U.S. Large Cap Growth Commentary

1Q 2021

SGA
Sustainable Growth Advisers

Performance

SGA's U.S. Large Cap Growth portfolio returned 1.8% (gross) and 1.6% (net) in Q1 versus 0.9% for the Russell 1000 Growth Index and 6.2% for the S&P 500 Index.

Strength of U.S. Economy Boosting Economically Sensitive Stocks

The U.S. economy is now expected to grow by almost 10% in Q1, up from 4.1% in Q4. U.S. vaccination rates are ramping up significantly, manufacturing is at its highest level since 2018, and employment improving. There is nearly $5 trillion in consumer savings on the sideline together with massive new fiscal stimulus and continued monetary accommodation. All these favorable factors led investors to more economically sensitive companies that had suffered the worst during the pandemic. With the level of growth expected in Q1, much of the downturn in the economy experienced during the pandemic will have been eliminated, setting the foundation for attractive economic growth over the remainder of 2021 and into 2022. While investor expectations for corporate profit growth in 2022 is understandable given the recovering economy and massive stimulus, we would caution that estimates do not generally include the impact of tax increases, which we believe are likely and could possibly reduce growth to single digits in 2022, thus reducing some of the momentum in stocks. Given the likelihood of tax increases, we have already factored in estimates for a higher corporate tax rate into our company modeling and resulting valuations.

With a light at the end of the pandemic tunnel and massive fiscal and monetary stimulus being applied, concerns that inflation may heat up pushed the 10-year Treasury yield past 1.7% in March, marking a new 14-month high. The increase in borrowing costs led to widespread selling of growth stocks, particularly those that had outperformed so strongly over the past year in the Information Technology and Consumer Discretionary sectors. The increase in rates meanwhile boosted investor interest in Financials and particularly bank stocks. While investor concern over higher inflation, and a quicker than expected end to the Fed's highly accommodative policy stance penalized growth stocks, actual inflation rates remained well under control and the Fed reiterated its willingness to allow inflation rates to exceed 2% as the economy continues to heal and unemployment subsides. The rise in yields off the historically low levels seen in the depths of the pandemic was not surprising to us. In fact, in the course of our valuation work at the end of 2020, we had adjusted the discount rates we apply to company cash flows on the expectation that interest rates would rise from unsustainably low levels.

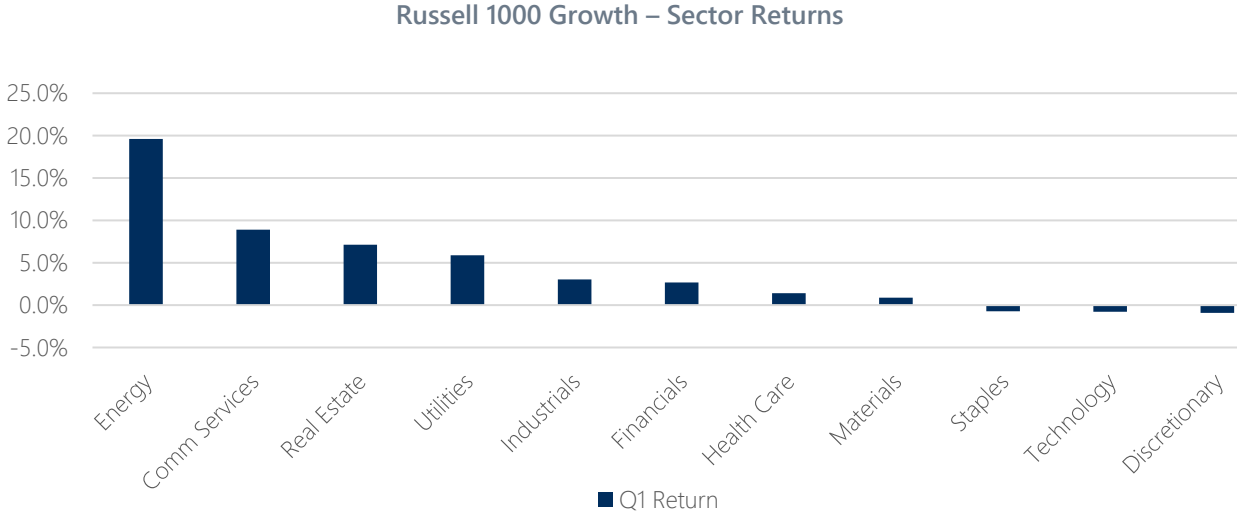
Highlights

- Our approach faced headwinds as smaller cap, lesser quality, and more economically sensitive companies outperformed on rising expectations for a strong economic recovery
- The portfolio faced strong cyclical headwinds early in the quarter but then outperformed for the balance of the quarter and for the overall period as rising interest rates weighed on higher growth companies; stock selection was weak early in the quarter but very strong in the second half
- The portfolio's position in Match Group was sold due to valuation and the proceeds divided among other more attractively valued secular growth holdings
- We continued to actively trim positions that had appreciated substantially in the market rebound such as Facebook, PayPal, Intuitive Surgical, IHS Markit and others; we also purchased additional shares of growth companies such as MSCI, Ball Corp., UnitedHealth, American Express and others that remained attractively valued
- The portfolio is positioned in our highest confidence and most attractively valued long-term secular growth opportunities; the portfolio remained underweight the Information Technology and Consumer Discretionary sectors

Source: FactSet

Market and Portfolio Attribution

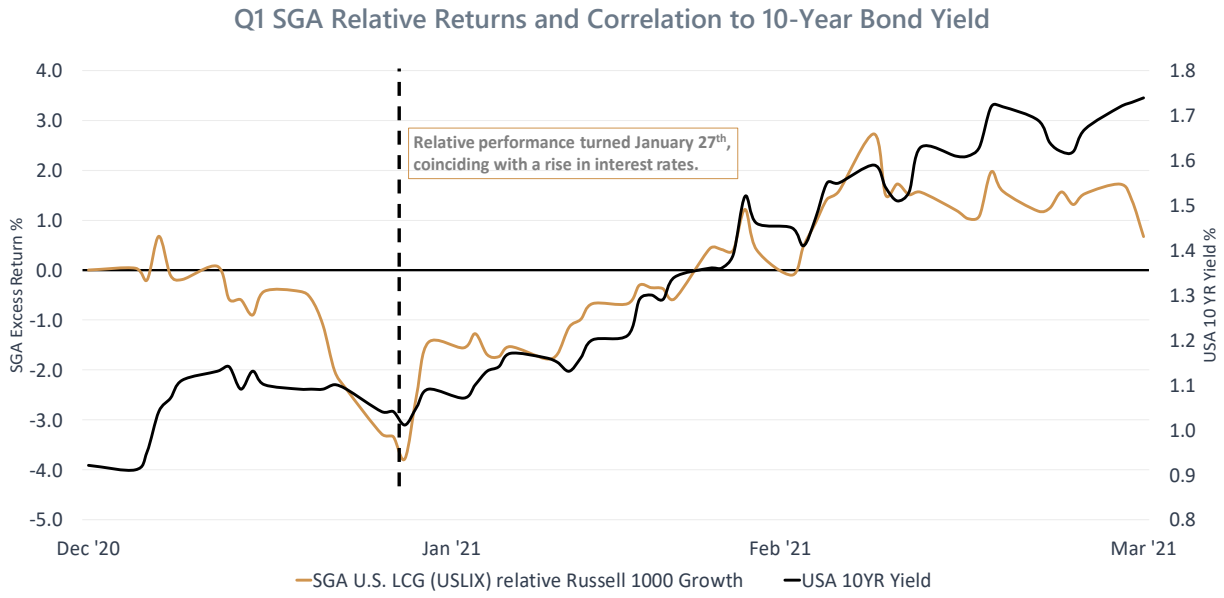
Market leadership varied over the course of the quarter with more economically sensitive companies outperforming strongly, particularly in the first half of the quarter. Rising bond yields together with a fourth COVID-19 wave in Europe and rising cases in the U.S. served to moderate optimism. Higher interest rates put pressure particularly on high growth stocks in the Information Technology and Consumer Discretionary sectors in the second half of the period. Given the outperformance of more economically sensitive companies for the overall period, however, value outperformed growth, higher beta stocks beat lower beta stocks, and small caps outperformed. With the bounce in the reward to quality in the second half of the quarter, companies with earnings or higher returns on equity outperformed, however companies with higher debt levels continued to outperform as well.



Source: Russell

Leadership in the Russell 1000 Growth Index was eclectic for the quarter with the Energy sector performing best, returning +19.6% as energy prices rose reflecting the potential for higher demand in a stronger global economy. Communication Services and Real Estate were the next best performing sectors. In a reversal from 2020, the index was dragged down by weak returns in the Information Technology sector (-0.8%) which comprised about 45% of the index as well as the Consumer Discretionary sector (-0.9%) which comprised about 17% of the Index. Likewise, large specific contributors to market returns

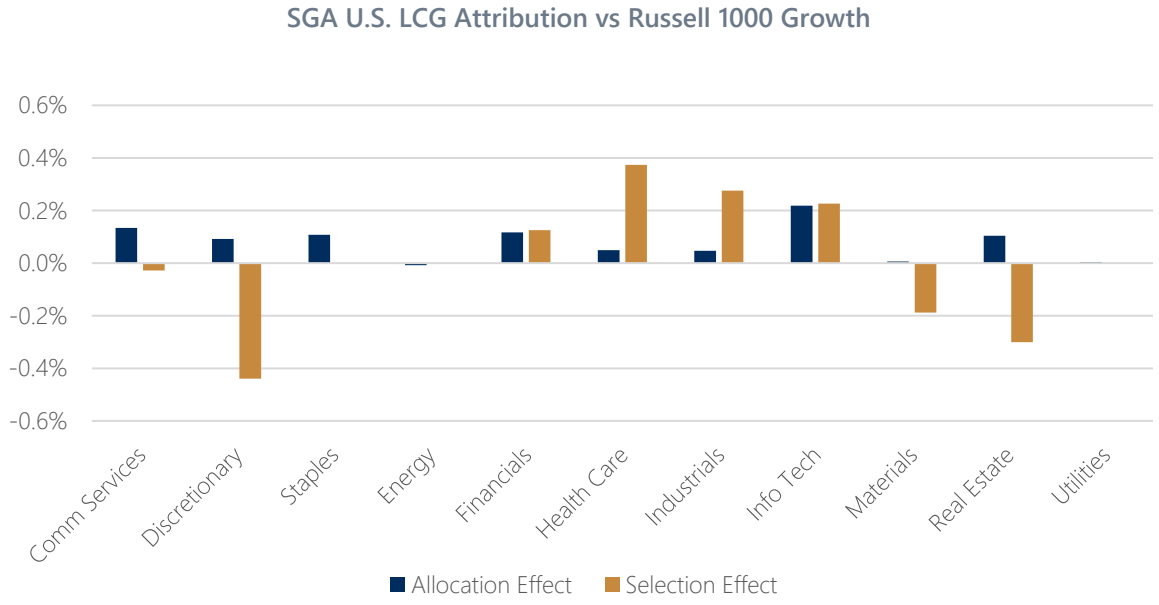
last quarter and in 2020 such as Apple and Tesla underperformed in Q1 as investors sought more economically sensitive companies more likely to see pronounced near-term improvements in their results.



Performance data used is the John Hancock U.S. Global Leaders Growth Fund, share class I.

Source: FactSet, Russell

The portfolio underperformed on a relative basis in the first half of the quarter as cyclical stock headwinds were most intense but saw a turn in relative results beginning in late January as interest rates rose quickly and negatively impacted higher growth companies, particularly in the Information Technology and Consumer Discretionary sectors. Concern over the widening spread of COVID-19 variants and the potential impact this could have on U.S. reopening's despite the quickly increasing number of people being vaccinated also moderated investor optimism as the quarter went on. Sector allocations and stock selection each contributed positively, but the vast majority of the benefit for the overall quarter came from sector weightings relative to the index. An underweight in the weakly performing Technology sector, and overweights in the strongly performing Communication Services and Financials sectors benefited performance.



Source: FactSet, Russell

Strong stock selection in the Health Care, Industrials and Information Technology sectors was driven by positions in a diverse array of companies including Abbott, UnitedHealth, Illumina, IHS Markit, Union Pacific, Workday, and PayPal. This strength, however, was largely offset by selection in the Consumer Discretionary and Real Estate sectors where positions in Nike, Yum! Brands, and Equinix were not rewarded.

Largest Contributors

Internet search leader **Alphabet** was the portfolio's largest contributor in Q1 after reporting impressive revenue growth led by an unexpectedly strong rebound in Search, despite travel related headwinds, as well as strong margins. Strong controls over operating expenditures led to more than a 60% rise in operating profits. The stock also benefited from a strong increase in the company's cloud backlog which increased from $19 billion in Q3 to $30 billion in Q4. The company cautioned that operating expenditures and capital spending would reaccelerate in 2021, but we remain comfortable with its ability to temper spending as needed to protect earnings and cash flow in periods of economic weakness.

Diversified global health care company **Abbott** was the second largest contributor to portfolio returns for the quarter. The company reported strong Q4 results, influenced heavily by use of its COVID-19 testing kits. Revenues rose 29% while earnings per share jumped 53%+. Other segments of the business posted much smaller gains with Nutrition sales up 4.4%, Established Pharmaceuticals up 3.4% and Medtech flat as medical procedures continued to be negatively impacted by virus concerns. We continue to see the company as being well-positioned as we emerge from the pandemic given pent up demand for procedures and core testing. While COVID-19 testing will inevitably decline, the global nature of their business will help offset weakness and more importantly, we think the company will be able to drive double-digit growth as it executes on its numerous medtech pipeline opportunities including multiple versions of Libre, devices for heart valve and heart failure, as well as continuing the rollout of the Alinity diagnostic system globally.

American Express was the third largest contributor to portfolio performance despite the company posting in-line Q4 results and providing relatively conservative guidance for 2021 and 2022. The stock benefited from investor preferences for more economically sensitive companies likely to benefit most from an economic rebound post COVID. Sales were in line with expectations while marketing expenditures increased, likely enhancing the company's longer-term growth rate. We were pleased to see net write-offs for the quarter being well controlled, and declining from Q4. The company continues to offer a highly attractive cash flow based valuation relative to other companies on our Qualified Company List. We expect it to increasingly benefit from improved usage with small and medium sized merchants, and the millennial age group among others, as the impact of the pandemic lifts. We purchased additional shares during the quarter on initial weakness and raised the position to an average weight target.

UnitedHealth and **Facebook** were the fourth and fifth largest contributors to portfolio performance for the quarter.

Largest Detractors

Leading computer assisted design company **Autodesk** was the largest detractor from performance during the quarter despite a solid Q4 report with revenues exceeding expectations and strong bottom line growth. Billings for the year declined by only 1% which, given the issues associated with the pandemic, was quite strong and better than the company's guidance. Their guidance called for softness in the first half of 2021 which is not abnormal given the seasonality in their business. This coupled with very strong performance by the stock in Q4 last year led to its underperformance this quarter. We used the weakness to add to our position after we had trimmed it on strength earlier.

Aluminum packaging producer **Ball Corp.** was the second largest detractor from performance in the quarter despite delivering solid quarterly results and attractive guidance for 2021. The weakness was primarily due to concerns by shorter-term investors who focused on some initial start-up costs the company was facing as it worked to add capacity to meet the strong demand for its containers. We are confident that the capacity being added will be met with increased demand as consumers, beverage brands and regulators are all embracing the sustainability benefits and SKU innovations in cans. Ball's revenues grew 14% in Q4 while its earnings were up 15%, exceeding our expectations and those of the market. The company's global beverage volumes grew 12% with strength across each of its segments as demand continued to outstrip supply across all regions. Its aerospace backlog grew 30% year-over-year. In 2021, the company expects double-digit growth in global

beverage volumes and earnings growth exceeding its long-term target of 10-15%. We purchased additional shares in the company on the weakness.

E-commerce and cloud computing leader **Amazon** was the third largest detractor from performance for the quarter despite reporting solid results in its retail segment, strong advertising revenues and in line results at Amazon Web Services (AWS). International retail saw a nice pick up for the period (+49% quarter-over-quarter versus +30% quarter-over-quarter in Q3), helped by a second wave of lockdowns in some countries and a delayed Prime Day in Q4. Bookings at AWS grew nicely at 60%+ year-over-year with slightly lighter margins. We continue to forecast some fall off in the tremendous benefit the company's retail segment has received due to the pandemic, but do expect some of the benefit to be perpetuated by changes in consumer buying habits which have occurred. We added to our position on weakness during the quarter given our continued high confidence in the company's 3-5-year growth opportunities and its attractive cash flow based valuation.

Intuitive Surgical and **Nike** were the fourth and fifth largest detractors from performance for the period.

Portfolio Activity

Activity in the portfolio was less than average during the quarter. While only Match Group was fully liquidated, we actively took advantage of opportunities presented in other portfolio holdings driven by shifts in the market backdrop as a result of rising interest rates and optimism around the economic recovery. Among those holdings we trimmed on strength during the quarter were Facebook, Illumina, PayPal, Workday, Abbott, Intuitive Surgical, and IHS Markit. In contrast, we added to positions in MSCI, Walt Disney, Ball, UnitedHealth, American Express, Amazon, Regeneron, Autodesk, and Salesforce.com among others.

New Positions

No new positions were initiated in the portfolio during the quarter. The proceeds from the sale of Match were reallocated among other existing holdings that offered attractive growth with better valuations.

Sold Positions

Match Group was sold from the portfolio due to valuation considerations following significant appreciation in its share price after we initiated a position in the company back in March of 2020. Following our purchase, the company benefited from positive trends in its Tinder business during the pandemic and, more recently, a pick up in the growth of its non-Tinder businesses. We continue to view the business as having attractive long-term growth opportunities along with the quality characteristics we seek and as such the company remains on our Qualified Company List.

Summary

The portfolio's return pattern over the quarter was consistent with our expectations and history as it lost some relative ground in the early part of the quarter amid high optimism over the potential for life to get back to normal as vaccination programs gained traction. Similarly, the portfolio gained ground relative to the market as the flourish of optimism was tempered a bit by hiccups in the rollout of vaccines, variants spread in Europe, Brazil and the U.S., and bond yields climbing precipitously on new inflation worries. With more states allowing businesses and schools to reopen, manufacturing humming and massive monetary and fiscal stimulus being piled on, we are not surprised by the optimism or the market's willingness to embrace cyclicals. Q1, however, illustrates the basis for our continuing focus on businesses and the key quality characteristics we demand. Likewise, it underlines our expectation that the path out of the pandemic is likely to be volatile and marked by periodic reversals and fluctuations in sentiment.

The businesses we invest are expected to grow at well above average rates, despite the volatility and variations in investor sentiment, compounding over our longer time horizon. Over the next three years, the portfolio is expected to generate 11.9% revenue growth and 22.8% earnings growth while the Russell 1000 Growth Index is expected to generate 10.5% and 14.6% revenue and earnings growth respectively. This predictability and sustainability of growth should provide a much smoother ride for our clients over time, generating strong risk adjusted and absolute returns. We've seen headwinds from a

bounce in cyclicals before and have confidence that our approach to growth investing will generate attractive performance for our clients over the long-term.

Please let us know if you have any questions regarding the quarter or the portfolio's positioning, and thank you for your continued confidence in our team.

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. 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. Large Cap Growth portfolio for the past year. SGA's earnings growth forecast data is based upon portfolio companies' non-GAAP operating earnings.

Sustainability Report

1Q 2021

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Nike: Sustainable Cotton

China is the world's largest cotton producer with 84% of its cotton sourced from the Xinjiang region. Following concerns over the prevalence of labor abuses in the region, many major brands have been associated with forced labor resulting in consumers calling for an end to the sourcing of cotton and yarn from the region. The situation complicates global supply chains; presenting challenges to transparency, access and auditing, while inflaming already fragile geopolitical relations. One of our portfolio companies, Nike, has found itself targeted by the Western media with accusations of profiting from the forced labor of the Uyghur people in the Xinjiang region, which we believe inaccurate.

Nike began to improve labor standards in contract factories over 20 years ago with a focus today on traceability at the raw material level. The company works closely with its suppliers, industry associations, brands and other stakeholders to map supply sources so it can have confidence materials are responsibly produced. With regard to cotton sourcing, 2020 marked the first year 100% of cotton used across Nike's product line was certified organic, recycled or Better Cotton (sourced through the Better Cotton Initiative). This represents approximately a 4x uplift in the amount of sustainable cotton used since 2015.

In response to the recent headlines, Nike has expressed concerns over reports of forced labor in the Xinjiang region and reaffirmed their previous statement (from over one year ago) that neither Nike nor its suppliers source products from the region. Furthermore, Nike has moved to dispel inaccurate reporting of its cotton supplier relationships and lobbying efforts. Nike does not have supply relationships with suppliers in China linked to forced labor in the region, including (i) Haoyuanpeng Garment Group, (ii) Qingdao Jifa Huajin Group, and (ii) Changji Esquel Textile, as has been inaccurately reported in the press. Its supplier Qindao Taekwang Group stopped hiring new employees from the region in 2019 and no longer has any employees there (verified by independent third-party audit). Additionally, Nike has not lobbied against the proposed Uyghur Forced Labor Prevention Act, or any other proposed forced labor legislation, as was inaccurately reported by the New York Times in December 2020.

In 2020, Nike strengthened its audit protocols related to the identification of risks related to potential labor transfer programs (including more frequent reviews and self-assessment requirements for supply chain participants) and continues to conduct ongoing due diligence with its suppliers in China to identify and assess potential risks relating to the employment of Uyghurs, or members of other ethnic minorities in China. China remains an important market for Nike, in terms of growth and profitability, and we will be closely monitoring the situation for any impact to sales from boycotts by Chinese consumers as a result of nationalistic support for Xinjiang cotton.

Know Your Supply Chain – Yum! Brands

The complexity of global supply chains today present increasing risks to global businesses given changing consumer attitudes, concerns over the sustainability of our environment and increasing geopolitical tensions. The path to supply chain transparency is fraught with obstacles, costs and requires a methodical transition. Any 'quick fixes' are likely to displace small farmers & producers and cause disruption to local economies. Corporates must work to continually improve the transparency of supply chains with careful consideration of the first-, second- and third-order effects.

Food companies are seeing heightened interest in their supply chains as discerning consumers demand to know where their ingredients come from, how they are sourced and the conditions and welfare of workers and animals. We recently spoke with the management of Yum! Brands, operator of the KFC, Taco Bell and Pizza Hut global franchises, as to how they are addressing their customers' concerns.

Yum! works with thousands of suppliers across food, beverages, packaging and equipment through the company's Office of Sustainability created in 2009. In recent years, the Office has increased its focus on several areas including the sourcing of animal proteins and forest stewardship with hand-picked ingredients including tomatoes and palm oil a key area of risk. In efforts to conduct supply chain sustainability risk assessments, in 2019 Yum! partnered with SEDEX – a leading ethical trade organization that works to ensure ethical standards are monitored and measured across global supply chains. SEDEX collects

data on suppliers across the globe and shares this information with members of its association to encourage collaboration amongst businesses to improve working conditions in global supply chains. Yum! utilizes the SEDEX data to form risk assessments of its suppliers and identify those that need to make improvements to their workers' rights and conditions. Yum! audits its suppliers over 15-month periods with third-party audits utilized to provide an objective report of suppliers. Transparency into the company's audit results is an area where we will continue to advocate for improvement; the company does not share statistics on the number of suppliers that fail an audit or are cited for significant infractions, although they implied the number of incidents is low.

Yum's journey towards sustainable sourcing will be gradual, with progress dependent upon contributions from not only the company itself, but other stakeholders such as government agencies, NGOs and peer collaborations as well. We believe the company is on the right path with its policies, but we will be closely monitoring future developments and continue our engagement with management.

Other Noteworthy Items

Heineken is considering a 'Say on Climate' vote at future annual general meetings. Say on Climate is a new initiative to encourage companies to disclose emissions and produce reports on interim environment targets (5-10 years) that bridge the gap between shorter and long-term targets (e.g. 2050 carbon neutral). These reports would be subject to non-binding shareholder votes similar to Say on Pay - a very successful shareholder campaign.

Industrial gas provider **Linde** announced plans to build the world's largest PEM (Proton Exchange Membrane) electrolyser to supply green hydrogen throughout Europe. PEM electrolysers are currently one of the most cost-efficient ways to produce green hydrogen however the world is still some years away from producing large-scale, cost-efficient green hydrogen. As the costs of renewable energy and electrolysers decline over time, we expect green hydrogen to play a pivotal role in the transition towards a net-zero economy with applications across many industries, particularly refining and transportation. Linde is making strategic investments in the area today with the potential to serve a multi-billion-dollar market in the future. We have factored in a conservative assumption of this market to our long-term growth estimates for Linde however we will be watching this space closely.