U.S. Large Cap Growth Commentary

Q2 2021

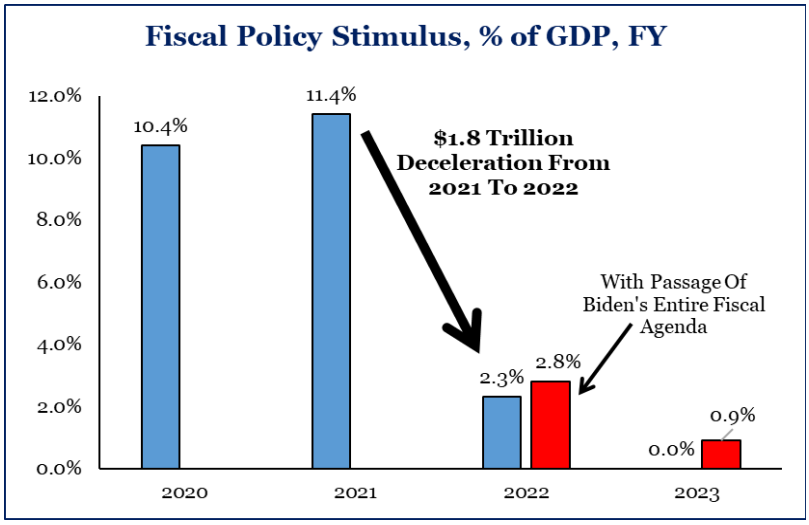
SGA
Sustainable Growth Advisers

Performance

SGA's U.S. Large Cap Growth portfolio returned 10.9% (gross) and 10.7% (net) in Q2 versus 11.9% for the Russell 1000 Growth Index and 8.5% for the S&P 500 Index.

Market and Portfolio Attribution

Equity markets moved sharply higher in Q2 with the major indexes hitting new highs as investors shrugged off concerns over higher inflationary readings, the looming fiscal cliff in 2022 which will be the largest fiscal contraction (-$1.8 trillion) since the end of World War II in 1946, and the global spread of the Delta COVID-19 variant and its potential impact on country and business re-openings.



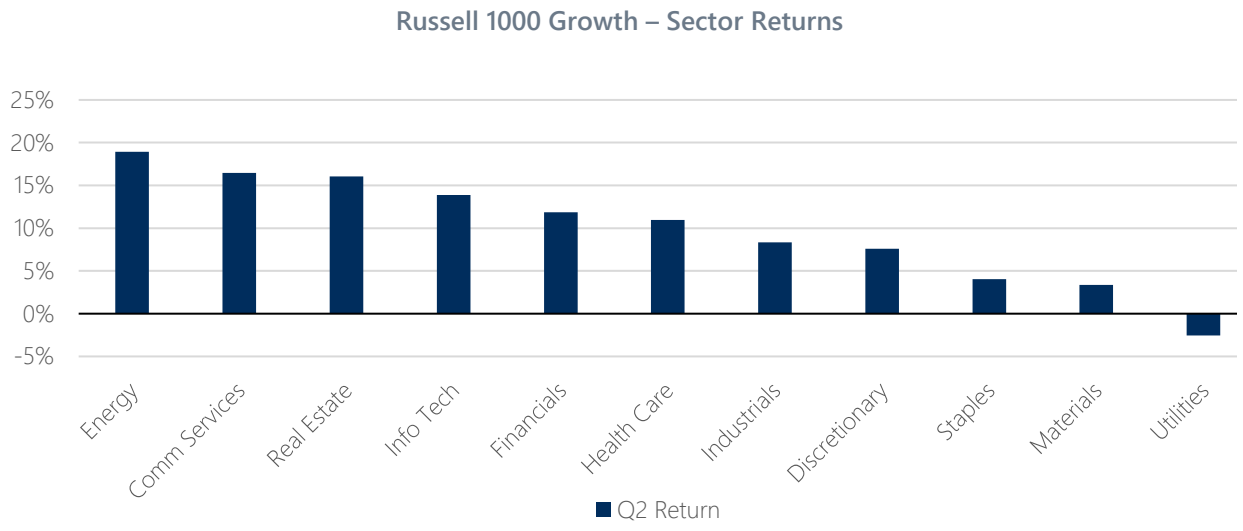
Source: Strategas

Highlights

- The rebound in deep cyclical stocks moderated in Q2 with large cap growth outperforming value and the reward to business quality metrics varying over the quarter.
- The portfolio trailed its Russell 1000 Growth Index benchmark in Q2 with stock selection and sector weights detracting from relative returns.
- Stock selection detracted in the Information Technology, Communication Services, and Materials sectors but was partially mitigated by strong selection in the Financials, Consumer Discretionary, and Health Care sectors.
- The portfolio's lack of exposure to Consumer Staples and underweight in the Consumer Discretionary sector benefited results while an overweight in Materials and underweight in Information Technology detracted.
- A new position was initiated in RingCentral. Positions in Linde, Microsoft, Nike, Union Pacific, and others were trimmed on strength while we purchased additional shares in positions including Workday, Intuit, Disney, Illumina, and Regeneron.

Large-cap growth outperformed value overall in contrast to the strong rebound in cyclicals which occurred in late Q4 2020 and Q1 2021. The rise in U.S. bond yields reversed with signs that supply bottlenecks due to the pandemic were gradually being addressed. Lumber prices dropped over 40% from highs set earlier this year, and employment growth moderated amid gains in the service segment as states dropped pandemic restrictions and businesses continued to reopen. Employers encountered difficulties in filling positions as COVID-19 related restrictions were lifted, leading to a rise in wages in some sectors.

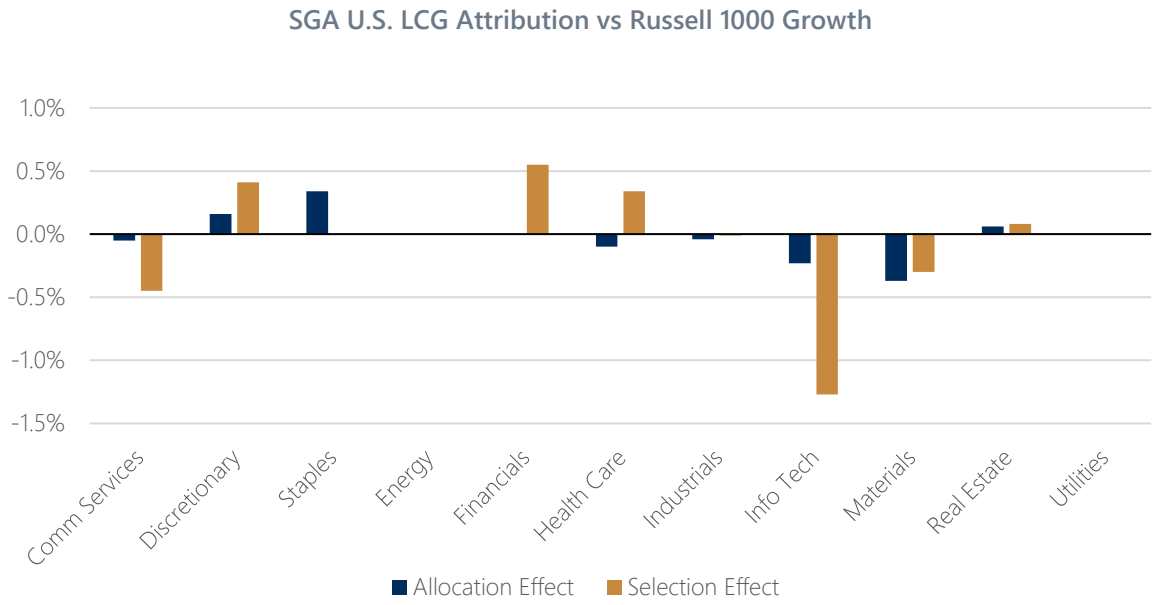
Leadership in the index varied over the course of the quarter and was less concentrated with Energy, Communication Services, and Real Estate performing best. Strong returns from companies with large index weights including Alphabet and Facebook drove returns in the Communication Services sector. Information Technology with a 44.5% average weight in the index also performed well, with returns heavily influenced by stocks with some of the largest index weights including NVIDIA, Apple, Microsoft, and Adobe. The weakest sectors for the period were the more defensive areas including Utilities, Materials (as commodity price increases began to ebb), and Consumer Staples.



Source: Russell

The portfolio outperformed in the first half of the quarter but encountered a headwind in Mid-May as interest rates declined in response to more hawkish Fed comments which spurred a strong rebound in higher valuation high growth stocks. The portfolio's performance was impacted predominantly by stock selection in the Information Technology sector due in part to a material underweight to Microsoft and a lack of exposure to Apple and NVIDIA. Holdings in underperformers Workday and FleetCor also negatively impacted relative returns. Selection in the Communications Services and Materials sectors also detracted resulting from positions in Disney, Ball Corp, and Linde. Selection in the Financials, Consumer Discretionary, and the Health Care sectors contributed due to positions in MSCI, American Express, Nike, Illumina, Danaher, and Intuitive Surgical which helped mitigate some of the impact.

From a sector exposure standpoint, the portfolio's overweight in Materials, one of the weakest performing sectors in Q2, together with its underweight in Information Technology, detracted most from results. This was partially mitigated by the portfolio's lack of exposure to the underperforming Consumer Staples sector and underweight to the Consumer Discretionary sector.



Source: FactSet, Russell

Largest Contributors

Financial management and tax preparation software provider **Intuit** was the largest contributor to performance. With strong momentum in the company's TurboTax, QuickBooks, and Credit Karma products, Intuit materially raised its outlook for the fiscal year which ends in July while posting strong quarterly results as well. We were particularly pleased to see Credit Karma revenues return to pre-pandemic levels driven by attractive user engagement and cross promotion synergies from TurboTax. We expect to see similar synergies in the coming year between QuickBooks and Credit Karma. We added to the position early in the quarter and raised the target to an average weight position.

Internet search leader **Alphabet** was the second largest contributor to performance during the quarter with its shares benefiting from a better-than-expected earnings report. Revenues grew 34% compared to the same period last year on the back of impressive results for its Search business, which rose 30%+. Operating profits and free cash flows rose 80% and 150% respectively while its cloud segment maintained an impressive 46% growth rate. The company's share repurchase authorization was also increased to $50 billion. We continue to be impressed by the company's execution and growth potential, but remain cognizant of valuation and rising regulatory risks, so we lowered the position target to an average weight.

Index and ESG data leader **MSCI** was the third largest contributor to portfolio performance in Q2 following a strong report that exceeded expectations, including revenue growth of 14% and earnings per share growth of 29%. The company's Index business, which makes up about 60% of total sales, had a very strong quarter with revenues up 17% and profits up 20%, fueled by significant new inflows. MSCI's ESG focused business, which comprises about 15% of its sales, continues to be a material contributor to the company's overall growth, driven by demand for ESG-linked ETFs and ESG ratings services. We continue to see attractive growth for MSCI's ESG and Index businesses as the company capitalizes on its strong position in the emerging ESG field and broadens its exposure to other markets. During the quarter we were also gratified to see the company commit to net-zero carbon emissions by 2040 and become an official supporter of TCFD. We maintained an average weight position in the company during the quarter.

The fourth and fifth largest contributors to portfolio performance were **PayPal** and **Microsoft**.

Largest Detractors

Media and entertainment company **Disney** was the largest detractor from performance for the quarter. The company reported mixed Q1 results, falling short of optimistic expectations of some investors. Streaming subscriber growth was lower than expected as a result of lighter content due to reduced production during the COVID-19 shutdowns. We expect subscriber growth to reaccelerate as content productivity ramps back up. At the same time, profits and free cash flow were better than we had expected. Disney has seen attractive demand at its theme parks which have reopened with operating margins exceeding historical levels and attractive per guest spending. Given an improving economic backdrop mixed with some continued uncertainty over the course of the pandemic and new variants, we maintained an average weight position in the company, adding on the recent weakness.

Human capital management leader **Workday** was the second largest detractor from performance despite reporting a solid quarter that was consistent with our expectations. Subscription revenues grew 17% while the company's 24-month backlog grew 19% versus guidance of 18%. Strength in Financials, Planning, and Analytics spread across the U.S. and Asian markets benefited results. We continue to expect backlog growth to reaccelerate in late 2021 and 2022 as the effects of the pandemic on corporate planning and spending moderates. We were pleased to see operating margins jump to 25% in the quarter but are aware of plans to ramp up new sales hires particularly in the international markets later this year. While the stock lagged the performance of cyclical stocks during the quarter, we continue to see the company offering an attractive long-term growth opportunity over our 3-5 year investment horizon, and we purchased additional shares during the weakness.

Leading provider of expense specific payment products **FleetCor** was the third largest detractor from performance despite a good report with revenues showing attractive sequential growth quarter-over-quarter in line with expectations, and improvement in organic growth in all segments of the company's business, including those worst hit by the pandemic such as lodging. With the fuel card business in the small-to-medium size segment recovering, 35,000 new clients signed during

the quarter, and its Corporate Payment segment rebounding, we continue to see a good case for strong future organic growth at FleetCor. While its tolling business in Brazil continued to grow slowly given another COVID wave in the country, its AFEX acquisition closed which should benefit growth looking forward. The company sports a strong balance sheet, positioning its business well to continue its rebound in the second half of the year. We maintained an average weight position in the stock during the quarter.

The fourth and fifth largest detractors from performance were **Ball Corp** and **Abbott**.

Portfolio Activity

Portfolio turnover was below-average for the quarter given the strong advance of equity markets. A new position was established in RingCentral, and positions in Disney, Illumina, Intuit, Regeneron, and Workday were added to. Conversely, positions in Abbott, Equinix, Alphabet, Linde, Microsoft, Nike, Union Pacific, and Yum! Brands were trimmed.

New Positions

RingCentral offers a software as a service (SAAS) based communications platform that incorporates the traditional telecommunications needs of enterprise and contact centers as well as features used in collaboration including team messaging and video conferencing enabling the ability to work seamlessly from anywhere. Their market includes many traditional competitors that are hobbled by antiquated technology and set cultures which have not adapted to the new needs of the market as well as a few newer generation competitors which focus on specific areas but do not provide the breadth or quality of platform that RingCentral does. The existing market that RingCentral is servicing is very large and offers the potential to grow revenues significantly, and thus we believe that even if competitors do catch up, the opportunity will still be huge for the company.

About 90% of RingCentral's revenue stream is repeatable subscription revenues. The company began serving small-to-mid size businesses and is now growing its market share in the mid and larger enterprise segments supported by a platform with over 12,000 developers across over 100 countries. RingCentral's business offers compelling gross margins with customers typically basing their decisions primarily on functionality and ecosystem tie-in considerations versus pricing. Our research indicates that the new and replacement equipment markets for RingCentral are quite large and easily able to accommodate 2-3 dominant providers along with some smaller players while still allowing RingCentral to grow its sales 10x current levels. The company is run by its co-founders, who are the CEO and CTO, and own 10% and 5% of the company's economic rights respectively. We continue to see them and the remainder of the management team hungry to grow the company as the compensation for the top management team is highly stock-based.

Among the key risks we are monitoring for the company are the state of its competitors from a product offering and strategic standpoint, its free cash flow generation, the stability of management and their incentives, as well as the company's ongoing technology improvements and its ability to retain clients as contracts expire.

We initiated a below-average weight position in the company during the quarter, and later raised it to an average weight.

Sold Positions

No positions were fully liquidated during the quarter.

Summary

The reopening rebound continued in Q2 with markets moving up sharply, but the nature of the rebound evolved with growth as a style regaining its leadership for the period, and investors' appetite for risk seeming to moderate with large-caps outperforming small-caps and quality metrics benefiting to a degree. The portfolio's underperformance for the quarter was due largely to stock decisions including not owning NVIDIA which fails to meet our business quality criteria or Adobe which is on our Qualified Company List, but is no longer particularly attractive from a valuation standpoint. Holdings in companies such as Workday and Disney, both businesses which our research indicates to have long attractive secular growth runways, also hurt relative results. We continue to expect volatility in this market as expectations surrounding the pace of reopening

and the threat posed by COVID variants fluctuate. In addition, speculation regarding the transitory, or not, nature of inflation, rising taxes and regulation, and the myriad geopolitical threats make more volatility likely in a market which has priced in high expectations. In this environment, our disciplined focus on predictable and sustainable growth businesses that we can access at attractive cash flow based valuations should allow you to succeed regardless of the economic backdrop. The relative results will vary from quarter-to-quarter, but we are confident that our time-tested approach and stable investment team will produce attractive long-term absolute and relative returns over our 3-5 year horizon.

Thank you for your continued confidence in our team at SGA. We look forward to answering any questions you may have about the portfolio or our positioning.

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 GIPS Report 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 investments, calculating performance, and preparing GIPS Reports 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

Q2 2021

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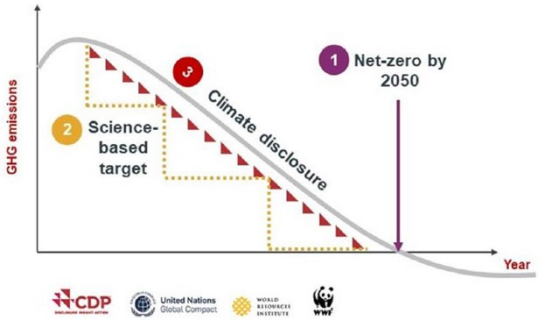
Science-Based Targets: A Firm Priority

Science-Based Targets (SBTs) provide a pathway for companies to meet the goals of the Paris Agreement by developing interim greenhouse gas reduction targets to bridge the gap between the present day and long-term targets. We believe SBTs can provoke real and immediate action, increasing the priority of climate action efforts to management teams and Boards across the globe. At present, a minority of the companies on our Qualified Company List have approved SBTs. We are actively encouraging our portfolio companies to adopt SBTs and are seeing an increasing number of companies commit to setting SBTs in the near-term.

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. For example, in addition to our direct engagement with companies on emissions reduction commitments, we recently joined the Carbon Disclosure Project's 2021 Science-Based Targets Campaign. The goal of the campaign is to create a positive ambition loop between investors and companies that incentivizes companies to set SBTs and accelerates the decarbonization of investment portfolios. The campaign has the support of over 130 investors representing approximately USD 19 trillion in assets.

SBTs on the Path to Net-Zero



Source: CDP

Engagement Highlights:

Regeneron Pharmaceuticals is an American biotechnology company which researches, develops and manufactures medicines to treat a wide array of conditions including eye disease, allergic and inflammatory diseases, cancer, cardiovascular and metabolic diseases. We have owned shares in Regeneron in client portfolios for a number of years with our growth thesis resting in the breadth and depth of the company's drug pipeline, enabled by their proprietary R&D and intellectual property.

Corporate governance of the firm presents a potential risk to our growth thesis; the company maintains a dual-class share structure and has a number of long-serving directors. This may increase the risk of undue deference to management and be detrimental to minority shareholders. This being said, senior management holds significant equity in the company which helps to align interests with shareholders. We have maintained engagement with management over a number of years on these issues, providing our feedback on ways to enhance corporate governance at the company.

Recently, the company adopted a new compensation policy for members of their Executive Committee including CEO Leonard Schleifer and CSO George Yancopoulos. The new policy replaced annual stock options with a grant of front-loaded performance-restricted stock units (PSUs). We are broadly comfortable with the structure of the PSUs which are aligned to long-term Total Shareholder Returns, something we have long advocated for. However, we hold concerns over the magnitude and timing of the awards. Typically, we would voice our concerns through a Say on Pay vote; Regeneron however, holds Say on Pay votes every three years with the next vote not due until 2023.

Hence, we took the opportunity to engage with management regarding the new compensation package and reiterate our concerns regarding items previously discussed including succession planning and tenure of the Board, and voiced our preference for an annual election of Directors and Say on Pay vote. While we understand that the nature of their business requires long-term planning for long-term success, we do not think an annual election and Say on Pay vote will necessarily interfere with those goals. Following discussions with management, our Investment Committee reviewed the engagement and decided it is in the best interests of our clients to vote against the re-election of Director and Compensation Committee member George Sing.

During the quarter we also engaged management on the topic of GHG emissions. Given the nature of the company's operations and relatively low carbon footprint, this has not been an area of high-priority for management. However, we believe the establishment of Science Based Targets ("SBTs") and Net Zero commitments is an important discipline for all companies to pursue, and we are systematically engaging with all companies on our Qualified Company List in this regard. In the case of Regeneron, management has pledged to establish SBTs by 2023 and we expect a Net Zero target to follow. During our meeting with the company we emphasized the importance of these targets and encouraged an acceleration of work to establish a Net Zero goal. Management was very receptive to our feedback and interested to learn about our priorities as stewards of capital.

We have maintained our existing holdings in the company and continue to closely monitor and engage with management on best governance and environmental practices.

Given our approach to investing in companies that can sustainably grow and compound their earnings over the long-term, the average SGA company has a relatively small carbon footprint. When analysing the carbon risk of our portfolios, we prioritise companies with high emissions relative to our Qualified Company List. Along with Linde, Amazon and Kansas City Southern, Thai convenience store operator **CP All** has one of the larger emissions profiles as per MSCI.

CP All is the sole operator of the 7-11 franchise in Thailand with over 10,000 branches. The MSCI analysis is based on carbon footprint per unit of investment. However, in countries like Thailand where the same dollar goes much further, the MSCI analysis fails to capture this. For the same level of investment, one could be operating many more stores in Thailand than in a country like the US. Therefore, it is natural to have a larger carbon footprint. Ideally, one would adjust the data by the purchase price parity and then compare across businesses. That said, over the long term, most companies are committed to Net Zero targets, including CP All.

Management has set an ambitious target of carbon neutral operations by 2030 and publishes detailed information on its environmental footprint, marking its leadership in environmentally sustainable growth in the Emerging Markets. The company's efforts have been recognised by the Carbon Disclosure Project with an A- score.

We engaged with management recently on the subject of their environmental targets in conjunction with long-term growth plans. While procuring renewable energy in markets such as Thailand is challenging compared to Developed Markets, management is working to maximise the resources available to them. Accordingly, the company is investing in solar-based electricity generation projects leveraging their national store and distribution network. At the store level, the company is investing in more energy-efficient air conditioning systems, lighting systems and equipment. Reduction of plastic waste is also a focus as the company moves to natural and biodegradable materials.

While it is early days, we believe management has credible carbon risk management plans (which continue to evolve) and given the relatively low absolute GHG emissions, we do not believe carbon risk poses a significant threat to our growth thesis in the company. We continue to monitor developments in this space.

During a recent meeting with the management of **Visa**, we probed a variety of ESG-related topics including the company's recently issued Net Zero targets, development of Science Based Targets, diversity and inclusion, compensation, employee retention and sponsorship of the Beijing 2022 Olympics. Pleasingly, Visa has committed to achieving net-zero emissions by 2040 and has joined The Climate Pledge, an initiative co-founded by Amazon to accelerate action towards a net-zero world. The company has also announced plans to develop SBTs to define short- and intermediate-term targets. The emissions of Visa's supplier operations are one of the largest obstacles to achieving carbon neutrality however management is confident they will achieve their goals by 2040, if not before.

An increasing trend we are witnessing is the alignment of executive compensation to ESG targets.

Visa made mention of changes made to the calculation of executive compensation as it relates to ESG factors in recent corporate filings, but the disclosure was more limited than we would have preferred. However, after speaking with the company's Senior Counsel overseeing Compensation and Benefits, we were pleased to learn that the ESG weighting within

the calculation for annual executive compensation increased to 25%. Long-term compensation however remains based on Total Shareholder Returns (TSR). Given the long-duration of ESG factors, we raised the suggestion of embedding ESG into the company's long-term incentive plans. While we believe aligning short-term incentives to ESG can create a greater sense of urgency, we also believe there is value in aligning long-term incentives to serve the company's stakeholders more broadly. This is an area we continue to analyse as a team, and have flagged this as an area for future engagement with management of Visa and other portfolio companies.

Proxy Voting Summary Q2 2021

	Number of Resolutions	For	%	Against	%	Abstain	%
U.S.	313	288	92%	24	8%	1	<1%
Global	304	281	92%	22	7%	1	<1%
International	286	272	95%	12	4%	2	<1%
Emerging Markets	167	139	83%	28	17%	NIL	0
Global Mid-Cap	244	228	93%	13	5%	3	1%

Source: SGA, Broadridge

Carbon Risk

	Carbon Emissions[1]	Total Carbon Emissions[2]	Carbon Intensity[3]	Weighted Average Carbon Intensity[3]
SGA Global Growth	12.2	12,221	76.3	56.1
MSCI ACWI	90	89,951	205.8	150.8
SGA Relative Performance	-86%	-86%	-63%	-63%
SGA U.S. Large Cap Growth	10.8	10,791	75.1	67.4
Russell 1000 Growth	9.6	9,618	61.6	33.6
SGA Relative Performance	13%	12%	22%	101%
SGA Emerging Markets Growth	19.2	19,203	54.9	53.2
MSCI EM	213.8	213,753	411.3	279.9
SGA Relative Performance	-91%	-91%	-87%	-81%
SGA International Growth	19	18,975	79.4	76.7
MSCI ACWI ex-USA	148.1	148,073	236.0	185.7
SGA Relative Performance	-87%	-87%	-66%	-59%

Source: SGA, MSCI

[1]Tons of CO_2 emitted/ $M invested

[2]Tons of CO_2 emitted

[3]Tons of CO_2 emitted/ $M sales