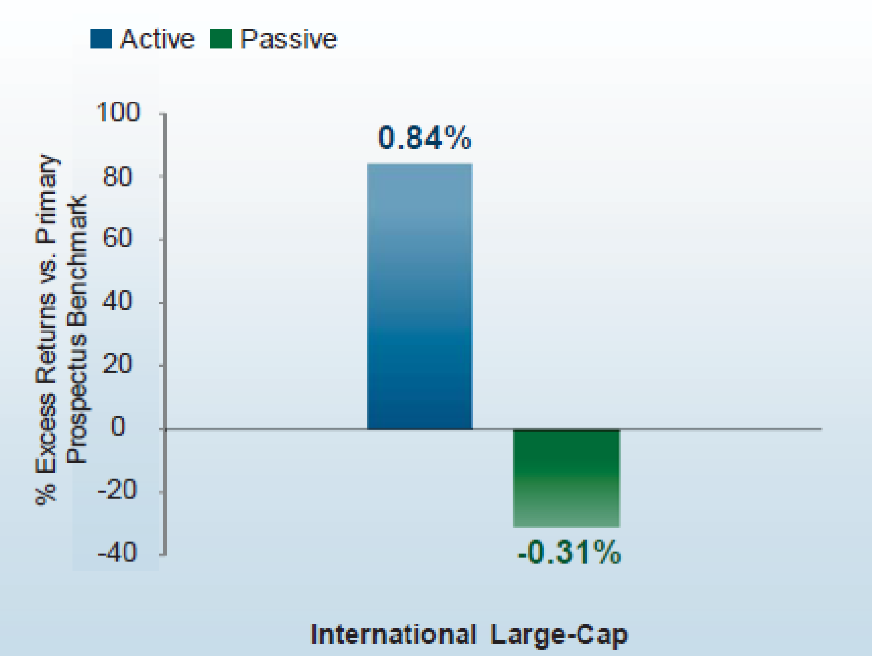
Analyst Coverage	iShares MSCI Emerging Markets (EEM)	iShares Core S&P 500 (IVV)
Number of Companies	855	505
Stocks with No Coverage	50	0
5 or Less	107	8
10 or Less	191	29
Average Analysts per Stock	18	22

As of 30 September 2017
Source: Morningstar

- Skilled investment managers can take advantage of these inefficiencies to increase the probability of generating consistent long-term alpha.

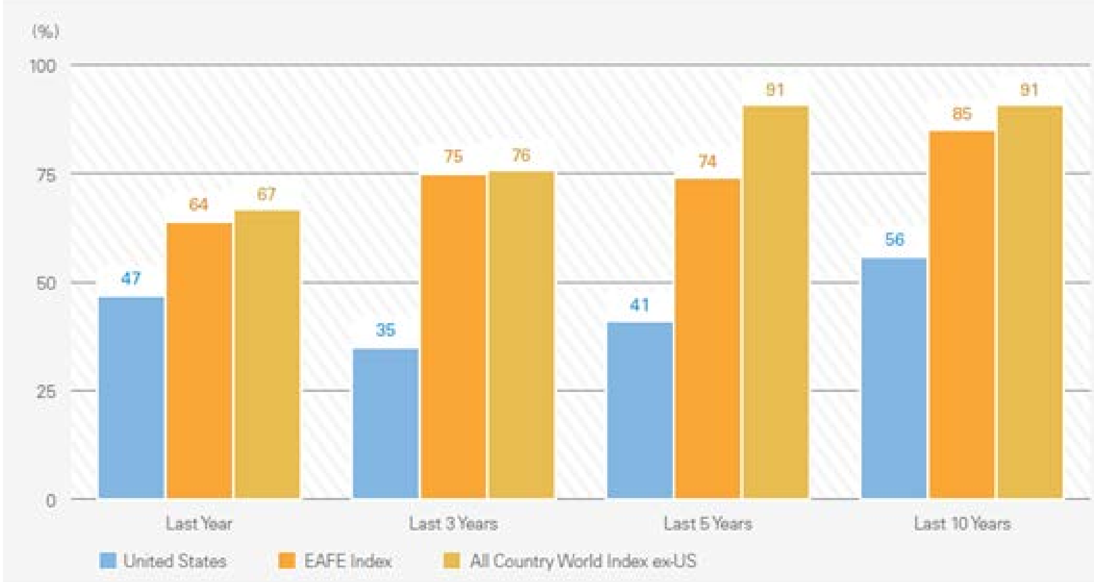
International Equity Active Management

Active Funds Have Significantly Outperformed Their Indexes
Average one-year excess return of international large cap equity mutual funds net of fees, 1993–2016



Source: Fidelity Leadership Series paper "Finding Superior Active Equity Managers: A Simple Approach for Investors" (May 2015), Morningstar, Fidelity Investments, as of 12/31/16. Excess returns represent industry average returns for each set of funds (active or passive, including closed or merged funds). International funds labeled as "foreign large growth/value/blend" by Morningstar. Average excess returns: the average of all monthly one-year rolling excess returns for all funds in the set under analysis, using overlapping one year periods and data from Jan. 1, 1992, to Dec. 31, 2016. Excess returns are returns relative to the primary prospectus benchmark of each fund, net of fees. Past performance is no guarantee of future results. This chart does not represent actual or future performance of any individual investment option. Industry aggregate returns are equal-weighted for all funds in each set. Periods determined by availability of sufficient passive index fund data.

International Active Managers Have Been Effective
Percentage of Managers Who Beat the Index: US versus EAFE versus ACW ex-US



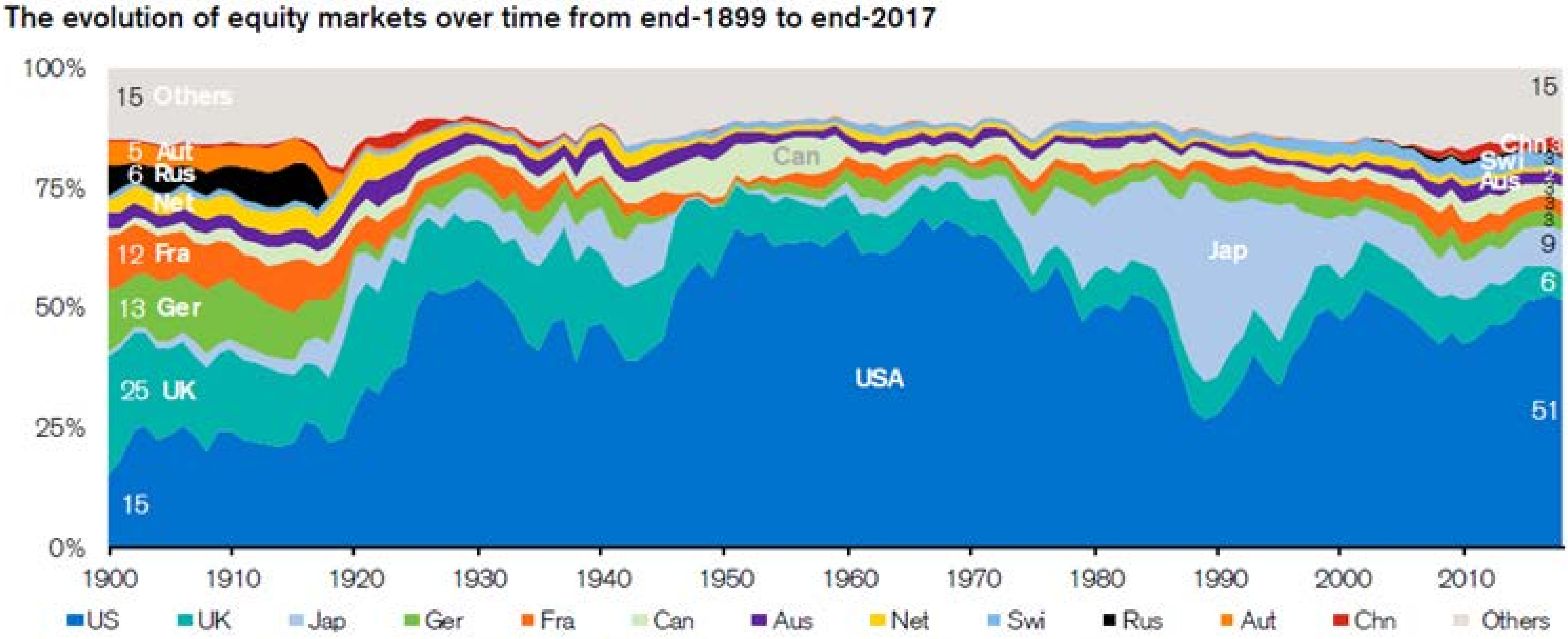
As of 31 December 2017

S&P 500 Universe = eVestment US Large Cap Equity. 1 Year has 1,126 observations, 3 Year has 1,097 observations, 5 Year has 1,037 observations, 10 year has 869 observations. MSCI EAFE Universe = eVestment EAFE Large Cap Equity. 1 Year has 213 observations, 3 Year has 198 observations, 5 Year has 182 observations, 10 year has 151 observations. MSCI ACWI ex US Universe = eVestment ACWI ex-US Large Cap Equity. 1 Year has 133 observations, 3 Year has 125 observations, 5 Year has 110 observations, 10 year has 80 observations.

The performance quoted represents past performance. Past performance is not a reliable indicator of future results. This information is provided for illustrative purposes only and does not represent any product or strategy managed by Lazard. it is not possible to invest directly in an index.

Source: eVestment data as of 13 February 2018

Evolution of Global Equity Market Exposure

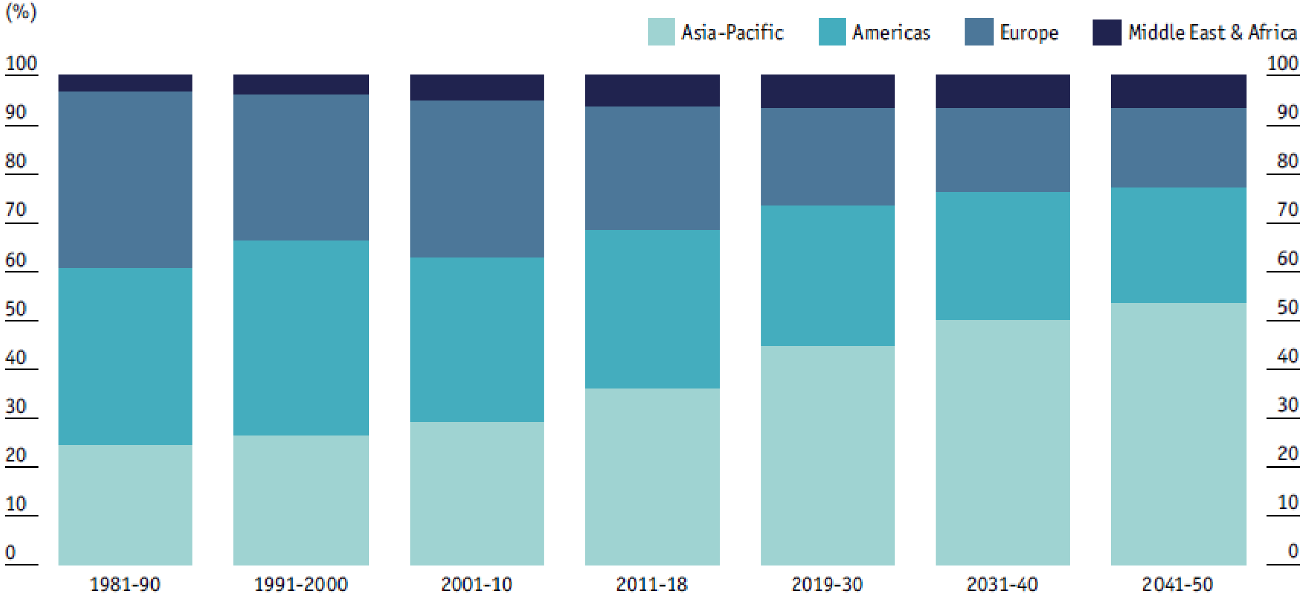


Source: Elroy Dimson, Paul Marsh, and Mike Staunton, Triumph of the Optimists, Princeton University Press, 2002, and subsequent research

Future Global Growth Trends

- According to estimates from The Economist Intelligence Unit, Asia is expected to generate the highest GDP growth over the next 30 years, and could account for over 50% of global GDP by 2050.
- As a result, the U.S. share of global GDP, which was roughly 25.7% in 2017 according to IMF data, will likely decline.
- U.S., international developed markets and emerging markets companies should all benefit from this growth.
    - However, international developed markets companies often have more exposure to emerging markets revenues vs. U.S.-based companies
        - For example, European companies generate more than 30% of revenues from emerging markets vs. less than 15% for U.S. companies (source: Morgan Stanley, 2017)
- Opportunity for international equity market capitalization to move closer to the total international share of global GDP percentage over time.

Regional share of global GDP
(%)



Source: The Economist Intelligence Unit.

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Summary

- International equity opportunity set is broad and diverse, and offers many attractive long-term investment opportunities.

- U.S. vs. international equity relative performance has historically moved in cycles.

- Over multiple market cycles, an allocation to international equities has historically improved risk-adjusted returns vs. a portfolio comprised of only U.S. equities.

- International equity markets are generally less efficient when compared to the U.S. (greater opportunity for active managers to add alpha).

- International markets (emerging markets in particular) are expected to become a more significant portion of global GDP in the future.

- Sterling Capital Advisory Solutions portfolios have a significant long-term strategic allocation to international equities.
  - Cycle timing (i.e. making substantial reductions to U.S. or international equity exposure) is difficult and can often do more harm than good.

- International equity exposure is tactically adjusted based on forward looking projections from the asset allocation process in an effort to enhance long-term portfolio risk and returns metrics.

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