SGA
Sustainable Growth Advisers

Q1 2020 U.S. Large Cap Growth Commentary

Highlights

- *The portfolio depreciated in value during the quarter but generated attractive relative returns as U.S. equities experienced significant volatility and weakness due to the global spread of the COVID-19 virus.*

- *Market volatility rose to historical levels a month after markets hit new highs; the increased volatility created opportunities for our approach to growth investing, consistent with the general return pattern we have experienced over time.*

- *Sector weights contributed positively to portfolio outperformance due to an underweight to the more economically sensitive Industrials sector and the more defensive Consumer Staples sector; stock selection detracted marginally with selection in the Information Technology and Consumer Discretionary sectors detracting most, and selection in the Health Care and Real Estate sectors contributing most positively.*

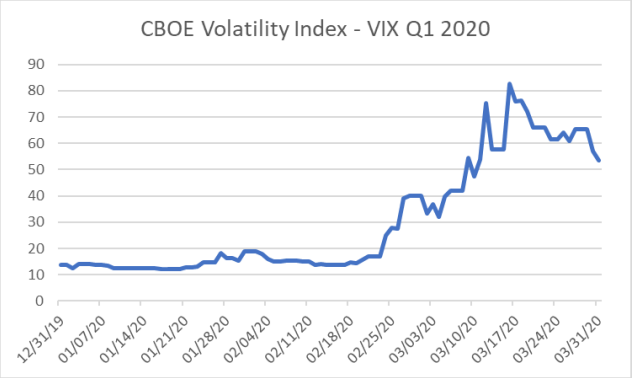
- *Portfolio activity increased during the period, as we have seen in other periods of increased volatility, with new positions being initiated in Xilinx, Match Group, Intuitive Surgical, and Adobe, and existing positions in Estee Lauder, Novo Nordisk, Mondelez and Automatic Data Processing being sold due to forced attrition; other positions were adjusted as we sought to take advantage of wide fluctuations in stock prices.*

- *With a gradual and staggered economic recovery expected, we strongly believe that the superior business quality of our companies (better pricing power, recurring revenues, more predictable long runways of earnings growth, strong cash flow generation, and solid management teams) will be rewarded by wary investors in the years ahead.*

Performance

SGA's U.S. Large Cap Growth portfolio returned -12.7% (gross) and -12.8% (net) in Q1 versus -14.1% for the Russell 1000 Growth Index, protecting client capital better amid significant market weakness due to the global COVID-19 pandemic.

U.S. equity markets experienced historic weakness during the quarter with stocks peaking on February 19th before declining 31.5% to their trough on March 23rd as the COVID-19 virus reached pandemic levels leading State and Federal governments to impose lockdown regulations closing churches, schools, and businesses, and directing citizens to shelter in place. These unprecedented steps caused traditional commerce to shut down, leading to widespread economic dislocations including skyrocketing unemployment claims, declining consumer confidence and the end of the 11-year bull market as indiscriminate selling led to the fastest bear market decline since 1987. Over the subsequent three trading days following the market bottom on March 23rd, the market rose +16.5% and ultimately finished the quarter down 21.4% from its February peak. Market volatility surged over the period with the CBOE VIX reaching an all-time closing high of 82.7 on March 16th, and daily price swings averaging 4.8% for the Russell 1000 Growth Index during March.



Source: FactSet.

The move away from risk assets caused U.S. Treasury yields to decline precipitously during the quarter with yields on bonds of all maturities dipping below 1% for the first time in history, before rebounding marginally later in the quarter. While the near complete curtailment of commerce due to the virus is a severe headwind to all companies in the near-term, central banks applied unprecedented monetary accommodation while governments announced significant new fiscal stimulus to place a floor underneath economic activity and enhance the eventual rebound. In the U.S., the Federal Reserve slashed its federal funds rate to zero in its largest cuts since the 2008 financial crisis in addition to implementing several additional monetary stabilization and stimulus measures. The U.S. Congress passed a $2+ trillion appropriations bill in record time to assist consumers and businesses. Massive stimulus was introduced elsewhere as well with the People's Bank of China reducing interest rates and reserve requirements further, European Central Bank (ECB) announcing several monetary stimulus

measures including $128 billion in bond purchases in 2020, loosened capital requirements for banks and a Pandemic Emergency Purchase Programme (PEPP) aimed at purchasing roughly $800 billion of additional bonds throughout 2020.

Global Monetary And Fiscal Stimulus To Fight COVID-19 Impact 2020 Feb to Mar

	Central Bank Liquidity Injection		Govt Fiscal Stimulus		Central Bank Liquidity Injection and Govt Fiscal Stimulus	
	$ Tln	% GDP	$ Tln	% GDP	$ Tln	% GDP
U.S.	$2.50	11.7%	$2.71	12.7%	$5.21	24.3%
Eurozone	$1.10	8.3%	$0.48	3.6%	$1.58	11.9%
Japan	$0.20	3.9%	$0.55	10.7%	$0.75	14.6%
U.K.	$0.25	9.0%	$0.04	1.4%	$0.29	10.4%
China	$1.22	8.5%	$0.11	0.8%	$1.33	9.4%
Others*	$0.62		$1.63		$2.25	
Global	**$5.88**	**6.8%**	**$5.53**	**6.4%**	**$11.41**	**13.2%**

**incl RoW and ADB, IMF, WB*
Source: Cornerstone Macro, Lazar, Nancy, "Nancy's Weekly Narrative: Fears Of Pushing On A String Will Grow.", 3/29/2020.

A Note on Portfolio Liquidity

In periods of crisis where assets are indiscriminately liquidated, the need for liquidity is paramount. This applies to issues of trading liquidity as well as company liquidity. As providers of listed equity portfolios, liquidity has always been fundamental to our approach which centers around the importance of cash.

In our search for business 'quality', high-profitability does not suffice; we will only invest our clients' capital in companies that are able to translate profits into free cash flows. These 'cash-flow compounders' are generally characterised by low levels of debt and strong balance sheets; in other words, they are in control of their destiny. In fact, many of the companies on our Qualified Company List are in a financial position of net-cash and are able to use periods of dislocation to build market share and expand margins while their competitors are forced into a position of defense. The underlying liquidity of our companies, combined into a portfolio with prudent diversification across securities, industries and secular growth drivers, translates into a highly liquid total portfolio.

Based on analysis conducted over the quarter, our U.S. portfolio, which is concentrated in nature with no more than 30 holdings, has an average time to liquidation of 2-3 days* which is well below many of our quality-growth peers. We have never encountered liquidity issues at the portfolio level since inception of our firm and furthermore, our nimble asset base allows us to exert flexibility to take advantage of opportunities that volatility presents to patient and prepared long-term investors.

Market and Portfolio Attribution

Not surprisingly, given the almost complete cessation of traditional commerce in March, more economically sensitive sectors performed the worst during the quarter with Energy and Industrials being the weakest. In contrast, Real Estate, Information Technology and Health Care performed the best. U.S. markets outperformed non-U.S. Developed Markets while larger cap and growth stocks outperformed small caps and value stocks. The reward to higher business quality in the Russell 1000 Growth Index was mixed with lower beta, companies with lower returns on equity, higher debt and no earnings marginally outperforming. Meanwhile, the broader market S&P 500 Index saw higher business quality metrics such as lower beta, higher return on equity, and companies with less debt and earnings outperform by a wide margin.

Sector exposures contributed positively to the portfolio's outperformance for the period while portfolio stock selection was negatively impacted by selection in the Information Technology and Consumer Discretionary sectors due primarily to holdings in FleetCor, Automatic Data Processing and Workday. Microsoft's strong performance for the period benefited portfolio performance in absolute terms but detracted from relative performance given the portfolio's 4.6% average weight versus its 8.3% weight in the Russell 1000 Growth Index. In the Consumer Discretionary sector, holdings in Yum! Brands and Booking Holdings negatively impacted selection most. In contrast, stock selection in the Health Care sector contributed positively to portfolio performance due primarily to positions in Regeneron and Intuitive Surgical. Stock selection in most other sectors contributed positively.

Largest Contributors

Biopharmaceutical company **Regeneron** was the largest contributor to performance this quarter. The company posted a solid Q4 report, and one of the competitors to its primary drug Eylea reported serious adverse side effects, which prompted investors to recalibrate their expectations for the durability of the Eylea franchise. We believe the difference in the side effect profile between Eylea and its competitor is fundamental to the design of the molecule involved as has been evidenced by Eylea's lesser inflammation. We expect Eylea's market leadership to sustain and see increasing appreciation for the company's pipeline of new drugs, which includes its efforts to combat COVID-19. We continue to expect that the company's investments in its pipeline should manifest in the

coming years through multiple products such as Libtayo in lung cancer, bio-specifics for cancer, and others.

Robotic surgery leader **Intuitive Surgical**, which was added to the portfolio this quarter on COVID-19 related weakness, was the second largest contributor to performance. In the short-term, we expect that Intuitive Surgical will see a negative impact from COVID-19 as many elective procedures and capital purchases at hospitals are deferred. However, as we see most of the procedures that are being deferred eventually returning, and considering its sound business model and the leadership the company offers in a quickly growing industry, we see attractive growth over our 3-5-year investment horizon.

E-commerce leader **Amazon** was the third largest contributor to performance as the stock benefited from consumers transitioning their buying from traditional venues to online. The company's ability to deliver a wide range of goods, many of which were not available in traditional stores, increased sales. We purchased additional shares in the stock on weakness with the expectation that its retail and cloud advantages will continue to strengthen through the crisis thereby further enhancing its positions in each, over our 3-5-year investment time horizon.

Match Group and **Equinix** were the fourth and fifth largest contributors to performance during the quarter.

Largest Detractors

Yum! Brands came under pressure as general economic activity in its markets slowed quickly due to the pandemic and myriad shelter in place rules, putting significant pressure on the company's franchisees and raising the possibility that the company would need to provide temporary relief to franchisees in the form of deferred royalty payments or even capital infusions. After further analysis and discussions with management, we are comfortable with Yum's liquidity and financial flexibility under not only the most likely scenarios of the COVID-19 pandemic, but also in far more extreme "stress tests" as well. While dine-in traffic is down meaningfully across the industry, YUM's brands generate the majority of their sales from drive-thru, takeout and delivery, making the company relatively better positioned to ride out the storm. Given that Yum is one of the slower growing and more leveraged companies within the portfolio, and with continued uncertainty over the expected duration of the pandemic and related shelter-in-place rules, we trimmed the position to reallocate capital to other higher growth opportunities.

FleetCor was the second largest detractor from performance as investors reacted negatively to the significant decline in global oil prices given that approximately 20% of the company's revenues are tied to fuel prices. Weakness in its Brazilian toll business due to shelter in place rules that have significantly reduced highway traffic in the country, and less fleet usage which has impacted use of its fuel and lodging card business have also had a negative impact. While the unprecedented nature of the global pandemic has created a significant headwind to FleetCor's business in the short-term, we see no fundamental changes in our thesis for the company as economic activity gradually improves later in 2020 and 2021, and see increased opportunity for FleetCor to enhance its organic and acquisitive growth in the more difficult environment given its solid financial capabilities. We purchased additional shares in the company on weakness given its attractive valuation and solid long-term growth opportunity.

Booking Holdings was the third largest detractor from portfolio performance due to investor concerns over the company's large exposure to European travel and the negative impact Coronavirus shutdowns are expected to have on hotel bookings in Q2 and possibly the remainder of 2020. With high uncertainty over the course of the virus and the ability of economies to reopen following the pandemic, we reduced our weight in the stock. Going into the pandemic, Booking's business was solid and it posted an attractive Q4 report consistent with our thesis. Given the sharp impact on Booking and most businesses from the Coronavirus pandemic, we are focused on how the business emerges from the current environment as economies begin to get back on track. While this is more difficult to ascertain for Booking given the nature of its business, our research currently indicates that Booking could come out of the current weakness in a stronger position relative to peers given their higher degree of financial flexibility compared to peers, their ability to pare expenses in more difficult times, the large base they have with 70 million plus loyalty program members, and their connected trip infrastructure linking hotel, air and car bookings which has increased their customer conversion rate. Once virus concerns decline and economies begin to open, we expect market share gains as consumers gradually take advantage of promotions and begin to seek out travel opportunities which will play to Booking's strengths. At the same time, we are fully aware that this will be a process and not something which occurs immediately. As such, we will continue to evaluate Booking's business and adjust our modeling as needed while at the same time considering the stock's valuation and likely growth opportunity relative to other growth businesses on our Qualified Company List.

Ecolab and **Automatic Data Processing** were the fourth and fifth largest detractors from performance during the quarter.

Portfolio Activity

Turnover during the quarter was higher than average given the significant increase in market volatility experienced. We initiated new positions in Xilinx, Match Group, Intuitive Surgical and Adobe, while liquidating positions in Estee Lauder, Novo Nordisk, Mondelez, and Automatic Data Processing as we identified new opportunities with greater investment potential over our 3-5-year time horizon. Additionally, we trimmed positions in Abbott, Autodesk, Equinix, Intuit, Salesforce.com, TJX, UnitedHealth and others on relative strength, and purchased additional shares in Alphabet, Amazon, Facebook, FleetCor, Ilumina, IHS Markit, Nike and others on relative weakness.

New Positions

We initiated a below average position in **Xilinx**, a builder of Field Programmable Gate Arrays (FPGA's) that provide enhanced performance characteristics to client applications. Xilinx and Altera serve approximately 90% of the market today. Unlike a traditional semiconductor company, the repeatability of Xilinx's sales benefits from the oligopolistic nature of its market and well distributed client base that is more tied to less cyclical infrastructure spending. Demand for its product involves long cycles, frequently 10+ years or more, given the difficulty in making changes to advanced designs. This is further enhanced by the wide geographic and industry distribution of its customer base which reduces the likelihood that investment cycles overlap. Finally, the tremendous amount of software development that goes into getting an application FPGA ready tends to discourage fast change, as does the stickiness of the specialized workforce involved in such development.

Xilinx's pricing power is derived from the oligopolistic nature of its industry which has allowed it to generate 60-70% gross margins over the long-term. Given the continued increasing demand for such application chips as technology advances, we see mid-teen growth in sales over our 3-5-year investment horizon, driven by quickly growing datacenter demand followed by growth from communications clients. Xilinx generates strong cash flow productivity while enjoying net cash on its balance sheet equal to around 10% of its market capitalization thereby providing it with significant flexibility.

Among the key risks we are monitoring with Xilinx are the ability of Altera to leapfrog the company's technology, with the support of its new parent Intel. As a semi-conductor company at its base, we need to continue to evaluate the repeatability of its sales, but see it as a unique way to participate in the growth of Artificial Intelligence applications, be it in datacenter or outside. Finally, trade disputes with China remain a risk. Their revenue from Huawei has already been eroded and the investor disappointment gave us an opportunity to build this position.

Match Group which owns Tinder, the leading online dating platform, was added to the portfolio during the quarter. Its portfolio of businesses also includes 3 of the other 4 most popular dating sites in the U.S. including Match, PlentyOfFish, and OKCupid among others. Tinder, which is responsible for popularizing smart phone dating apps, is the company's leading product.

The company benefits from attractive pricing power with two times the monthly active users of its main competitor in the U.S., as well as offering paid features that can substantially improve the efficiency and experience of finding dates, such as being able to identify who has already "liked" your profile as well as "boosting" the number of people your profile is being shown to. Given human nature and the difficulty many younger people have today meeting people, Tinder's monthly downloads have remained steady at 4 million or more over the past 40 months, and it consistently generates significantly higher revenues than its closest competitor globally. While success in on-line dating is often fleeting, experience has shown that users keep returning to the sites. With on-line dating shifting from being an unconventional lifestyle option to the default way of people meeting (39% of heterosexual couples met on line in 2017 up from 23% in 2012), but only 5.7 million subscribers as of Q3 2019 compared to a total market of about 110 million single people over the age of 18 with internet access in North America, Europe, Latin America and Asia Pacific (ex-China), we see significant growth opportunities for Match over our 3-5-year investment horizon. Approximately 49% of Match's sales are international, with more room to grow. We also see upside from improving non-Tinder platforms potentially growing sales at a high-single-digit rate, and from adjacencies like live-streaming video, which could contribute significantly to Match's sales. Finally, the company continues to explore alternative monetization models incorporating more transaction based opportunities in addition to subscription based, which may have the potential to further enhance their business over time.

Among the key risks we are monitoring with Match are the state of its competitor apps, new subscription growth, the rate of acceptance of its add-on options by users, and finally the

impact the current Coronavirus lockdowns and ongoing social distancing uncertainty have on demand for their business.

We initiated a below average weight in the stock in March and expect to build it opportunistically moving forward.

Intuitive Surgical, the technology leader in robotic-assisted surgeries, was also added to the portfolio. After having owned the stock from 2010 to 2013 and following it closely since then, recent market volatility presented an opportunity to repurchase it in the portfolio at an attractive valuation. The company develops and sells the leading robotic surgery system (da Vinci) and associated instruments and consumables, helping surgeons achieve better outcomes for patients. We believe robotic assisted minimally invasive surgeries will continue to grow at the expense of open surgeries as it leads to, in general, less blood loss, fewer side effects, faster recovery, and shorter hospital stays. While adoption is still limited to less than 5% of overall surgeries, continued innovation on the platform will enable more surgeries to be performed in a minimally invasive way using Intuitive's technology. We acknowledge that Intuitive will face more competition in the future, however, with a large installed base of over 5000 systems, many trained surgeons, and a 20-year lead in technology, we see the company as being well positioned to continue to grow and maintain its market leadership despite ceding some share to new entrants. Additionally, we are impressed with the launch of two new platforms, the da Vinci SP and Ion, and we see Intuitive continuing to expand its addressable market to include other surgeries such as breast and thyroid, as well as diagnostic procedures of lung biopsies.

The company offers the key business quality criteria we seek with about 75% of its revenues being recurring due to the demand for instruments and accessories associated with the procedures, and attractive pricing power given its leadership in the space, despite having to price within the existing reimbursement schemes. Finally, we believe that its market will continue to grow from the less than 5% penetration of overall surgeries based on new innovation. The new da Vinci SP and Ion procedures offer meaningful additional growth opportunities over our 3-5-year investment horizon. Management has proven its ability to guide the firm effectively with strong execution, while the business generates significant cash flow, and the company's balance sheet includes no leverage.

Among the key risks we will be monitoring with the position are the effectiveness of competition from well capitalized companies and their willingness to lower prices. We also note that the company is reliant on reimbursement for specific procedures and could face pressure with changes to reimbursement processes. Product failures are also always a risk with such businesses, however Intuitive has a strong quality record. Finally, given the large cost of da Vinci robots, there is an element of discretion over hospital willingness to make capital purchases in difficult economic environments.

Design software leader **Adobe** was added to the portfolio on weakness. Adobe's business includes its Creative Cloud Suite of design software tools where it is the dominant player in graphic design software tools, its Document Cloud management platform where it possesses a strong market position with a suite of tools for creating and managing documents, and its Digital Experience Cloud marketing technology platform which provides a stack of marketing analytics, content management, advertising and e-commerce tools.

The Creative Cloud business accounts for the majority of Adobe's sales and profits. With no competitor offering a comparable set of offerings and a high level of customer affinity for the product, Adobe enjoys strong pricing power together with a high level of subscription business generating attractive recurring revenues. The company enjoys a strong position in its Document Cloud business which provides around 11% of its sales and 13% of its adjusted operating profits, but does have more competition here relative to its Design business. With a strong document digitalization trend we see an attractive growth runway in the business as a large proportion of its Adobe Acrobat license users have yet to shift to its cloud offerings with more attractive support and economics. The company's Digital Experience Cloud marketing business faces material competition from other providers, but offers a product at the c-suite level that is highly valued with business processes built around it helping Adobe to be more entrenched there and benefiting from attractive recurring revenues. We continue to see long runways of growth for this business as our research indicates that both its marketing analytics and content management products offer continued development.

We have a high opinion of Adobe's management team and their ability to navigate the movement of its markets toward the cloud and build out the company's business beyond its traditional professional graphic design focus. The company offers a strong financial position and generates attractive free cash flow. While the stock has been on our Qualified Company List for several years, recent market volatility provided an opportunity to begin building a position at a more attractive entry-point. Among the risks we continue to monitor for Adobe are its ability to expand outside its core user base, its ability to continue to price to value, the degree of cyclicality in the company's sales given its expansion of products in recent years,

and the threat of increased regulation given its 90% market share of the graphic design software market.

Sold Positions

Estee Lauder was sold due to the stock's elevated valuation as the company benefited from improvement in their North American business and stronger than expected results from China as they successfully navigated the slower market there. The stock remains on our Qualified Company List.

The portfolio's position in **Novo Nordisk** was liquidated due to forced attrition as we were faced with other higher growth opportunities that had become more attractively valued due to the market's dramatic volatility. With its strong position in the global diabetes and obesity markets, Novo Nordisk benefited from investor preference for stable growth during the period and saw its valuation become less attractive given its slower expected growth relative to other holdings. The company remains on our Qualified Company List.

The portfolio's position in global snack food leader **Mondelez** was also liquidated during the quarter given the stock's rising relative valuation after holding up well amid the market's significant weakness in Q1, as well as risks we identified regarding the sustainability of the company's cocoa supply chain over our 3-5-year investment horizon. The company reported solid earnings in Q4 with better than expected organic sales growth, but given our 30 stock holdings limit, we determined that other businesses offered more attractive long-term growth, attractive valuations, and appreciation potential over our time horizon. The company remains on our Qualified Company List.

Automatic Data Processing was sold from the portfolio due to forced attrition as we sought the reallocate the capital to other higher growth businesses with greater investment return potential over our 3-5-year time horizon. With the sharp decline in interest rates due to the Fed's dramatic monetary easing, ADP's interest revenues will continue to erode. As large numbers of employees on the company's client payrolls are furloughed or terminated, this will negatively impact ADP's payroll processing business. We also expect that new business sales, which are critical to ADP's growth in the future, will likely drop sharply in the current environment and remain suppressed until there is greater certainty over the course the virus takes and the economic rebound in the economy. Given its strong business quality characteristics, the company remains on our Qualified Company List.

Summary

There is tremendous uncertainty in the short-term over what course the virus will take and the toll it will impose on populations around the world. We expect that the recovery will be gradual and staggered as nations are impacted by the virus to different degrees and rebound from it over time. In times like this, we think it is important to focus on the things we do know. We do know that unprecedented monetary and fiscal stimulus is being applied globally to support consumers and businesses. While the impact of the stimulus is not likely to have a significant effect on economic activity in the short-term as long as widespread shelter-in-place rules and quarantines exist, they will gradually have a positive effect as the rules are lifted. We also expect that there will be pent up demand for some products and services. In our analyses of our companies, we have tried to be conservative in our estimates, using a three month shut down in activity as the base case and gradual resumption in activity following that.

Consistent with our longer-term investment horizon, we are focused on evaluating how our businesses will fare during the pandemic itself, but also more importantly on how they will resume their growth as business activity improves in the post-pandemic period. Each business on our Qualified Company List and in our portfolios has a solid financial position to assist it during the global shutdown, but each also has its own unique growth drivers which we expect to propel its sales and earnings growth as economic activity gradually returns to normal. The key business quality variables we seek will help distinguish these businesses from others which will have a more difficult time rebuilding. At the same time, our focus on taking capital from portfolio holdings that have held up better and offer less attractive valuations, and reallocating the capital to other more attractively valued businesses that offer superior growth potential in the coming 3-5 years should position the portfolio well for future appreciation. Based on our assumptions, the portfolio should be able to hold their earnings and cash flows at least flat during this difficult year while corporate profits will likely decline meaningfully. Over the coming three years, the portfolio is expected to generate 14.6% earnings growth compared to 10.8% growth currently expected by the market for the Russell 1000 Growth Index, while offering a 3.7% enterprise yield which, by historical standards, is very attractive.

We wish you good health as we all work our way through this period, and look forward to being able to speak with you about any questions you may have on the portfolio.

The opinions expressed herein reflect the opinions of Sustainable Growth Advisers, LP and are subject to change without notice. Past performance is no guarantee for future results. This information is supplemental and complements a full disclosure presentation that can be found with composite performance. The securities referenced in the article are not a solicitation or recommendation to buy, sell or hold securities. This commentary is provided only for qualified and sophisticated institutional investors.

Results are presented gross and net of management fees and include the reinvestment of all income. The Net Returns are calculated based upon the highest published fees. The net performance has been reduced by the amount of the highest published fee that may be charged to SGA clients, 0.75%, employing the U.S. Large Cap Growth equity strategy during the period under consideration. Actual fees charged to clients may vary depending on, among other things, the applicable fees schedule and portfolio size. SGA's fees are available upon request and also may be found in Part 2A of its Form ADV. The performance record presented for periods prior to July 1, 2003 occurred before to the inception of SGA and represents the portable performance record established by two of SGA's founders (and investment committee members) Gordon Marchand and George Fraise while affiliated with a prior firm. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Upon request, free of charge, SGA can provide a list of all portfolio holdings held in SGA's U.S. Large Cap Growth portfolio for the past year. SGA's earnings growth forecast data is based upon portfolio companies' non-GAAP operating earnings.

**Estimate assumptions: 15% volume participation rate and agency-cross 20% of the total order.*

SGA
Sustainable Growth Advisers

March 2020 Sustainability Report

Firm Update

The phrase "we can do better" is often used throughout the SGA office as a simple reminder to avoid complacency and seek continuous improvement across both our organization and client portfolios. ESG has been one area of focus recently; while our investment philosophy and strategy is naturally ESG-friendly, we have been improving the integration of ESG into our process as industry and regulatory environments change.

Over the quarter we enhanced our ESG Policy Statement and revised our Proxy Voting Policy to more specifically include guidelines for ESG-related matters. We also published our first Environmental Policy which specifically addresses the risks and opportunities presented by climate change.

Following the review of our Proxy Voting Policy, we appointed the services of external proxy advisory firm ISS. Going forward we will take the recommendations of ISS on individual proxy items into consideration, however we will continue to undertake our own independent analysis and exercise judgement when deciding how to vote.

Finally, we adopted a new framework within our investment process to examine the key risks and opportunities to a company related to ESG factors utilizing the PRI construct of Identify, Assess, Model and Engage. Further details on this construct can be found in our ESG Policy Statement. Concurrently, we selected a new third-party ESG research provider after review of the current market offerings. We are in the process of contracting with this service provider and will share further information in due course.

Recent Engagement Examples

Our engagement with Mondelez regarding the sustainability of its cocoa supply chain is a good example of our updated process at work.

First, we identified the company's cocoa supply chain as a key ESG risk to our investment thesis. Small cocoa bean farms throughout West Africa supply the majority of the world's cocoa and are essential to the global chocolate industry. The complex challenges that plague cocoa farmers have long been reported to include poverty, child labor, modern slavery, climate change and gender inequality. Suffice to say, the global chocolate industry has been slow to respond.

Second, we assessed Mondelez's policies and programs to address the identified risk, and modeled the potential exposure to the company's earnings and cash flows. The company launched their cocoa sustainability program in 2012 with a $400m commitment. While significant progress has been made to date, with approximately 60% of the company's cocoa sourced through this program, the reality is that life for many cocoa farmers and their communities continues to be one of economic hardship. The solution requires a coordinated response from industry and government to improve the economics of cocoa farming, create inclusive and empowered communities and increase education on forest conservation and restoration. Industry collaboration is essential to ensuring there is no competitive disadvantage from sustainable sourcing. The company has set a 2025 goal of ensuring 100% of cocoa is sustainably sourced however until this time, the company remains exposed to notable reputational risk should they be associated with high profile cases of human rights violations at cocoa producers leading to a reduction in sales considering that the majority of company sales come from cocoa-based products. In addition, we see incremental earnings risk should the company be forced to narrow its supply chain considering that cocoa is the company's single largest commodity cost.

Having identified, assessed and modeled the risk, we then engaged with management and urged a faster pace of change. From our discussions we have become increasingly aware of the delicacy and complexity of the issue at hand and recognized that an acceleration in the transition to 100% sustainably source cocoa may not be possible. We believe the creation of a truly sustainable cocoa supply chain will benefit all stakeholders over the long-term, including shareholders. In the interim, risks to the business cannot be dismissed and as a result the ESG risk related to the cocoa supply was a contributing factor towards our decision to adjust holdings in Mondelez across client portfolios during the quarter.

An ESG Opportunity

While we frequently speak to ESG risks with our clients, what garners less attention are the opportunities; namely long-term secular growth drivers that arise from ESG considerations. Our investment in computer-aided design (CAD) and manufacturing (CAM) company Autodesk is one such example where the collective shift to a more sustainable future has created an incredible long-term growth opportunity.

Autodesk provides designers and engineers software tools to create more sustainable products across the manufacturing, architecture, building, construction, media and entertainment industries. As more companies are shifting to clean energy and circular materials, and designing with the sustainability of the environment in mind, Autodesk is enabling this shift through their innovative products like 3D computer assisted design to deliver better products, at lower cost, and with less waste.

The construction industry and their challenge to reduce waste presents one such opportunity for Autodesk. Globally, the construction industry uses three billion metric tons of natural resources to manufacture building materials every year and it is estimated up to 30% of this is wasted; Autodesk's suite of products can be applied to reduce rework and time on a construction site, as well as construction and demolition waste.

We expect the increasing adoption of Autodesk's design and engineering products, in part driven by ESG considerations and regulatory changes, should continue to grow as the industry itself grows based on the application of increasing automation and efficiencies in every industry vertical.
