SGA ESG Policy

February 2022

SGA is committed to investing in companies that can sustainably grow and compound their earnings over the long-term. We have a fiduciary responsibility to consider all factors relevant to an investment and believe incorporation of ESG factors serves our objective of generating optimal risk-adjusted long-term portfolio returns for our clients.

Environmental, Social and Governance (ESG) factors have a meaningful impact on a company's ability to generate long-term sustainable growth and accordingly, we integrate these factors into our bottom-up fundamental research process. Identification and analysis of material ESG-related risks and opportunities are factored into each step of our process, beginning with new idea generation through to portfolio management. Active ownership includes both thoughtful proxy voting and engagement with senior management in a quest for increased transparency and positive change.

SGA's ESG policies and procedures are led by the Investment Committee and overseen by the Executive Committee. SGA has an ESG Working Group, led by Tucker Brown and comprised of members of the Investment & Client Service teams, which is responsible for providing advice to the Investment Committee on ESG policies, integration, education, service providers and external developments from a regulatory, client and social perspective.

We recognize that ESG is of paramount interest to our clients and are committed to continuous improvement and development of our ESG policies and processes.

Our Approach

We take a nuanced approach to growth investing that has generated higher returns while reducing the risk that is typically associated with this style of investment. We do this by investing very selectively in growth companies with lower volatility in revenues, earnings and cash flow growth which naturally lowers the degree of business risk within our portfolios. We have adhered to this investment philosophy since founding in 2003, with our investment results confirmatory to the success of our process.

We recognize that environmental, social and governance factors inherently impact a company's brand equity, employee satisfaction, competitive position, financial performance, and ultimately long-term shareholder value. These factors provide both risks and opportunities and our process has been designed to capture both.

Risks presented by ESG are evaluated in our bottom-up fundamental analysis of business quality. Some of the most common risks associated with ESG include incremental operating costs, litigation, regulation, taxation, employee defection and consumer censure. These risks can provide a material threat to a company's ability to generate long-term sustainable growth and this has always steered us away from companies and industries whose products we deem to be detrimental to users or society, or are managed in an irresponsible way. For this reason, our process naturally renders negative ESG screens obsolete. Tobacco stocks are an example of such businesses that we have not owned as they are not truly sustainable growth businesses; despite generating significant free cash flow, their pool of consumers was declining, they seriously damaged people's health and faced significant risk from ongoing legal challenges.

ESG factors can also provide for some very powerful long-term secular growth drivers and we capture these in our search for companies with long-duration runways of growth. Many opportunities presented by ESG considerations, such as the shift to a circular economy and decarbonization, reflect a fundamental or structural shift and therefore require a sufficiently long-time horizon in order to capitalize the benefits; our 3-5 year time horizon is naturally well aligned to the nature of such opportunities. It is important to note that we do not prioritize growth opportunities related to ESG above others. All investments are made with the objective of maximizing risk-adjusted financial returns to our clients. We do not place a premium on social returns, nor do we allocate our clients' capital based on thematic or top-down views.

Integrated Process

The integration of ESG factors in our investment process begins with new idea generation. When vetting new ideas for our Qualified Company List, our primary research identifies the key ESG factors that represent material risks and opportunities to the investment thesis. Using the PRI construct, we follow a four-step framework to process the key risks and opportunities, including "Identify" (which ESG issues are likely to impact the company's main value drivers?), "Assess" (what is the company's ability to manage the risks and opportunities appropriately?), "Model" (how can these risks and opportunities impact the financial model?), and "Engage" (how will SGA engage with management to raise concerns and encourage them to better manage the risks and opportunities identified?). We supplement our primary research with input from a third party ESG Research and Ratings service to help ensure we have identified the most salient ESG factors and analyzed them completely. Importantly, while we find value in the reports and analysis of ESG Research and Ratings service providers, we believe the ratings systems of these firms are incongruous with our bottom-up process for portfolio management and benchmark indifference because they rely on sector-specific criteria and factor weightings that produce scores that are not comparable across a wide array of companies. As a result, we utilize our own proprietary ESG scoring system to compare ESG-related risks and opportunities across our qualified company list, a key input to our proprietary Portfolio Opportunity Score framework.

ESG factors can have a tangible impact on our investment process in areas such as company cash flow projections, the discount rate applied to our DCF valuation analysis, a company's ranking in our proprietary Portfolio Opportunity Score exercise, and ultimately buy and sell decisions in the portfolio.

Engagement & Proxy Voting

Engagement is a fundamental component of the integration of ESG within our process and a means through which we gain a better understanding of material risks and opportunities identified by our research. In addition, as responsible long-term shareholders, we recognize we have the unique opportunity to exert influence on management teams to improve transparency and become an agent for change through both proxy voting and direct dialogue.

Our engagement with management teams helps us determine whether the company's business, culture and leadership offer the unique quality, predictability, and long-term growth opportunity we require of the companies in which we invest.

For companies on our Qualified Company List, we maintain regular contact to review reported results and other business developments, and these points of contact include a discussion of ESG-related issues. It is our policy to hold ESG-specific meetings with management teams periodically to review material topics and share our thoughts on issues we as a firm prioritize such as best governance and climate policy practices, which we believe can enhance the predictability and sustainability of a business' long-term growth, minimizing the risk to our clients' invested capital.

While we conduct the majority of our engagement efforts on a standalone basis, we recognize the effectiveness that collaborating with peers on certain issues can have. As such, we seek to selectively join forces with other organizations to support important ESG causes.

Our policy regarding proxy voting is to generally support standards-based ESG proposals that enhance long-term shareholder value while aligning the interests of the company with those of society at large. In practice, the primary analyst is responsible for voting recommendations, which are reviewed by a designated Investment Committee member and the firm's Compliance Team when necessary to ensure consistent application of our policies. We also take into account the recommendations of a third-party proxy advisory firm, but we exercise independent judgement when deciding how to vote.

Client Preferences

We recognize that every investor will hold their own definition of ESG guided by their values, morals, and beliefs. Our portfolios are designed to provide exposure to high-quality businesses that can generate long-term sustainable growth and our philosophy naturally directs investment of our clients' capital to industries such as software-as-a-service and information technology providers, consumer packaged goods, differentiated retailers and restaurants, medical consumables, payments providers and consumer internet. Industries that are more cyclical in nature such as automotive, industrials, casinos, and money center banks, and those that lack pricing power, such as E&P companies and utilities, are generally not favored by our approach. We are happy to partner with clients that require a tailored ESG-investment universe provided our ability to execute our investment process is not compromised.