SGA
Sustainable Growth Advisers

SGA Global Mid Cap Growth – Year-To-Date

September 2020

Highlights

- *The portfolio generated strong absolute returns and outperformed the MSCI All Country World Mid Cap Index as equity markets struggled amid the COVID-19 pandemic and associated economic dislocations*

- *Strong relative performance in 2020 has been driven by stock selection as well as positive sector allocation effects. Security selection within the Consumer Discretionary sector contributed the most*

- *Stock selection in the Consumer Staples and Materials sectors detracted from performance; selection across all other sectors contributed positively*

- *New positions in Match Group, Kansas City Southern, Kakao, Alcon, Steris, WuXi Biologics, EPAM Systems, and XP were initiated. Existing positions in Vail Resorts, Dollarama, Ulta Beauty, Shiseido, and Shopify were sold*

- *The portfolio is expected to generate revenue and earnings growth greater than the MSCI ACWI Mid Cap Index over the coming three years, with greater predictability and sustainability*

Performance

The SGA Global Mid Cap Growth portfolio returned 21.3% through September 30, 2020, compared to -3.1% for the MSCI ACWI Mid Cap Index.

Significant Market Volatility Leads to Flat Returns

During the first quarter of 2020, global equity markets experienced historic weakness with stocks peaking on February 19th, as markets benefited from better than expected earnings reports. In March, the COVID-19 virus reached pandemic levels and countries around the world reacted with measures, that would have been previously considered draconian, to halt the spread of the disease and protect their populations. "Social distancing", "shelter in place", and government directives ultimately led businesses to close and traditional commerce to be put on hold in many countries. Economic dislocations multiplied in the U.S., Europe, and the Pacific Rim, while economic activity in China showed early signs of improvement as the government gradually rolled back restrictions put in place earlier to battle the virus. With the near complete curtailment of commerce due to the virus posing a severe headwind to all companies, central banks applied unprecedented monetary accommodation while governments announced significant new fiscal stimulus measures to limit the impact of a slowdown in economic activity and enhance the eventual rebound.

Following Q1's market weakness, global equity markets rebounded sharply in Q2 as investors reacted to faster than expected business re-openings, and the significant stimulus from monetary authorities and governments started to percolate into the economy. With the strong rebound in stock prices, the CBOE VIX Index declined from elevated levels at the beginning of the quarter, but remained high. While markets rebounded sharply, there was still some uncertainty over long-term economic scars the COVID-19 pandemic might leave behind. Unemployment posed a headwind to most economies as manufacturing and services were negatively impacted by unprecedented lockdowns. Over 20 million Americans lost their jobs in April, compared to 8.6 million who lost their jobs during the entire Great Financial Crisis of 2008-2009. Eurozone unemployment jumped to 7.3% in April. However, later in Q2, glimmers of hope began to appear as businesses and economies took steps to re-open.

While dismal Q2 GDP figures were being reported in Q3, global equity markets continued their rebounds benefiting from massive economic stimulus, improving economic data, recovering employment, gradually declining infection rates and progress on therapeutics and vaccines. Eurozone growth declined -11.8% in Q2, slightly better than expected, boosted by a better than expected recovery in Germany which helped offset further weakness in the UK, Spain, and France. Scandinavian markets posted strong returns, but fears over a developing second wave of COVID-19 infections swept markets in Spain, France, the UK, and other parts of the continent as the quarter progressed. U.S. GDP shrank by -31.7% (annualized) during Q2 while the U.S. equity market continued its rally in July and August, before concerns over additional government stimulus and rising COVID-19 infections put downward pressure on the market in September. The OECD (Organization for Economic Co-operation and Development) updated its forecast for 2020 U.S. economic growth from -7.3% at the end of June to -3.8%, as rising durable goods orders and employment gains buoyed market optimism even as the service side of the U.S. economy remained weak.

Despite the rebound of global equity markets later in the year, significant potential for volatility still remains as we head into the final quarter of 2020. The number of COVID-19 cases in most countries is rising again, but new data on pending vaccines has generated hope for a more "normal" 2021.

Market and Portfolio Attribution

Given the waves of fear and optimism throughout the year, there was significant dispersion in equity markets. Health Care and Information Technology outperformed the index significantly, while Energy, Real Estate, and Financials trailed by a wide margin. There was also significant dispersion at a regional level, with Chinese and U.S. equity markets among the best performers. Emerging markets in Latin America and Europe suffered major declines, and some large developed European markets such as the United Kingdom and France also struggled.

The portfolio's strong relative returns were driven by security selection within the Consumer Discretionary and Information Technology sectors. The absence of exposure to Energy, which was the weakest performing sector with a -46.9% return, also contributed to performance as did the portfolio's overweight to Information Technology and underweight to Real Estate. Stock selection in the Consumer Staples and Materials sectors detracted from returns, as did overweight positions in Consumer Discretionary and Health Care, and an underweight to Materials. From a regional perspective, stock selection was positive across regions, and especially strong in developed markets including the U.S., Canada, and Japan. The portfolio's overweight to emerging markets, particularly Latin America, and slight underweight to the U.S., detracted from results.

Largest Contributors

Cloud-based commerce platform **Shopify** was the largest contributor to portfolio performance during the period. The company reported strong results for all three quarters, generating positive free-cash flow and strong revenues. COVID-19 caused a significant step-up in e-commerce demand as online sales became an essential channel for merchants, and Shopify SMB's were able to pivot towards merchandise that sold well during this time. SMB merchant outperformance was attributable to consumers looking for products that catered to individual demand and embracing direct relationships with brands. While their path to becoming a retail operating system and capturing an increasing share of commerce is clear, we believe growth may slow in the coming year as tailwinds ease. We liquidated the portfolio's position in September due to high valuation in order to allocate assets to other opportunities.

Global payment services company **Adyen** was the second largest contributor to performance for the period. Adyen started out the year strongly through the first two months of the year, fueled by growth in online payments and share gains resulting from increased penetration with existing clients as well as new account wins. While the onset of the COVID-19 pandemic in late March and the related social lockdowns across the globe did create a headwind to the business, the hardest hit areas of commerce (travel and physical retail) represent less than 25% of Adyen's total revenue base, and pressures from these channels were largely offset by an acceleration in the secular shift towards e-commerce. Importantly, as physical retail began to recover in the middle of the year, online volumes maintained their elevated levels, confirming that the shift to ecommerce is reaccelerating Adyen's financial results. Given continued high market volatility and the stock's less attractive valuation, we trimmed the position to a below-average weight later in the year.

Japanese medical platform and IT company **M3** was the third largest contributor to returns over the period as the company delivered strong and resilient results. M3's Medical Platform segment, which accounts for a majority of company revenues, benefited from an acceleration in digital trends as pharmaceutical marketing spend on their platforms rose significantly as a result of the COVID-crisis. Results in M3's Evidence Solutions and Career segments were negatively impacted by the pandemic given reduced demand for trials and less activity from doctors and pharmacists, however we expect a gradual recovery in these segments moving forward. In contrast, its Overseas business, which includes online portals for healthcare professionals and pharmaceutical companies in the U.S., U.K., France, Germany, Spain, and China, performed well given rising demand for online services. We continue to view M3's 3-5 year growth opportunity favorably as it is well-positioned to capitalize on the rising adoption of online healthcare services through its unique networks in Japan and emerging international businesses. We trimmed the position to a below-average weight on valuation considerations.

MercadoLibre and **RingCentral** were the fourth and fifth largest contributors to performance, respectively.

Largest Detractors

Sanlam was the largest detractor from performance as stocks in South Africa came under pressure given the global pandemic risk and the spread of the virus to Africa, posing a strong headwind to the company's business. That said, the company reported a better second half of 2019 and provided an interim update that spoke to the strength of their insurance business prior to the pandemic. They also reviewed their various capital requirements and we do not expect any stress on the company's liquidity. There will be an impact to their investment units should equity markets decline and credit spreads increase, but we expect these events to be manageable and to allow

Sanlam to maintain its dividend for 2020 which currently yields about 6%. Given the temporary elevated uncertainty and headwinds facing the business, we maintained a below-average weight in the company.

Leading Latin American consumer company **Fomento Economico Mexicano (FEMSA)** was the second largest detractor from portfolio performance for the period, as the company faced headwinds from COVID-19 related pressures on its convenience store traffic, a deteriorating Mexican economy, significant depreciation in the Mexican Peso and a string of small acquisitions. The company reported Q2 results that were weak, but generally in line with our expectations, with revenues down 14% and earnings off 40%. OXXO stores had about 35% of their stores operating under restrictions during the period, down from 50% earlier in the year. COVID-19 has raised questions regarding the trajectory of unit growth moving forward, with peak growth now possibly behind them should changes in consumer behavior brought on by the pandemic persist longer-term. The company's Coca-Cola bottling operations also faced difficulty but showed improving volumes as the quarter progressed. We see most of these issues as temporary, gradually receding as COVID-19 related issues abate and new growth initiatives in Latin America offset decelerating growth in its core OXXO business in Mexico. Given continued conviction in the long-term growth thesis for the business over our 3-5 year investment horizon, and the stock's attractive valuation, we purchased additional shares and maintained an average weight in the portfolio.

Vail Resorts was the third largest detractor from portfolio returns over the period. The company reported a strong start to the year with growth in season pass sales and its membership base, and reiterated its annual guidance despite a dip in visitation rates due to poor weather conditions. The company showed better-than-expected top-line growth early in the year highlighting the strength of the growing network effects of EpicPass and consolidation of a fragmented market. The COVID-19 pandemic created a massive disruption in the company's shorter-term growth prospects. In addition to reductions in expectations for the 2020 Spring season, Vail Resorts also highlighted a 40% cut to CapEx in 2021. The company also hesitated on providing guidance for the 2021 Spring season given the unprecedented disruption in the travel and leisure industries, and the unknown future habits of consumers, limiting visibility into future growth. While the company was positioned to withstand short-term disruption, and may even benefit in the long-term due to an acceleration in industry consolidation, the lack of visibility over the next several years led us to liquidate our position.

Raia Drogasil and **CP All** were the fourth and fifth largest detractors from portfolio performance so far in 2020, respectively.

Portfolio Activity

Portfolio turnover has been in line with expectations year-to-date, with several positions initiated and others liquidated. We continue to take advantage of significant market movements to actively reallocate capital from positions which were becoming less attractively valued to those growth business where valuations continued to appear attractive. Eight new positions were initiated in 2020 through September 30th including Match Group, Kansas City Southern, Kakao, Alcon, Steris, WuXi Biologics, EPAM Systems, and XP. Other positions in the portfolio were liquidated either due to valuations becoming less attractive or because we identified other more attractive growth opportunities. These positions included Vail Resorts, Dollarama, Ulta Beauty, Shiseido, and Shopify.

New Positions

Match Group, which owns Tinder, the leading online dating platform, was added to the portfolio during the period. Its portfolio of businesses also includes three of the other four 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., and a variety of 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 online dating is often fleeting, experience has shown that users keep returning to the sites. With online 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 an estimated total market of about 110 million single people, we see significant growth opportunities. Approximately 49% of Match's sales are international, with more room to grow. We also see upside from the rapidly improving performance of non-Tinder

platforms, which cumulatively grew sales 23% year-over-year in 3Q20, and from adjacencies like live-streaming video.

Among the key risks we are monitoring with Match are the state of its competitor apps, new subscription growth, and the rate of acceptance of its add-on options by users. We initiated an average weight position in the company in February.

We initiated a position in **Alcon**, a global medical devices provider and leader in ophthalmology. The stock had been negatively impacted by the company's Q2 results which were affected by the COVID-19 pandemic, with sales down 36% as surgeries were postponed and optometrist offices closed. Approximately 60% of the company's sales are in its Surgical division where it sells equipment, consumables and implants used in eye surgeries including cataract, vitreoretinal and refractive procedures. Much of this is driven by aging trends worldwide making its sales relatively steady and predictable, outside of the pandemic. Approximately 90% of the company's revenues (outside of equipment sales) are recurring consumable sales. The company operates in businesses which have high barriers to entry in the form of advanced technologies, regulation, and capital which limit the number of competitors globally. Growth for the underlying markets are driven by demographics, increasing penetration of healthcare services in emerging markets for eye surgeries and greater demand for contact lenses. For Alcon, we see an opportunity for the company to enhance its execution after its spinoff from Novartis early in 2019, with improved new product launches and a more motivated team. Recent launches of improved intraocular lenses for implants and contact lenses are an example and should lead to improved margins.

Among the key risks which could impair our thesis for Alcon would be significant technological advancements that could replace current methods of treating various eye diseases including cataracts and retinal disease. With cataracts a key market for Alcon, we are monitoring developments related to new treatment methods. We also continue to monitor the company's competitive landscape and pipeline developments. While the COVID-19 pandemic is proving to be a near term challenge for the company, we believe that the market will return to growth in the next couple of quarters, putting the company on track for enhanced execution. We initiated a below-average weight position in the company in May, and later raised it to an average weight.

Kansas City Southern (KSU) was purchased in the portfolio on weakness due to concern over weak economic activity tied to the COVID-19 pandemic. The company's integrated U.S. and Mexican operations are strategically focused on the growing north-south freight corridor connecting key commercial and industrial markets in the central U.S. with major industrial cities in Mexico. Its business is well diversified with about 25% of its revenues tied to transporting Industrial and Consumer products, 20% to Chemicals and Petroleum, 19% to Agricultural and Minerals and 17% to Intermodal business.

The company offers attractive pricing power, being able to consistently realize price increases higher than inflation due to the duopolistic nature of the North American rail industry and continued highway trucking cost inflation. The company's implementation of Precision Scheduled Railroading concepts has enhanced the productivity of their equipment and margins further and we expect that serving clients in a timelier manner will lead to incremental new business. With the company being deemed an "essential service", the recurrence of its revenues is higher than seen with other more economically sensitive businesses. With cross-border trade continuing to grow as well as rising Mexican industrialization, we see attractive sustainable growth for KSU in refined gas, intermodal, plastics and chemical/industrial products.

Among the key risks we are monitoring for KSU are the regulation it faces relative to pricing, labor relations and safety both in the U.S. and Mexico. Competition from other rails as well as trucking and cargo shipping also pose a risk, and the possible implementation of autonomous trucking. While a risk, current technological limitations as well as the likely difficulty in obtaining regulatory approval for autonomous trucking reduce its potential to threaten our thesis over our 3-5-year investment horizon. Indeed, we see the potential for autonomous railroading as more likely, and this would further enhance the company's long-term profitability. Finally, while the company's products are largely consumed on a regular basis regardless of the macroeconomic environment, some of its traffic is more economically sensitive.

We initiated a below-average position in the company in May, and continued to gradually build the position opportunistically.

A new position in Korean super-app company **Kakao** was established during the period. The company enjoys a dominant position in the Korean mobile messenger market through its Kakao Talk app, which has 46 million domestic monthly average users and a 96% market share. Given its dominance in its mobile messenger app, the company has been able to expand into adjacent mobile-based services such as payment, taxi hailing, gaming, music streaming, and paid content. The company benefits from its significant scale and network effects which are underpinned by its hold on Korean mobile messaging traffic. The Kakao app and its mobile ecosystem have become

an integral part of its users' daily lives, making its platform highly relevant for mobile advertisers and content creators. Kakao's scale provides the company with pricing power allowing its businesses to generate attractive and growing margins. We expect margins to improve over time as the company continues to gain more scale across product lines, and the necessity for further investments subsides. We see significant growth runways for years to come across its various product lines, but we are particularly enthusiastic about its growth potential in mobile advertising, digital payments, e-commerce, and paid content.

Among the risks we are monitoring for Kakao are the company's ability to continue to monetize its vast user base while not negatively impacting user experience. Execution, especially in newer businesses including digital banking and payment, is critical for future success. Lastly, we are closely following the rate of investments and the risk of these rising in the future, which would adversely affect the company's margins and free cash flow generation. We initiated a below-average weight in the company in May.

We initiated a new position in **Steris**, a provider of services, consumables and equipment used to sterilize healthcare products across multiple settings. The company provides essential products and services to healthcare providers (65% of sales), medical device manufacturers (21% of sales), and to biopharmaceutical manufacturers (14% of sales). The company offers business quality characteristics which are consistent with those we seek. Its pricing power is derived from the fact that it provides a very critical service which is not a high proportion of the customer's costs. Additionally, Steris provides efficiency advantages and reputational comforts as a leading supplier. The barriers to entry are high due to strict regulatory oversight by government entities such as the FDA and EPA in the U.S. Approximately 80% of the company's revenues come from the sale of consumables and services which are repeatable as long as there are recurring operations medical procedures, and consumption of medical devices and pharmaceutical products such as vaccines and biologics, which must be delivered in sterile formulations. We see the company as having long runways of growth as it grows with healthcare consumption around the world, and as a leader in a very fragmented industry. The company generates attractive cash flow with a cash flow to earnings ratio of about 90%.

Among the key risks we are monitoring for Steris are the continued disruption of surgical procedures, the economic consequences of COVID-19 and the impact of a slowing macroeconomic environment on equipment sales which are about 20% of the total. Regulatory oversight from the FDA also poses a risk to companies such as Steris involved in medical equipment, while EPA oversight related to the chemicals and procedures used to sterilize equipment is also an ongoing risk. We initiated a below-average weight position in the company in July, and later raised it to an average weight.

Leading global biologics technology platform **WuXi Biologics** was also added to the portfolio during the quarter. The company offers end-to-end solutions empowering pharmaceutical and biotechnology companies to discover, develop, and manufacture biologics drugs from concept to commercial manufacturing. WuXi is well-positioned to benefit from a growing biologics end-market in China as well as the rising demand for outsourcing the discovery, development, and commercialization of such drugs given the capital requirements and complexity involved. The company's unique business model, which is focused on becoming a one-stop-shop in biologics outsourcing, as well as their edge in drug development and ability to aggressively take on new projects due to its unparalleled team of scientists, cost competitiveness, and technological capabilities has led to a dominant position in China with a 75%+ market share. Limited competition, superior technology and scale, and high switching costs allow for strong pricing power and high client retention rates. We see a strong growth opportunity for WuXi moving forward given its strong position in providing a full spectrum of biologics outsourcing services. While a majority of their revenues are currently generated in the Discovery and Preclinical Development segments, the company's backlog and project pipeline create visibility into future revenue streams. The company's revenue stream will become more recurring over time as late phase and commercial manufacturing services increase as a percentage of total revenues.

Among the risks we are monitoring are the impact on cash flows and profitability as the company aggressively expands its manufacturing capacity over the coming years, the R&D funding cycle and its impact on the company's pipeline, changes in industry dynamics, the regulatory environment in China, and execution quality given its importance to reputation. We initiated a below-average weight position in the company in July

EPAM Systems, a leading provider of digital engineering and software development services, was added to the portfolio in mid-September. The company designs, develops and maintains purpose-built and mission-critical digital platforms for many Fortune 500 companies, most of which are customer-facing systems of engagement for e-commerce, customer service and a means of enhancing customer experience. Among the platforms they have built are Expedia's hotel booking platform,

Regeneron's VelocImmune research platform and Sephora's e-commerce system. The company began as a software development provider assisting companies including Google and SAP. That background along with the relationships it has developed are at the core of its competitive advantage relative to peers. EPAM derives a majority of its sales from the U.S. (about 60%) and Europe (about 30%), while a majority of its professionals are based in Eastern Europe. We see EPAM benefiting from the growing demand for optimized digital platforms as the tech landscape changes quickly and traditional businesses seek to remain competitive. With 90% of its revenues coming from clients who have been with them for over 1 year and the average life of their top 20 clients being 10 years, with contracts normally lasting 12 months, EPAM provides a decent recurring revenue profile. The company gains its pricing power from its strong engineering capabilities, and its experience and related relationships with large technology companies over many years. Additionally, with the demand for digital engineering far outpacing the supply of resources, EPAM is in a good position to maintain this pricing power over the foreseeable future. Finally, we are comfortable with the firm's management team, which is led by its founder, together with the strong engineering culture which has been instilled and its agile organizational structure. Among the risks we are monitoring for EPAM are its ability to continue to expand capacity without negatively impacting the quality of its engineering. The company's Eastern European exposure presents increased geopolitical risk but these are mitigated by its expansion into the Asia Pacific and Latin American regions, as well as the ability of the business to support 100% remote working. We initiated a below-average weight position in the company.

A new position in Brazilian broker platform **XP** was established during the quarter. With a mission to transform financial markets in Brazil, which have historically suffered from a lack of customer choice and poor service due to the dominance of incumbent banks, XP has developed a differentiated offering focused on technology, a better customer experience, and a wider product offering. In addition to brokerage services, XP also provides educational resources, seminars, and conferences, which serve to expand the knowledge base of Brazil's vastly underbanked population.

XP benefits from a strong self-reinforcing ecosystem of retail and institutional investors, issuers, and digital content. Additionally, XP has a superior product selection with over 600 products across all asset classes, and a proprietary cloud-based platform, which enables faster innovation and operational efficiency. The nature of XP's client base, with more than half of its assets under custody and firm revenues being generated through nearly 7,000 independent advisors, along with a high proportion of retail assets, leads to a highly recurring and predictable business model. While we acknowledge that commission rates are likely to come down over time, commission revenues account for less than 30% of the company's total revenues today, mitigating the financial impact.

XP's growth opportunity is fueled by a secular shift in the migration of investment assets away from traditional banks to non-bank institutions. Figures from 2019 showed that only 10% of investment assets in Brazil were held by non-banks, with XP capturing nearly 50% of such assets, providing a significant long-term growth opportunity. Our research indicates that XP can continue to grow revenues, earnings and cash flows at double-digit rates over the long-term driven by the secular growth opportunity mentioned above in addition to further market penetration as investors in Brazil increasingly shift assets from savings vehicles traditionally provided by banks, to equities and other investment offerings.

Among the risks we are monitoring at XP are changes to the competitive landscape and potential new entrants with equal or better technology offerings, which could pressure fee structures, commission rates, and diminish market share. Being a financial services company, we are also closely monitoring any changes to the regulatory landscape. We initiated a below-average weight position in the company at the end of September.

Sold Positions

As noted previously, the portfolio's position in **Vail Resorts** was liquidated in April in order to allocate funds to higher conviction, more attractively valued growth opportunities. As the scale of the COVID-19 pandemic escalated in March, the visibility for Vail Resorts' future earnings became increasingly clouded, and the company has since been removed from our Qualified Company List.

The portfolio's position in **Dollarama** was liquidated in May based on our concerns regarding the anticipated severity and duration of the COVID-19 pandemic on the company's operations and financial results. After releasing in line results in January, the company experienced over 50% declines in traffic in mall-based stores as well as increased labor costs due to wage increases and operating expenses required for additional sanitation as the pandemic spread. While only 5% of the store base was closed, the sales mix is skewed toward discretionary items such as toys, party supplies, and lawn & garden goods which were less in demand, and the company has only a small online business. While Dollarama is financially sound and will

withstand the ongoing pandemic, and store growth is expected to resume over time, earnings growth will be severely impacted in 2020 and likely 2021 as well. Given the near-term impact to growth and an underwhelming valuation, we decided to liquidate the position and reallocate the capital to other higher quality growth opportunities.

We liquidated the portfolio's positon in **Ulta Beauty** following a strong rebound from weakness earlier in the year. Significant uncertainties remain due to COVID-19 in regards to future store mix and margins, and we decided to take advantage of the meaningful rebound and reallocate capital to other higher conviction growth opportunities.

The Portfolio's position in **Shiseido** was sold in September as the company continued to struggle in the COVID-19 pandemic environment. While growth in China returned to pre-pandemic levels, growth in Japan, the U.S., and Europe continued to lag behind competitor L'Oreal. This is primarily due to Shiseido being behind competitors in digitization, both in terms of their digital sales channel and digital marketing. This is an area the company was beginning to address, however the impact from COVID-19 will likely set them back several years in this process. Given the disruption to Shiseido's growth thesis, we liquidated the portfolio's position in order to allocate the assets to other higher confidence growth opportunities. The company was subsequently removed from our Qualified Company List.

The portfolio's position in **Shopify** was sold due to the stock's elevated valuation as the company benefited from growth in their e-commerce business and stronger than expected results. Their Q3 results showed the highest new business creation in the U.S. since 2004, with record high new merchants joining the platform. We liquidated the position in September in order to reallocate the capital to other growth opportunities.

Summary

We expect the progress of the global recovery from the pandemic to be a gradual and nonlinear process with alternating periods of optimism and fear driven by economic hardships, changing data, virus resurgences and successes in developing therapeutics and vaccines. The massive global stimulus aimed at buoying the U.S. and global economies serves as a backstop during this process, but is not likely to eliminate these swings in investor emotions or the ensuing market volatility. Increased geopolitical conflicts, slow growth around the globe, ongoing trade tensions, rising debt levels, and the U.S. elections are likely to continue to enhance this volatility. In periods when optimism reigns and those stocks most levered to an improvement in economic activity outperform, the consistent and predictable revenue and earnings growth generated by our portfolio isn't likely to be fully rewarded relative to the market. As we have seen in previous periods, we should generate strong absolute returns during these times and protect capital and generate strong relative returns when cyclical rebounds are replaced by steady single digit growth or economic weakness. Given the opportunities we see today in a wide array of truly unique and attractively valued growth businesses (based on our proprietary cash flow based valuation metrics), we are confident in the ability of our portfolio to compound high-teens earnings growth over the next 5-10 years, and believe that this will continue to attract investor attention and benefit our clients.

Separately, we want to take this opportunity to say **thank you** to our clients who have partnered with us over the years as well as to our newer clients who have joined us over the course of 2020. We have enjoyed good growth through the pandemic, and our team has remained healthy, stable and productive. We continue to focus on providing our clients superior returns and the best service and support possible, and to that end we are in the process of hiring another member of our client service team. We truly appreciate the confidence our clients are placing in SGA and we will continue to do our utmost to continue to earn your trust. Thank you again for your continued support and we wish you all the best for the upcoming holiday season.
