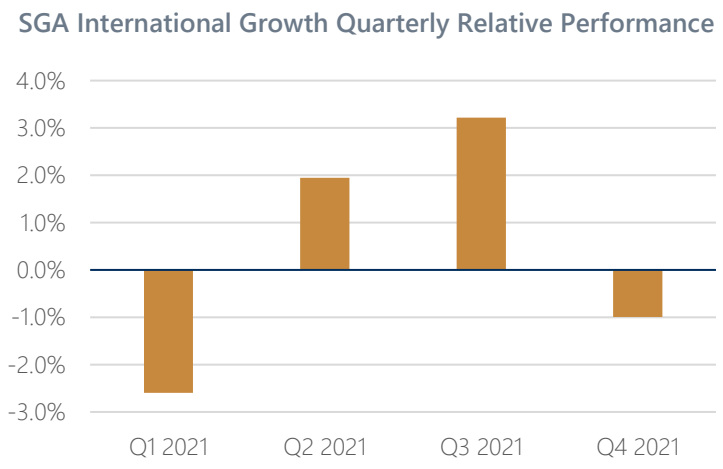
International Growth Commentary

Q4 2021

SGA
Sustainable Growth Advisers

Performance

SGA's International Growth portfolio returned 0.8% (gross) and 0.6% (net) in Q4 versus 1.8% for the MSCI All Country World ex USA Index (ACWI ex USA) and 2.4% for the MSCI ACWI Growth ex USA. For 2021 the SGA portfolio returned 9.5% (gross) and 8.6% (net) compared to 7.8% for the MSCI ACWI ex USA Index and 5.1% for the ACWI ex USA Growth Index.



Source: SGA, MSCI. Relative returns gross vs MSCI ACWI ex USA Index.

Highlights

- International markets rose in Q4 driven by strong performance in Developed Markets offsetting weakness in Emerging Markets.
- The SGA International portfolio trailed its benchmark modestly in Q4 but outperformed in 2021 despite headwinds from a more cyclical market environment.
- Turnover was below-average in Q4 with a new position in Indian payments and financial services company PayTM initiated while no positions were sold. Several positions were added to on weakness and trimmed on strength.
- The portfolio is forecasted to deliver 13% revenue growth and 18% earnings growth over the next three years, much higher than the broad markets, with greater predictability and stronger quality characteristics.
- Co-founder, Portfolio Manager and Analyst Gordon Marchand has announced that he will retire from the firm at the end of Q2 2023 as he turns 68 years old. Gordon will relinquish his portfolio management responsibilities to Kishore Rao who will join Alexandra Lee and Tucker Brown on the International Portfolio Management Team on July 1, 2022. Further details regarding the change are provided at the end of this commentary.

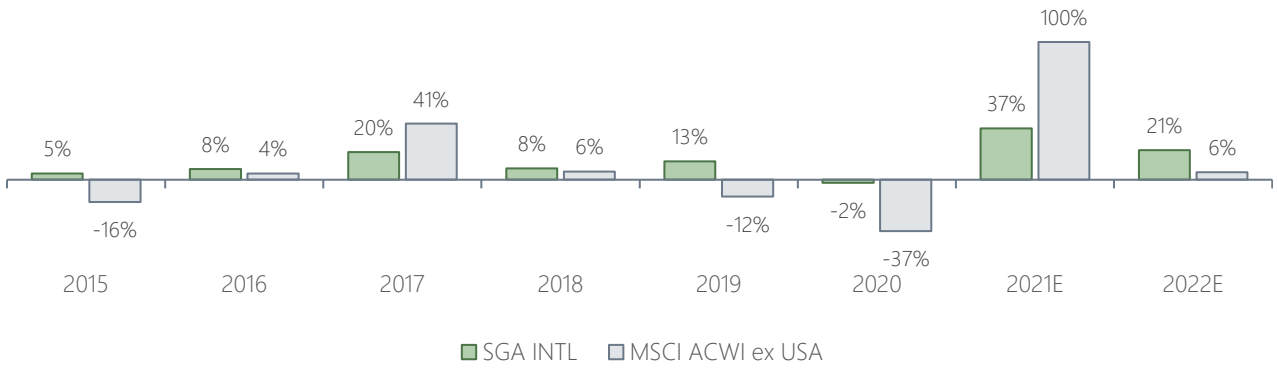
Developed Equities Led in Choppy Markets

The emergence of the more transmissible Omicron COVID variant contributed to a volatile market environment in Q4 with Developed Markets outperforming Emerging Markets. European markets performed best for the quarter after a strong recovery in December when indications of Omicron being a milder, albeit more transmissible, variant reduced fears of prolonged lockdowns and restrictions. The worst performing region in Q4 was EM Europe, a top performer through Q3, as geopolitical tensions in Russia and moderating energy prices weighed on sentiment. Latin American markets performed poorly given a worsening inflation backdrop and central bank tightening, particularly in Brazil, weighing on growth expectations. Asian markets were negatively impacted by weakness in China, Hong Kong, Japan, and Korea offsetting strong performances in Taiwan, Indonesia, and Thailand. The Chinese market was negatively impacted by rising COVID cases and new lockdowns in addition to lingering regulatory uncertainty. COVID concerns also weighed on Japanese equities despite signs of improving industrial output and an improving economic environment. Strength in Semiconductors drove the outperformance of Taiwanese equities while markets in Indonesia and Thailand benefited from declining COVID cases and improving economic environments. Growth stocks beat value stocks in Q4, but leadership varied during the quarter. Utilities was the best performing sector followed by Information Technology, Consumer Staples, and Materials. The Communication Services, Real Estate, Consumer Discretionary, and Energy sectors lagged and posted negative returns in Q4.

2021's Cyclical Rebound Expected to Moderate

International equities generated positive returns for 2021 despite new and disruptive regional COVID setbacks, persistent inflationary pressures, monetary tightening in Emerging Markets, and a worsening regulatory landscape in China. Smaller cap and more cyclically sensitive companies outperformed as they benefited from a broad global recovery in corporate profits. Earnings growth for the MSCI ACWI ex USA Index was the highest on record since 2003 at +100% after having declined -37% in 2020. The more predictable and sustainable growth companies in the SGA International portfolio did not benefit as much from the cyclical rebound in 2021 as portfolio earnings grew less than the market at +37%. However, this followed more resilient performance in 2020 when portfolio earnings declined just 2%. Returns were strongest in Developed Markets driven by strength in Europe while Emerging Markets were most significantly impacted by weakness in China, Latin America, and Korea. The Energy, Financials, Information Technology (driven by strength in Semiconductors), and Industrials sectors outperformed by a wide margin, while the Communication Services, Consumer Discretionary, Real Estate and Health Care sectors underperformed. The SGA International portfolio outperformed the MSCI ACWI ex-USA Index for the year despite cyclical market headwinds as strong stock selection offset unfavorable market trends. With profit growth expected to moderate in 2022 and beyond from unsustainable levels in 2021, we expect the greater predictability, consistency, and above-average growth prospects of our companies to be increasingly rewarded by investors.

Annual Earnings Growth

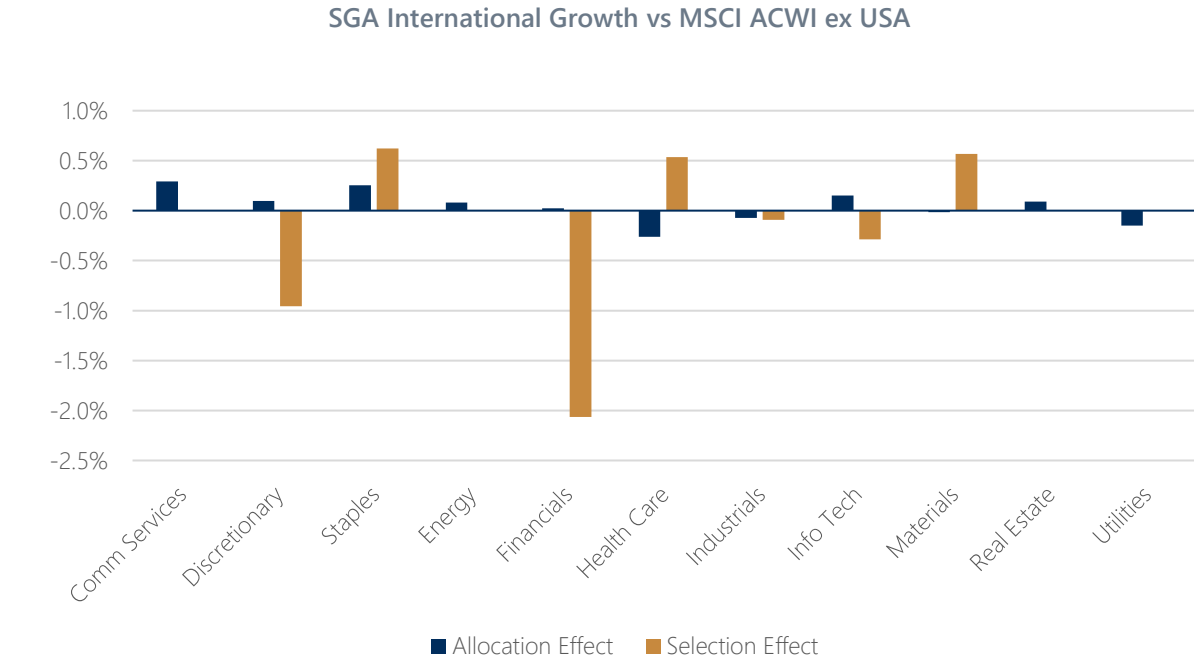


Source: FactSet

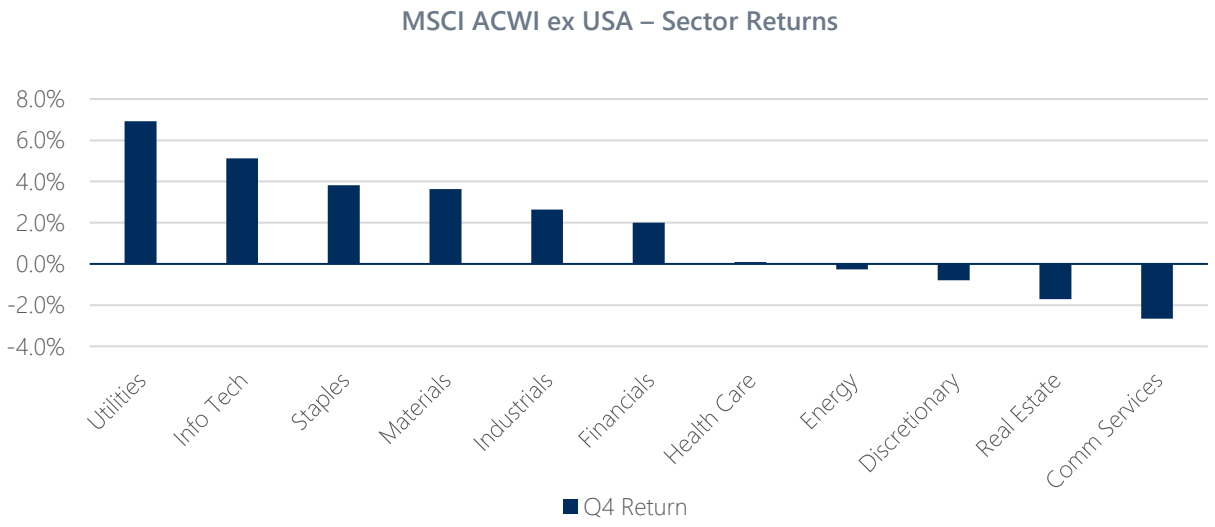
Large Cap vs Small Cap & Growth vs Value (2021)

Source: FactSet

Market and Portfolio Attribution



Source: FactSet, MSCI



Source: MSCI

Largest Contributors

Steris was the largest contributor to performance during the period benefiting from strong quarterly results and a recovery in its end markets from pandemic-related headwinds. The company delivered organic topline growth of 12% with growth across all segments. Organic growth was driven by a combination of healthy volume growth and price increases. Gross and operating margins improved given productivity gains, pricing, and lower travel and sales costs, offsetting higher material and labor costs. Supply chain disruptions along with higher material, labor, and operating costs are something we are mindful of.

However, we remain confident in the longer-term growth opportunity given the company's strong competitive position and attractive end markets.

Linde was the second largest contributor to performance as the company reported better-than-expected results and an increase in guidance. Linde's businesses grew in every region and the company delivered total sales growth of 12% driven by 8% volume growth and 4% pricing growth. Operating profits and EPS grew 20% and 27% respectively, operating margins increased 150 bps to 23.6%, and free cash flow grew to nearly $2B. While Linde has been a clear beneficiary of the global cyclical recovery, we continue to see an attractive and visible growth opportunity ahead with more of the company's growth coming from resilient areas such as food and healthcare and driven by secular growth drivers like digitalization, electronics, and ESG.

Novo Nordisk was the third largest contributor to performance. Novo's shares benefited from accelerating growth expectations and strong quarterly results. Sales and operating profits grew 15% and 19% respectively in Q3 and management raised guidance (for full year 2021) for sales and operating profit growth to 12-15%. The company benefited from continued strong growth in its market-leading GLP-1 franchise with total sales growing 30% driven by 24% growth in the U.S. and 47% in international markets. Obesity sales, a small but significant long-term growth driver, grew by 49% during the period with demand for Novo's newly released Wegovy drug exceeding expectations. We continue to see an attractive growth opportunity ahead for Novo Nordisk given its leadership position in diabetes and obesity care but trimmed the position during the period on strength and valuation considerations.

Dassault Systemes and **Infosys** were the fourth and fifth largest contributors to performance.

Largest Detractors

Shandong Weigao was the largest detractor driven by continued uncertainty around the impact of the Chinese government's VBP (value-based purchasing) program. The issue is not new and has been a key driver of the stock's weakness in recent quarters. We continue to believe that the changes in government policy in this area will eventually lead to a positive outcome for a scaled incumbent such as Shandong Weigao. We expect that these changes will lead to higher volume growth and reduced distribution expenses, which will offset price compression for its products. Over the long-term we expect a net positive outcome for Shandong Weigao; however, there may be some near-term earnings headwinds. Initial data points are confirmatory to our thesis as Shandong Weigao is winning 90-95% of new bids through this centralized procurement process and added 400 new customers during the first half of 2021. While we view Shandong Weigao's longer-term growth prospects favorably, we recognize that uncertainty around government policies may continue to weigh on sentiment and its stock price in the near-term.

XP was the second largest detractor from performance as the stock was negatively impacted by significant weakness in Brazilian equities due to ongoing COVID-19 pressures. Brazilian equities declined 6.5% in Q4 and 17.4% for 2021. The stock also endured a significant liquidity event by Itau, a pre-IPO investor at the beginning of Q4. Despite the perceived macro headwind, the company reported gross revenues up 50% year-over-year with adjusted net income up 82%. The company added over 1,000 Independent Financial Advisors over the quarter, beating expectations, and its take rate remained attractive and consistent at 1.3% with its credit card business maintaining growth momentum. We continue to expect the company to invest in its growth and added to the position on weakness during the quarter.

AIA Group was the third largest detractor from performance driven by weakness in Hong Kong and China-related stocks. Market conditions continued to be difficult for AIA as lockdowns and restrictions in key geographies limited the insurer's ability to drive new sales. AIA's Q3 sales update showed 2% growth in value of new business and a decline of -10% in new premiums, however total premium growth held steady at +1%. With pandemic-related headwinds likely to moderate over the course of 2022 along with rising expectations for a resumption in its HK-mainland China business, we view the company as well-positioned to deliver more attractive results moving forward. Longer-term, we continue to expect AIA to benefit from the advantages associated with its in-house sales capability, and secular tailwinds such as favorable demographics and the further penetration of insurance products across key pan-Asian markets.

PayTM and **Medtronic** were the fourth and fifth largest detractors from performance for the quarter.

Portfolio Activity

Turnover during the quarter was below-average with a new position in PayTM initiated and no liquidations from the portfolio. Several other positions were trimmed and added to on strength and weakness.

New Positions

A new position in Indian payments company **PayTM** was initiated during the quarter. PayTM has become ubiquitous with digital payments in India in recent years and is an aspiring super app company building out a double-sided platform servicing both consumers and merchants and an ecosystem with significant growth opportunities ahead given India's underbanked population. The company has over 114 million annual transacting users and over 21 million merchants on its platform. PayTM added a significant number of smaller 'mom and pop' retailers and consumers to its ecosystem over the last five years given the accelerated shift to digital payments driven by the demonetization efforts of the Indian government and the COVID pandemic. Today more than 70% of its revenues are derived from its take rate on digital payments and transactions and about 25% comes from cloud and commercial services. The remaining portion of revenues are driven by financial services such as its lending business, wealth management, and insurance offerings. We see a tremendous long-term opportunity ahead for PayTM given the under-penetration of financial services in India and the company's unique position to leverage its mobile payments platform to grow its offerings in lending, wealth management, and insurance to further enhance the stickiness of its platform.

Among the risks we are monitoring for PayTM are changes in the competitive environment and regulatory backdrop which could negatively impact merchant-discount-rates (MDR) and the company's ability to expand its financial services business. While we expect some pressure on MDR's over time, a greater-than-expected expansion and penetration of the Indian Unified Payments Interface (UPI) network, a government facilitated real-time payments system, could negatively impact its ability to monetize payments.

Sold Positions

No positions were sold during the period.

Summary

International markets finished the quarter higher despite ongoing COVID headwinds, inflation, monetary tightening, rising geopolitical tensions, and continued China uncertainty. Developed Markets fared best as COVID concerns eased later in the quarter while performance in Emerging Markets varied significantly. A massive increase in earnings expectations for companies over the course of 2021, especially those that are more economically sensitive, caused higher beta and more cyclical stocks to outperform as economies across the world rebounded off pandemic lows. The SGA International Growth portfolio delivered attractive absolute and relative returns despite what has traditionally been a more challenging market environment for our approach. With broad-based profit growth expected to moderate in 2022 from the unsustainable levels seen in 2021, we expect the greater predictability, consistency, and above-average growth prospects of our companies to be increasingly rewarded by investors. Over the next three years we expect the portfolio to deliver 18% annual earnings growth, well ahead of the 7% expected for the MSCI ACWI ex-USA Index. Given the portfolio's strong growth and quality profile along with an attractive cash flow-based valuation, we view the portfolio as well-positioned for more moderate economic growth and likely a more volatile market environment in 2022.

Organizational Update

We also want to formally announce that Gordon Marchand, one of SGA's co-founders, has announced his retirement from the firm on June 30, 2023, upon turning 68 years old. Consistent with our gradual approach to change, Gordon's portfolio management responsibilities will be assumed by Portfolio Manager and Analyst Kishore Rao who will join Alexandra Lee and Tucker Brown on the International portfolio management team on July 1, 2022. Kishore joined SGA in 2004 and has been a key member of the investment team since that time, serving as a Portfolio Manager on our Emerging Markets, Global Mid Cap and U.S. Growth portfolios. Gordon will continue with his primary and back-up research coverage through the end of

2022. SGA's team approach to portfolio management and research, combined with the gradual nature of our transitions, will ensure continuity as Gordon gradually reduces his direct involvement. Gordon will remain an active member of the Investment Committee and thereby provide input to the team until his retirement on June 30, 2023. We have attached Kishore's biography for your reference.

Please let us know if you would like to discuss Gordon's plans or the portfolio's positioning in more detail. We thank you for your continued confidence in our team and wish you all the best for a happy and healthy New Year!

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 International 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. 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 International portfolio for the past twelve months. Past performance is not indicative of future results. SGA's earnings growth forecast data is based upon portfolio companies' Non-GAAP operating earnings.

Kishore Rao

Kishore is a Principal, Analyst and Portfolio Manager on the SGA Investment Committee. Kishore has been with the firm since 2004.

He has been co-manager of SGA's Emerging Markets Growth Portfolio since its inception in 2014 and of SGA's Global Mid-Cap Growth Portfolio since its inception in 2018. In 2020, he joined the portfolio management team of SGA's flagship US Large Cap Growth Portfolio as co-manager.

Historically, Kishore oversaw SGA's analysts' internship program where we mentor promising analyst candidates who are completing their Master's degrees at leading universities.

Prior to joining SGA, Kishore was a member of the investment team at Trident Capital, a venture capital firm managing a portfolio of software, technology, and business service companies. He was a Founder and General Manager of the Street Events division of CCBN before it was sold to Thomson Reuters. Previously, Kishore was an Investment Analyst at Tiger Management following healthcare services and software companies and an Analyst at Wellington Management following semiconductor equipment.

Kishore has a B.S. in Industrial Management from Carnegie Mellon University and an M.B.A. from Harvard Business School.

Sustainability Report

Q4 2021

SGA Sustainable Growth Advisers

We engaged with **Amazon**'s ESG team over the quarter for an update on ESG items with a focus on carbon and modern slavery risks.

In many ways, Amazon has taken a leadership role in addressing the global challenge of minimizing carbon emissions. For example, in 2019 Amazon co-founded The Climate Pledge—a commitment to reach net-zero carbon emissions by 2040, 10 years ahead of the Paris Agreement. Subsequently, Amazon launched the Climate Pledge Fund in 2020, a $2bn venture capital style fund to invest in companies that are developing decarbonizing technologies. While the company deserves credit for their efforts, we think there is more that they can and should be doing. As such, we engaged with the management on the topic of their net-zero emissions commitments, especially in terms of their timeline and interim goals. Regarding timeline, we challenged the company to strive for a more aggressive target than 2040 but gained a greater appreciation for their reliance on future advancements in renewable energy and other technologies to enable their goals which are difficult for the company to predict. Second, we urged the company to adopt interim science-based targets ("SBTs") for emission reductions. As a reminder, we support SBTs as they provide tangible, well defined interim targets validated by and independent third-party association.

The risks of modern slavery within Amazon's business are real with over 1 million employees and a supply chain that spans every corner of the globe. Over recent years, Amazon has made inroads into increasing the priority and transparency of these issues. Amazon has publicly mapped all suppliers who produce Amazon-branded apparel, consumer electronics, food and beverage, and home goods products. The company also partners with local NGOs and initiatives such as the Better Cotton Initiative, amfori and SEDEX, to minimise supply chain risks by leveraging their local experience and knowledge. Amazon publicly releases supplier assessment data, including the details of audits, and in 2020 Amazon conducted over 4,700 audits.

Where identified, high-level findings must be remediated before production; for medium-level issues, suppliers must show they are working towards remediation, and low-level issues are monitored by Amazon for continuous improvement. In 2020, 940 issues were identified that required correction within one year. While we are generally pleased with the policies and infrastructure Amazon has in place to oversee the supply chain of its branded goods, oversight of the company's third-party sellers is a concern of ours given a higher risk of modern slavery as a result of a lack of control and transparency into these sellers' operations and more limited use of audits. While we recognise the challenges given the enormous depth and breadth of their third-party supply chain, we encouraged Amazon to take greater responsibility for their third party business.

We engaged with management of **Disney** over the quarter for a broad discussion on ESG items.

We discussed recent positive updates to the governance of Disney, including 1) the separation of the CEO and Chairman role through the election of Susan Arnold as Chairman; 2) lowered CEO compensation to address concerns of a less-tenured CEO; and 3) nomination of a new head of ESG, head of compensation and head of legal. In addition, management compensation is now based 70% on financials, and 30% on a qualitative assessment which includes factors such as diversity & inclusion. We proposed management reconsider the incorporation of more specific, ESG goals into management compensation.

On the environmental front, Disney has committed to achieving net-zero Scope 1 & 2 greenhouse gas emissions by 2030. We view this target as ambitious given the exposure of physical assets in the form of amusement parks, cruise ships and others. Management plans to firstly flatten the emissions growth curve by pursuing sustainable design for new facilities, and then decarbonise existing assets as well as leverage natural climate solutions and carbon credits. We expressed disappointment on the lack of inclusion of Scope 3 emissions in the company's net-zero targets and it was clear that management have more work to do in this arena. They are currently working to map their Scope 3 emissions, a large task at hand, and hope to set a science-based target by the end of this year. We encouraged Disney to prioritise their control and understanding of Scope 3 emissions as they must be addressed to meet the Paris accord. Naturally, significant investments will be required to meet these ambitious targets and minimise the environmental risk of operations, and in turn, deliver long-term operational benefits. We have accounted for these capital requirements in our financial modelling of the company and will continue to follow the dynamic closely.

Lastly, we discussed the modern slavery risks specifically within Disney's supply chain of licensed merchandised goods. Disney is one of the world's largest licensors with brands spanning Walt Disney Studios, DisneyPixar, Marvel, ESPN and more. Given the company's broad exposure to Tier 1, 2 and 3 suppliers, Disney takes a risk-based approach to auditing suppliers with the vast majority of audits conducted by 3rd parties in high-risk areas. If corrective issues are identified, suppliers are given one chance to remedy the issue before termination of the relationship. Audits currently prioritise the health and safety of the manufacturing environment and while forced labour is an area of audit, it is not currently a significant feature. Disclosures into Disney's supply chain are limited and the company has opportunities to increase transparency, particularly into its' Tier 2 and 3 suppliers. We encouraged management to take action and publicly map these supply chains; we will continue to monitor the company's progress in these areas of risk.

During a recent meeting with management of **Linde**, one of the world's largest industrial gas companies, we revisited the company's carbon targets established in 2019 following the Praxair merger. We have previously expressed our disappointment in the lacklustre targets and encouraged the company to take a leadership role in moving towards more sustainable production. We urged management to set an absolute reduction goal and set a path to carbon neutrality by the Paris Accord 2050 goal. Since the 2019 target was based on carbon emissions per unit of operating profit, recent margin expansion catapulted the company to reach their carbon targets, despite absolute carbon emissions actually increasing over this period. Management have now set an absolute science-based target of 35% reduction in Scope 1 & 2 emissions by 2035 and committed to meet carbon neutrality by 2050. We believe this is a positive move in the right direction; however, we acknowledge that these optimistic goals are unlikely to be achieved without the support of government (in the form of subsidies and carbon taxes) and significant improvements in technology. On a related note, blue and green hydrogen is a promising growth opportunity for Linde, which could open the door to huge growth opportunities in the future. Given the stage of the technology and economics, it is challenging to predict this growth with a fair degree of confidence.

We engaged with management of **Meta Platforms** (previously Facebook) over the quarter to discuss the recent claims made by the Wall Street Journal article regarding the platform's adverse impact on users' health. Since publication, management has strongly denied the claims stating that the articles were a mischaracterization of the company's internal research and highlighted their investments to improve the safety and health of their users. Management also refuted claims that the company benefits from hate speech and drew our attention to the decrease in the incidence of hate speech over recent quarters. While our engagement with management on this topic added little incremental value to our assessment of the social risks associated with the platform and we continue to believe that Meta has a lot of work to do on rectifying matters associated with platform misuse and user wellbeing, we do believe the company is moving in the right direction to address these issues. Ultimately, we believe social media platforms form an essential service in digital society. While there are clear risks associated with its misuse, we believe the benefits to society far outweigh the risks. Lastly, we took the opportunity to provide some suggestions to improve corporate governance at the firm, including:

1. Move to an annual 'say on pay' advisory vote;

2. Provide more specific disclosure around the expenditures for Board member personal security and provide a third-party independent assessments of need;

3. Provide more data on platform abuse, civil and human rights risks, child sexual exploitation, gender/racial pay gaps, and political advertising; and

4. Appoint an independent Board chair.

Proxy Voting Summary Q4 2021

	Number of Resolutions	For	%	Against	%	Abstain	%
U.S. Large Cap Growth	35	32	91%	3	9%	NIL	0
Global Growth	67	64	96%	3	4%	NIL	0
International Growth	21	21	100%	NIL	0	NIL	0
Emerging Markets Growth	31	31	100%	NIL	0	NIL	0
Global Mid-Cap Growth	21	21	100%	NIL	0	NIL	0

Source: SGA, Broadridge, ISS

Carbon Risks

	Carbon Emissions	Total Carbon Emissions	Carbon Intensity	Weighted Average Carbon Intensity
SGA Global Growth	13	12,975	73.7	60.4
MSCI ACWI	78.9	78,924	198.4	151.5
SGA Relative Exposure	-84%	-84%	-63%	-60%
SGA U.S. Large Cap Growth	9.1	9,073	61.8	58.6
Russell 1000 Growth	7.5	7,472	49.3	30.5
SGA Relative Exposure	21%	21%	25%	92%
SGA Emerging Markets Growth	22.5	22,515	55.9	49.4
MSCI EM	235.5	235,453	418.3	329.2
SGA Relative Exposure	-90%	-90%	-87%	-85%
SGA International Growth	21.7	21,684	83.5	88.6
MSCI ACWI ex-USA	140.9	140,876	234.5	194.4
SGA Relative Exposure	-85%	-85%	-64%	-54%
SGA Global Mid Cap	11.4	11,410	57.1	41.9
MSCI ACWI Mid Cap	156.1	156,086	284.7	230.2
SGA Relative Exposure	-93%	-93%	-80%	-82%
	t CO2e / $M Invested	t CO2e	t CO2e / $M Sales	t CO2e / $M Sales

Source: SGA, MSCI. Carbon data includes Scope 1 and 2 emissions.