U.S. Focused Growth Commentary

4Q 2020

SGA
Sustainable Growth Advisers

Performance

Equity markets posted strong absolute returns again during Q4. SGA's portfolio returned 8.4% (gross) and 8.1% (net) in Q4 versus 11.4% for the Russell 1000 Growth Index and 12.1% for the S&P 500 Index, as equities continued their climb due to expectations for a sooner than expected COVID-19 vaccine. For the year 2020, the portfolio returned 34.9% (gross) and 33.8% (net) versus 38.5% for the Russell 1000 Growth Index and 18.4% for the S&P 500 Index.

Highlights

- The portfolio generated strong absolute returns while trailing the Russell 1000 Growth Index as lesser quality and more economically sensitive companies led the rebound
- Stock selection and residual sector allocations detracted from results
- Stock selection in the Health Care and Information Technology sectors detracted most from relative performance; the portfolio's overweight in Real Estate (Equinix) which was the weakest performing sector in the benchmark hurt results while having an underweight exposure to Health Care benefited results
- New positions in aluminum container producer Ball Corp. and human capital management company Workday were initiated while positions in Becton Dickinson and Ecolab were liquidated
- The portfolio is well positioned to generate revenue and earnings growth meaningfully higher than that of the Russell 1000 Growth Index benchmark over the coming three years with greater predictability and sustainability

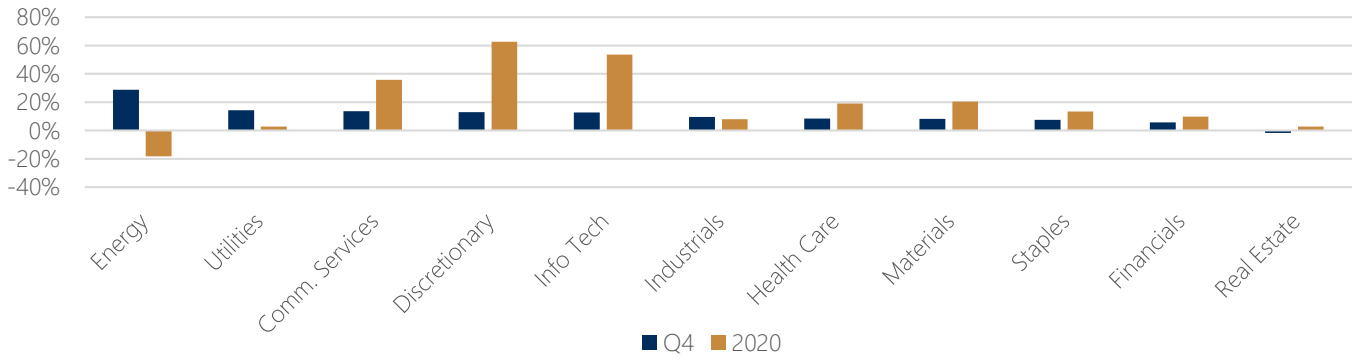
The Market Sees Better Days Ahead

Amid a global viral pandemic with massive human and economic implications, a divisive presidential election, new restrictions on businesses and weakening employment metrics the U.S. market again generated strong returns on expectations that 2021 would be a very different year. Expectations for the approval of multiple new vaccines to battle the virus, unprecedented massive monetary accommodation by U.S. and world monetary authorities, as illustrated below, and additional new fiscal stimulus from governments stoked the optimism. Impressive Q4 returns (+11.4%) followed even stronger returns in Q3 (+13.2%) and Q2 (+27.8%) as markets rebounded from the weakness of Q1 (-14.1%). Clearly, much good news has been priced into stocks despite the very difficult challenges of 2020. 2021 market returns are likely to depend heavily upon the ability of governments to quickly vaccinate large portions of their populations to achieve the "herd immunity" needed for societies and businesses to return to more normalcy.

The Russell 1000 Growth Index continued to be driven by a narrow grouping of stocks which have benefited significantly from pandemic induced changes in the way in which consumers purchased, communicated and socialized. While posing a headwind in the short-term, the narrowness of the market's advance meant that other stocks in the index remained more attractively valued. The median return for a stock in the Russell 1000 Growth Index in 2020 was 13.2%.

Market and Portfolio Attribution

Russell 1000 Growth Index – Sector Returns



Source: FactSet, Russell

The Energy sector which comprised only 0.07% of the benchmark, generated the best return (+28.8%) for the quarter. The next best performing sectors were Communication Services, Consumer Discretionary and Information Technology. All other sectors except Utilities (which comprised only 0.04% of the benchmark) trailed the index. Real Estate posted the only negative return while Financials and Consumer Staples were the next worst performers.

Lesser quality small-cap value oriented companies performed best during the quarter given the high level of optimism present, creating a headwind for our approach. Companies with higher betas, lower returns on equity and no earnings outperformed. At 12/31, the percent of companies in the Russell 1000 Growth Index with no earnings was 23.9%, which was more than double the 10.1% long-term average. Companies with no earnings returned 100%+ for the year versus only +34% for those with earnings. Interestingly, 98% of the no earners came from the Consumer Discretionary sector. While our unwillingness to invest in these more speculative companies that don't generate free cash flow posed a headwind during the quarter, this and our valuation discipline should help to protect the portfolio in any correction in these companies or the momentum driven stocks which have been leading the Information Technology and Discretionary sectors.

In Q4, the portfolio's relative underperformance was driven almost entirely by stock selection given the broad headwinds faced. Selection was weakest in the Health Care and Information Technology sectors due to positions in Abbott Labs and Salesforce.com. The portfolio's overweight in the weakly performing Real Estate sector also detracted meaningfully from relative returns. This was partially offset by an underweight in the weakly performing Health Care sector.

For the year 2020, market leadership was particularly narrow. The Consumer Discretionary sector performed best, generating a return of 62.6%, as the share prices of internet and e-commerce related companies which benefited from pandemic induced buying patterns were bid up. The Information Technology sector performed next best with a return of 53.6%, but all other sectors trailed the Russell 1000 Growth Index. Energy, the best performer in Q4 was the worst performer for the year generating a return of -18.2%.

Sector allocations contributed positively to relative performance for the year while stock selection detracted as we actively reallocated capital away from strong performers where valuations had gotten less attractive to other growth opportunities where we identified more attractive cash flow based valuations. Stock selection was weakest in the strongly performing Consumer Discretionary and Information Technology sectors due to positions in Yum! Brands and FleetCor. Our underweight position in Amazon which generated a total return of 76.3%, and our decision to not own Tesla which skyrocketed 743% for the year also detracted from results. These two stocks accounted for about 90% of the return for the strongly performing Consumer Discretionary sector for the year. Similarly, in the Information Technology sector Apple generated a return of 82.3% for the year. Microsoft and Alphabet similarly had significant impacts on index returns. While

we owned Amazon, Microsoft and Alphabet at below Index weights, not owning just Apple and Tesla for the year cost the portfolio an about 6% in relative return.

Largest Contributors

Leading provider of computer assisted design software **Autodesk** was the largest contributor to the portfolio's return for the quarter. The company reported a solid Q3 with revenues, earnings per share and cash flow all either in line with expectations or better than expected. While the company's sales in the U.S. were sequentially flat compared to Q2, and only slightly better in the UK, its other geographic sales were above pre-COVID-19 levels. The company's key 360 product line was reported to be doing slightly better than expected with new sales being done virtually. Autodesk maintained their forward guidance for FY2023. We maintained our expectation for revenue and earnings growth over the upcoming three years and continue to see the business as having attractive longer-term growth opportunities as the global economy emerges from the pandemic and the company continues its transition from its licensed based model to a software-as-a-service (SAAS) model.

Information search leader **Alphabet** was the second largest contributor to portfolio performance. The company reported solid Q3 results which beat the average analyst estimate and our own with an attractive recovery in revenue growth, solid margins due to good control of operational expenses and a continuation of their share repurchases. We were pleased with the announcement that they will begin to provide breakout data on their Cloud business results in Q4 enhancing visibility in that critical growth segment. We anticipate that this will show the Cloud business is making large investments to help catch up to Amazon's AWS and Microsoft's Azure. The company continued to benefit from higher than expected digital advertising spending, and we see this as a trend that likely continues to benefit the company over our time horizon. While we remain positive on Alphabet's growth opportunity we reduced the portfolio's weight during the quarter given a less attractive valuation and ongoing concerns over growing regulatory pressures in the EU and the U.S. over the company's exclusive commercial agreements with Apple, Android and Facebook which may be deemed as anti-competitive and vulnerable to being unwound.

Digital payment leader **PayPal** was the third largest contributor to portfolio performance after reporting a solid quarter with continued strength or acceleration relative to Q2. Total payment volume increased by 36% in Q3 versus 30% in Q2 with the U.S. posting particularly strong growth at 40%. Revenue growth was also solid, up 25% versus 23% in Q2. On a year-over-year basis, earnings-per-share were up 41%. The company posted somewhat cautious forward guidance citing weaker travel-related payment volumes and plans for higher levels of investment in Q4, all combining for 17-18% EPS guidance which was below the 20%+ street expectation. Results were in-line to slightly better than our expectations, and we continue to see PayPal capitalizing on the strength and scale of its unsurpassed payment network position and the opportunities provided by Venmo transactions and monetization trends.

Yum! Brands and **Nike** were the fourth and fifth largest contributors to portfolio performance.

Largest Detractors

Software-as-a-Service (SAAS) leader **Salesforce.com** was the largest detractor from portfolio performance during the quarter despite a solid quarterly report due largely to concerns generated by their announced acquisition of Slack which was deemed by many in the market to be too expensive. While we agree that the acquisition multiples are high on near-term metrics, our analysis indicates that it does make strategic sense and will likely meaningfully benefit the combined entity's growth rate over our 3-5-year time horizon given Salesforce's demonstrated track record for accelerating the growth of acquired companies through distribution synergies. Slack's leadership position in the emerging category of business messaging software has the potential to further penetrate the corporate communication market potentially replacing emails and becoming a "dashboard" through which other apps are used. Capitalizing on Salesforce's global distribution scale and trusted brand, we see an opportunity for Salesforce to accelerate Slack's move into the Global 2000 and enabling it to better compete with Microsoft Teams. Interestingly, Slack's customer facing functions in sales, marketing, customer service and business development are all led by Salesforce alumni which we believe materially increases the odds of a successful integration of the two companies. Accordingly, we increased the portfolio's position in Salesforce on weakness, raising it to an above-average weight after having trimmed it on strength in Q3.

Global data center provider **Equinix** was the second largest detractor from performance despite reporting what we considered to be a solid quarter with monthly recurring revenues increasing in all geographies quarter-over-quarter, and revenues up almost 9% and profits up over 9% year-over-year. With geographic expansions in Canada and India and additional work with cloud computing clients, the firm is actively building its foundation for future growth while providing solid current growth. Given the market's focus in Q4 on more cyclical companies (the Real Estate sector was actually the worst performing sector in the Russell 1000 Growth Index returning -3.77%) investors were less enthused by the steady growth at Equinix and the conservative guidance provided by management. Given our 3-5-year investment horizon and the high predictability we see in the company's business, we added to our position in the stock on weakness.

Per the note below, **Ball Corp** was added to the portfolio in November and was the third largest detractor from portfolio performance for the period given the market's appetite in Q4 for more economically sensitive stocks.

Becton Dickinson and **Abbott Labs** were the smallest contributors to the portfolio's performance in Q4.

Portfolio Activity

Turnover in the portfolio was above-average in Q4 as we took advantage of market volatility and rising valuations to reallocate capital to the most attractive opportunities we could identify looking out over our 3-5-year investment horizon. For the quarter, we initiated a new position in Workday and Ball Corp. while liquidating long-term holding Ecolab due to valuation, and Becton Dickinson due to forced attrition.

New Positions

A new position in leading human capital management software as-a-service provider **Workday** was initiated during the quarter. Workday's products are widely recognized among human resource specialists for their superior ease of use, ease of installation and upgrading, their ongoing innovation and overall customer satisfaction. The resulting edge in referenceability, relative to peers, allows Workday to charge a premium price, which is further supported by the high switching costs and risks businesses often face in making changes in the enterprise software applications they utilize. Underlying the company's success is a single code base that can easily be updated and deployed to all customers on a frequent and regular basis. Consistent with our focus on businesses that generate strong repeat revenues, approximately 85% of the company's sales are subscription based with a customer churn rate below 5% annually. The remaining 15% of revenues are tied to professional services they provide, mainly new client installations. Workday offers attractive long-term growth runways as it continues to take advantage of the opportunity to migrate new clients' existing on premise solutions to their cloud based software-as-a-service products, and see the use of their new Financial Management, Planning and Analytics products grow and expand globally. The integration of these newer products with Human Capital Management, and the ability to enhance cross selling between them should help the company maintain its attractive growth rate over our 3-5-year time horizon. Likewise, as the company scales its operations, we expect to see further improvement in its operating margins and free cash flow generation. With a strong net cash position of over $1.5 billion, a cash flow/earnings ratio of over 100%, and a proven senior management team, the company meets our key financial strength and management quality criteria.

Among the key risks we are monitoring with the company are its ability to reduce its implementation costs, its ability to continue to take mid-market share gains, its ability to continue to innovate and gain traction with its new products, and the competitive responses from the incumbent providers. With the stock's enterprise yield in the lower end of the range of our portfolio businesses, we initiated a below-average size position in the company, and plan to build the position opportunistically moving forward.

Ball Corp, a global leader in aluminum packaging products for the beverage, consumer goods, personal care and household products industries was added to the portfolio given our expectation for continued secular and sustainable growth in the use of cans given their environmental and economic benefits. The company benefits from dominant scale advantages relative to peers as well as its global footprint and unmatched specialty can capability. We see these factors enhancing the company's pricing power and contributing to more repeatable revenue generation as the company capitalizes on a trend that is likely in its early innings with years of above-average growth to go as consumers increasingly realize the damage caused by single use plastic bottles and containers. The company also has a successful aerospace and

defense segment which produces advanced sensors and parts for spacecraft integral to the NASA, NOAA and Department of Defense programs, which continues to grow at a rate three times that of the rest of the company. With the stock's valuation negatively impacted by concerns over weaker than expected global beverage consumption caused by the COVID-19 pandemic, we initiated a below-average position in the company and added to the position later in the quarter.

Among the key risks we are monitoring relative to Ball are the potential for slower or negative growth in the consumer soft drink and U.S. domestic beer markets, and the potential for new competition in the specialty can market.

Sold Positions

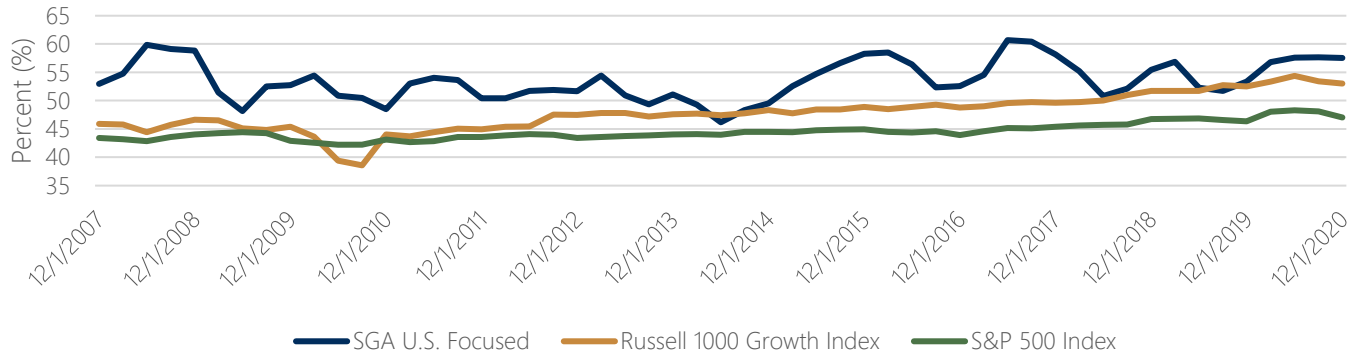
Becton Dickinson reported slightly better than expected Fiscal Q4 results in November due to a quicker than expected ramp up in its COVID-19 antigen testing product. Core business results were in line with expectations and work toward the Alaris pump remediation with the FDA appeared to be on track. However, given somewhat diminished confidence in management's execution, a desire to reduce exposure to COVID-19 testing beneficiaries which have benefited in the current environment and more attractive secular growth opportunities that were identified we liquidated the position due to forced attrition.

Global leader in water, cleaning and sanitization **Ecolab** was sold from the portfolio during the quarter due to its valuation after we identified other opportunities which offered better long-term growth selling at more attractive valuations.

Summary

2020 was an extraordinary year where the markets generated tremendous returns despite unprecedented human and economic dislocations. It underlined the old adage "never fight the Fed" as massive monetary accommodation and fiscal stimulus was applied to cushion the blows from the pandemic. Our fundamental research effort has never been stronger as we continue to identify unique secular growth businesses that offer significant growth premiums relative to the market. While our focus on key business quality drivers and our valuation discipline steered us away from businesses that don't generate meaningful free cash flows, and this hurt short-term relative returns in Q3 and Q4, we are confident that this approach is allowing us to build a portfolio of attractively valued secular growers that will serve our clients well for years into the future. This time-tested approach has led to higher and more consistent profitability for our businesses over the life of our firm (see the chart below).

SGA U.S. Focused Gross Margins



Source: FactSet, Russell, SGA

Focusing on pricing power, recurring revenues and long lasting sustainable growth opportunities while minimizing valuation risk has served our clients well over the years and is particularly timely today given the tremendous rise in stock prices experienced in 2020 against a very uncertain backdrop. Regardless of the ensuing macro-economic environment or how quickly the COVID-19 vaccination program advances, we are confident in the portfolio's ability to generate superior revenue and earnings growth over the coming three years.

We thank you for your continued confidence in our team and wish you the very best for a healthy and happy 2021. We look forward to speaking with you about the portfolio and its positioning in more detail.

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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, 0.85%, employing the U.S. Focused 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 largest contributors and detractors are determined using a ranking of the absolute contribution to portfolio return by each security held over the period under consideration. 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. Focused portfolio for the past year. SGA's earnings growth forecast data is based upon portfolio companies' non-GAAP operating earnings.

Sustainability Report

4Q 2020

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Where Sustainability Yields Opportunities

Ball Corp is an American manufacturing company with a strong legacy dating back to the 1800s. Well known for its early production of jars and lids, the business has since developed into one of the world's largest manufacturers of recyclable metal beverage packaging. The company's pursuit of sustainability, to produce low-carbon products and packaging that enables a truly circular economy, has been a key driver of innovation over recent years. This innovation has yielded returns to both investors and society, and an increasingly sustainable competitive advantage.

Ball Corp's aluminum cans are infinitely recyclable and designed for true circularity. Compared to both plastic and glass, they can be sorted easily and do not require complex processing to be recycled. In addition, unlike plastic or glass, recycled aluminum is typically cheaper to produce than virgin aluminum and leads to minimal yield loss, thus providing an economic incentive to recycle. Approximately 75% of all the aluminum ever produced in history is still in use today; this runs in stark comparison to plastic, where less than 10% of all plastic has been recycled once.

Design for circularity is the starting point for product innovations at Ball. The recent launches of the Ball Aluminum Cup and Aluminum Bottle have seen early success as the world moves to cut plastic waste and boost recycling rates. These products have a wide range of applications across the food and beverage sectors, as well as for beauty and personal care products, with opportunities to replace both plastic and glass packaging abundant as global consumer companies look to increasingly prioritize sustainability. As such, we are increasingly bullish on Ball's prospects for long-term sustainable growth.

Alibaba: 'G' Risk

During the quarter, Chinese regulatory authorities announced an anti-trust investigation of Alibaba and released a new regulation that all platform companies including Alibaba must operate within, with the intention of restricting monopolistic behavior and aligning digital platforms with government interests. Compared to anti-trust investigations into platform companies in the US, we see a higher government risk in this case given there is no legal reference for such incidents in China, the special VIE structure of most Chinese companies, and the Chinese government's authority in altering business operations and corporate assets.

We believe companies like Alibaba play an important role in achieving China's economic goals by driving innovation and technology development, and boosting growth in domestic consumption as the country transitions toward a consumption-driven economy. It is in the government's best interest to encourage these digital platform companies to deliver long term sustainable growth, with some concessions required to ensure they operate within a government allowed framework. We believe the future growth of these digital platforms and government regulations will consistently evolve and coexist over time, which is a new norm that may deter growth in certain areas but also de-risk unsustainable growth such as excessive credit expansion. We also see Alibaba as having a seasoned management team that is credible to global investors, and expect that it will be working effectively with the government to resolve concerns and realign interests.

We have experienced similar situations in the past where new regulatory controls have incurred short-term disruption, but ultimately resulted in more sustainable long-term growth better aligned with government policy. One example being Tencent's management of 2018 gaming regulations that triggered a corporate restructure to refocus operations on business services outside of gaming, such as Cloud Computing, which proved to be a very successful venture. We expect a similar outcome to occur with Alibaba as we leverage our long-term time horizon to navigate through this period of heightened regulatory risk.

Engagement with Heineken

Environmental factors such as climate change and global warming represent material challenges to the global beer industry. Brewing and distributing beer presents a number of environmental issues, from water and energy intensity, to challenges in recycling and susceptibility of crops to floods and droughts. Accordingly, we have identified environmental

issues as a material risk to our investment thesis in global brewer Heineken and engaged with representatives from the company in the most recent quarter to better understand the scope of the issues and their strategies for mitigation.

Over recent years, management has adopted a more holistic approach to sustainability with a focus on the complete supply chain. Technology has been applied to boost environmental efficiencies including the continued development of Smart Dispense, a technology that improves the resource efficiency of cooling and insulating beer and minimizes the cleaning requirements of beer lines. A recent change in leadership at the firm is expected to accelerate sustainability priorities, and we are pleased to see ESG considerations factored into senior management remuneration. We believe packaging presents a significant opportunity for the company to reduce its environmental footprint, with packaging accounting for one-third of the company's total carbon emissions.

While we acknowledge the environmental risks of Heineken, sustainability is a forward-looking concept and the company is in a strong position to lead the industry towards a new era of more sustainable beer production. We continue to engage with management on their long-term sustainability projects and await the imminent launch of their next phase of science-based targets which will include 2030 targets for packaging, logistics, cooling and processing, as well as stretch goals for 2050.

Engagement with Equinix

Equinix is the world's largest retail data center provider. Data centers are the backbone of the internet and essential to the revolution of digital lives. The coronavirus pandemic has accelerated the digital transformation and accordingly, the demand for resources that power that new world has increased. Given the nature of operations, the power consumption and carbon emissions of data centers is very high relative to most industries.

Acknowledging this risk, Equinix has prioritized sustainability over the past decade with investments in energy-efficient data centers yielding strong returns to both shareholders and society. The efficiency of a data center is important for all stakeholders and thus the interests are aligned in this regard. Since 2015, Equinix's total carbon emissions have fallen approximately 60%. In 2019 the company reported 92% use of renewable energy and is striding towards a goal of 100%.

Over more recent times, reductions in emissions have been achieved through the use of carbon credits. From our discussions with management, carbon credits are used as a strategy to overcome the availability (or lack thereof) of renewable energy in some locations, particularly throughout Asia. However, management is committed to increasing direct sourcing of renewable energy in the future and also intends to provide more aggressive milestones in the near-term as they continue to exert leadership towards a goal of net-zero emissions.