U.S. Focused Growth Commentary

Q2 2021

Performance

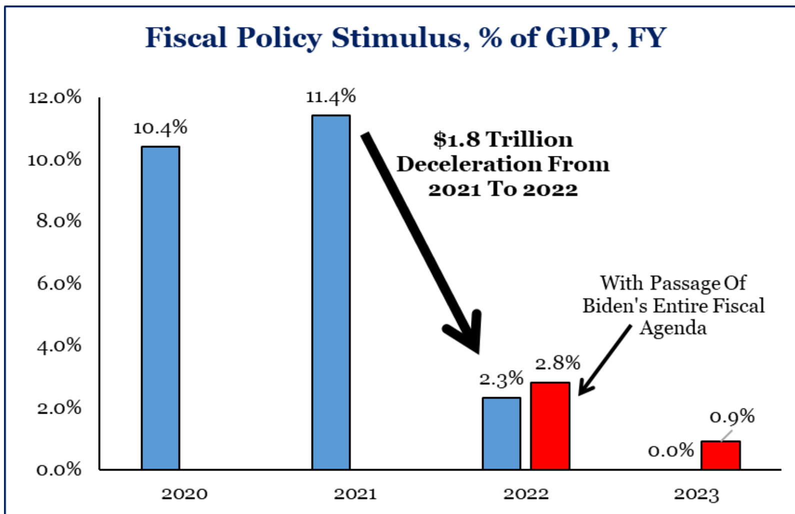
SGA's U.S. Focused Growth composite returned 8.8% (gross) and 8.6% (net) in Q2 versus 11.9% for the Russell 1000 Growth Index and 8.5% for the S&P 500 Index.

Highlights

- The rebound in deep cyclical stocks moderated in Q2 with large cap growth outperforming value and the reward to business quality metrics varying.
- The portfolio trailed its Russell 1000 Growth Index benchmark in Q2 due entirely to stock selection.
- Selection in the Information Technology and Health Care sectors detracted most from relative returns; selection in the Communication Services, Consumer Discretionary and Real Estate sectors contributed positively.
- The portfolio's overweight in Materials detracted from results but this was mitigated by the portfolio's lack of exposure to Consumer Staples and Industrials as well as its overweight in Real Estate.
- No positions were initiated or liquidated but the portfolio's position in Alphabet was trimmed on strength and we added to Ball Corp on weakness.

Market and Portfolio Attribution

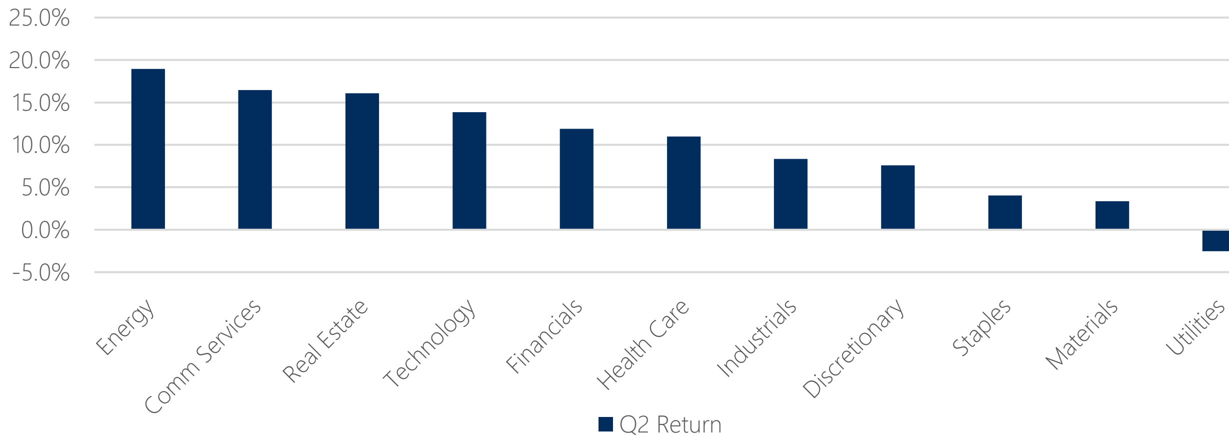
Equity markets moved sharply higher in Q2 with the major indexes hitting new highs as investors shrugged off concerns over higher inflationary readings, the looming fiscal cliff in 2022 which will be the largest fiscal contraction (-$1.8 trillion) since the end of World War II, and the global spread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



Source: Strategas

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.

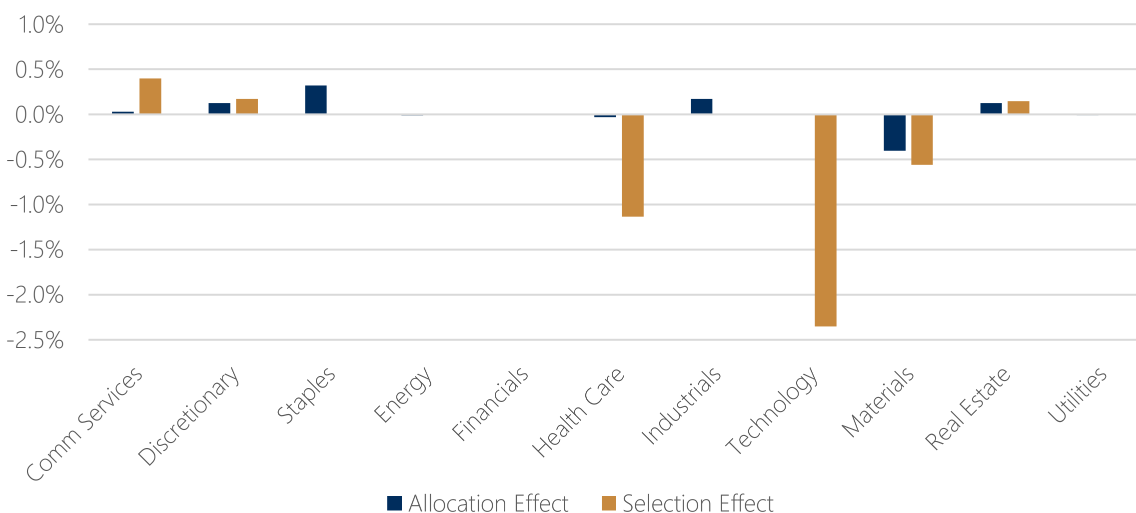
Leadership in the index varied over the course of the quarter and was less concentrated with Energy, Communication Services, and Real Estate performing best. Strong returns from companies with large index weights including Alphabet and Facebook drove returns in the Communication Services sector. Information Technology with a 44.5% average weight in the index also performed well, with returns heavily influenced by a select group of 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 to positions in Workday, FleetCor, and Autodesk. A lack of exposure to Apple and NVIDIA also detracted. Selection in the Health Care and Materials sectors also detracted resulting from positions in Abbott and Ball Corp. Selection in the Communication Services, Consumer Discretionary, and Real Estate sectors helped mitigate some of the weakness due to positions in Alphabet, Facebook, and Equinix.

From a sector exposure standpoint, the portfolio's overweight in Materials, one of the weakest performing sectors in Q2, detracted from results while its lack of exposure to the weakly performing Consumer Staples sector helped mitigate that weakness.



Source: FactSet, Russell

Largest Contributors

Internet search leader **Alphabet** was the 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 over 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 trimmed the position back to an average weight.

Digital and mobile payment leader **PayPal** was the second largest contributor to performance after the company posted strong Q1 results driven by attractive growth in total payment volumes which rose 49% year-over-year, well above consensus and our estimate. Payment transactions were up 34% year-over-year. Venmo continued to produce strong results with payment volumes growing 63% for the period. We see attractive growth opportunities for PayPal as it works to expand its new features and services in the second half of the year, including Pay with Venmo, an upgraded digital wallet with bill payment and saving products, and offline payment options including QR codes and Point of Sale solutions for merchants. We expect PayPal to continue its expansion overseas, having recently partnered with Alibaba to allow global consumers to shop on its site. PayPal is also making inroads in Africa and the Middle East via local partnerships, further driving user growth. We maintained an average weight position in the company.

Leading global data center provider **Equinix** was the third largest contributor to performance during the quarter after a strong report showed revenues, earnings, and adjusted funds from operations up 10%, 13%, and 17% year-over-year respectively. Bookings remained strong in North America with low client churn. While the company was negatively impacted by rising inflationary expectations earlier in the year, the main impact of inflation has been limited to construction costs (such as costs for lumber) which appear to be transitory in nature. S&P's upgrade of its debt will provide some buffer to higher interest rates while also enabling flexibility in financing. We continue to see attractive growth opportunities for Equinix over our 3-5-year investment horizon.

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

Largest Detractors

Aluminum packaging producer **Ball Corp** was the largest detractor from performance in the quarter despite delivering solid quarterly results and attractive guidance for 2021. The stock's lackluster performance for the quarter was due to concerns that capacity additions in the industry may not be fully absorbed by demand growth in the future. An announcement by a competitor, CanPack, of a second U.S. plant expansion contributed to investor concerns. We remain confident that supply growth reflects demand growth with consumers, brands, and regulators embracing aluminum cans as a sustainable alternative to plastics which pose a serious environmental threat. We see demand growth coming from existing categories (e.g. Dasani and Aquafina have now introduced cans, and Bubly sparkling water was produced entirely in cans starting in 2020). Demand is also likely to come from new categories (e.g. 75% of new SKU introductions in 2020 were in cans, up from 30% in 2014). Big ESG goals at consumer companies to reach significantly higher recycled content should drive demand meaningfully higher. Ball's revenues grew 12% in Q1 while its earnings were up 18%, exceeding our expectations and those of the market. The company reiterated strong guidance for high-teens earnings per share growth while maintaining a steady market share of about 50% in the growing can market. We purchased additional shares in the company on the weakness, maintaining an average weight position.

Leading provider of expense specific payment products **FleetCor** was the second 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 business 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 it well to continue its rebound in the second half of the year.

Human capital management leader **Workday** was the third largest detractor from performance during the quarter 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 market segments 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.

Abbott was the fourth largest detractor while **Autodesk** was the smallest contributor for the quarter.

Portfolio Activity

There were no new positions purchased or existing positions sold during the quarter. We trimmed the position in Alphabet on strength given its relative valuation and reallocated the capital to the portfolio's position in Ball Corp where we took advantage of weakness given the company's continued attractive secular growth opportunity.

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 to stock decisions, including not owning NVIDIA, a company whose stock rose by 50% for the quarter, but fails to meet our predictability 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 Ball Corp and FleetCor, 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 persistence of inflation, rising taxes and regulation, and the myriad geopolitical threats make more volatility likely in a market priced for perfection. 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 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 investment 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, 0.85%, 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 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. Focused portfolio for the past year. SGA's earnings growth forecast data is based upon portfolio companies' non-GAAP operating earnings.

Sustainability Report

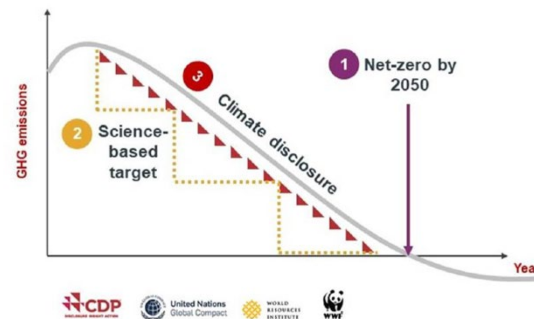
Q2 2021

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

The opinions expressed herein reflect the opinions of Sustainable Growth Advisers, LP and are subject to change without notice. The securities referenced in the article are not a solicitation or recommendation to buy, sell or hold securities. These materials are provided only for qualified and sophisticated institutional investors.