Global Growth Commentary

Q1 2022

SGA Sustainable Growth Advisers

Performance Summary

The portfolio returned -9.4% (gross) and -9.6% (net) compared to -5.4% for the All Country World Index (ACWI) and -9.7% for the All Country World Growth Index (ACWI Growth) in Q1. Market leadership in the quarter had a more cyclical tilt with value-oriented stocks with high returns on equity, high levels of debt, and earnings performing best.

Highlights

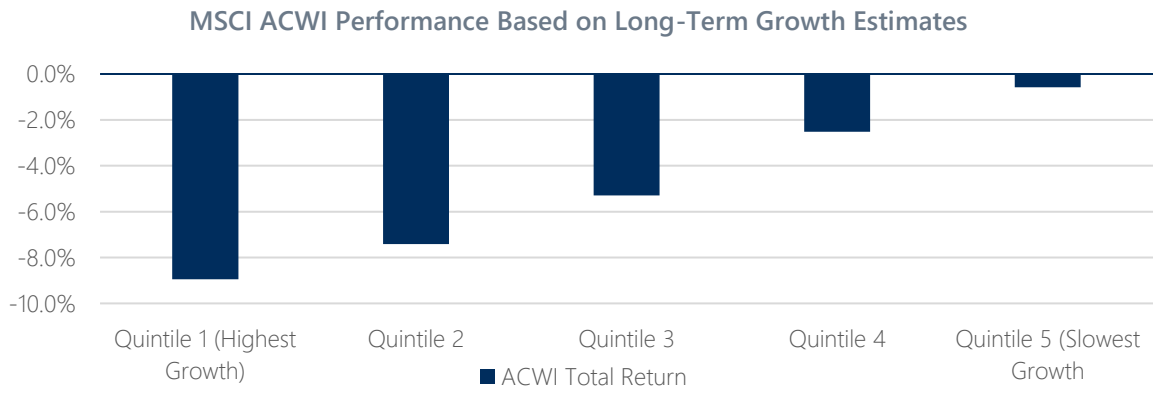
- Portfolio trailed its MSCI All Country World (ACWI) benchmark in Q1 as value-oriented stocks outperformed; a lack of exposure to Energy had a significant impact; portfolio outperformed the MSCI All Country World Growth benchmark (ACWI Growth)
- FleetCor, CP All, and Medtronic were the largest positive contributors to performance; Meta Platforms, PayPal, and Recruit detracted most
- Stock selection in the Emerging Markets contributed positively while selection in developed markets, particularly the U.S., detracted
- Took advantage of increased market volatility to upgrade portfolio growth, initiating new positions in Intuit and MSCI while liquidating positions in Meta Platforms, Regeneron, and IHS Markit
- Portfolio forecast to generate 19% earnings growth over the next three years compared to 8% for the ACWI with better business quality and predictability

Rising Global Inflationary Concerns and Rising Interest Rates

Central banks around the world took steps to reduce inflationary trends. In the U.S., consumers witnessed the highest inflation reading in 40 years as food, rent, and gasoline prices pushed the Consumer Price Index up 7.9% in February from a year earlier, following a 7.5% annual increase in January. Core inflation increased 6.4% from a year earlier and a tight labor market, with U.S. unemployment at 3.8%, exacerbated these pressures. The Russian invasion of Ukraine and associated sanctions on oil imports are expected to push U.S. inflation rates higher as the year progresses. Large increases in the U.S. Producer Price Index indicate continued increases in the Consumer Price Index are likely in coming months.

The more persistent increase in inflation forced the U.S. Federal Reserve to take steps to tighten monetary policy, raising interest rates once during the quarter and signaling several more through the balance of 2022. The 10-year U.S. Treasury rose from 1.7% a year ago to 2.3% on March 31st. In the U.K., the Bank of England raised interest rates for the first time in three years. Amid new pandemic lockdowns due to spreading Omicron cases, a severe regulatory crackdown on key businesses in the name of "Common Prosperity", a struggling property sector, and weaker than expected retail sales, China faced a different dilemma. In contrast to more restrictive monetary policies elsewhere in the world, with its economy growing only 4% on a year-over-year basis in Q4 of 2021, the People's Bank of China (PBOC) lowered interest rates on loans trying to spur better economic growth.

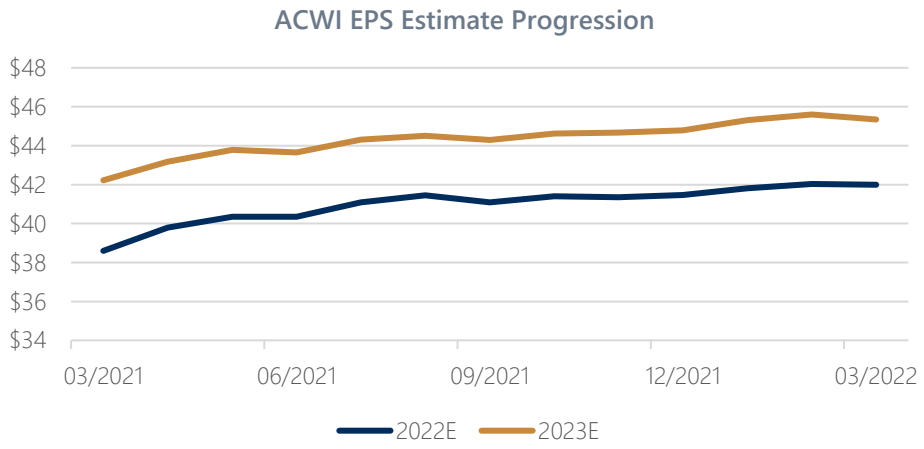
Growing inflationary expectations and rising interest rates across much of the world put pressure on longer duration growth companies. The chart below illustrates the performance of companies based on their long-term growth estimates:



Source: FactSet, MSCI. Long-term growth estimates are 3-5 year estimated earnings growth.

Global Growth Commentary

After an initial decline in stock prices following the Russian invasion of Ukraine, global equity markets rebounded in the second half of March. Investors continued to expect improving global economic growth in 2022 and 2023 despite rising headwinds and the increased likelihood of recession in Europe. As of March 31, forecast 2022 earnings for the ACWI were expected to grow 6.7%. As illustrated below, 2023 estimates increased as well. This rosy outlook, despite the prevailing uncertainties, creates increased risk for investors as global economic growth slows. In such a scenario, the stronger business quality and more predictable and sustainable revenue and earnings growth of our portfolio companies should become more appreciated by the market.



Source: FactSet. Data as of 3/31/22.

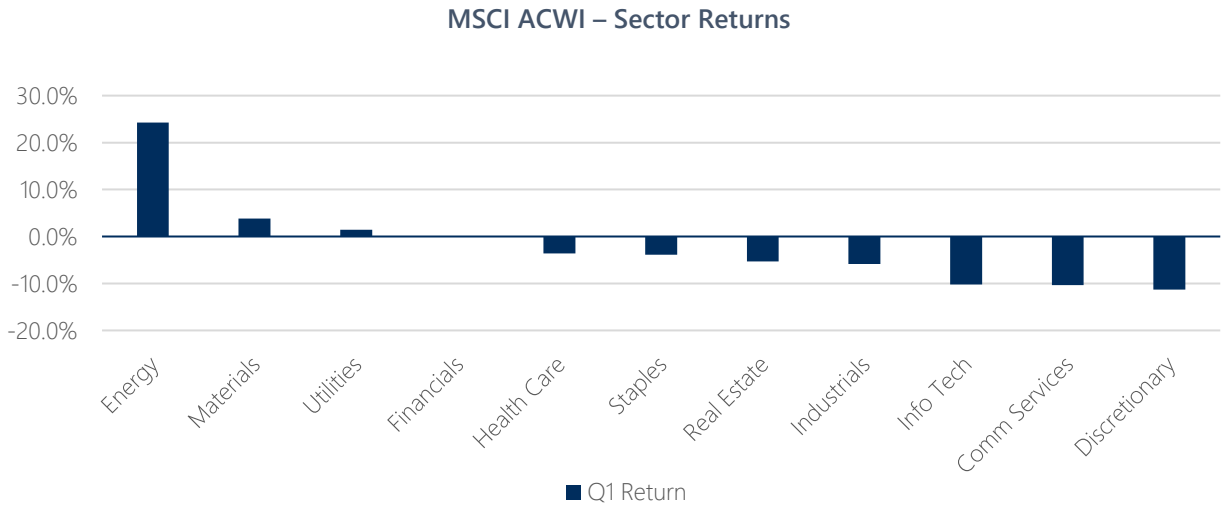
Market and Portfolio Attribution

Emerging Europe was the worst performing region in Q1, dropping -71% given fallout from the war in Ukraine. SGA's portfolios had no direct exposure to Russian, Ukrainian, or Belarussian stocks in Q1, and the indirect exposure of Global portfolio companies to these countries was minimal. The portfolio's revenue exposure to all of Emerging Europe totaled only 2.4%. While this benefited performance following the invasion, the portfolio's lack of energy or commodity exposure hurt relative performance in Q1.

Chinese stocks also performed weakly, declining -14.2% for the quarter. In contrast, Latin America was the best performing region with Brazil being the strongest market in Q1, after several quarters of weak performance as the region dealt with the spread of COVID-19 cases.

In general, more economically sensitive industries including Metals & Mining and Oil Gas & Consumable Fuels, as well as Aerospace & Defense performed best in Q1. Such businesses tend to offer less predictable revenue and earnings growth over time, and therefore generally do not meet our business quality criteria. Areas of the market that detracted the most included Software, Semiconductors, Interactive Media, IT Services, and Specialty Retail.

Stock selection and residual sector weights detracted from the portfolio's relative returns given the stiff pro-cyclical headwinds our approach faced during the quarter. The portfolio's lack of exposure to Energy was the single largest detractor for the quarter. Stock selection in the Industrials, Communication Services, Health Care, and Information Technology sectors detracted due to positions in Recruit Holdings, Meta Platforms, ICON, PayPal, and Autodesk. Stock selection in the Consumer Discretionary and Staples sectors contributed positively due to positions in Amazon and CP All. The portfolio's relative return benefited from a lack of exposure to the Specialty Retail and Textiles & Apparel and Luxury Goods industries.



Source: MSCI

Largest Contributors

FleetCor was the largest contributor to portfolio performance in Q1 after having been a significant detractor last quarter. The company reported attractive quarterly results with fuel card growth rebounding nicely (up 12% year-over-year) on easier comparisons, corporate payments growing 18% year-over-year, lodging up 39% year-over-year and tolls rebounding 17% year-over-year. It also announced the signing of many new accounts during 2021, illustrating success for its traditional and digital marketing efforts. The company continues to benefit from a high client retention rate of about 93%. Looking forward, we anticipate the company will generate attractive organic growth with future share buybacks and acquisitions to be additive on top of this. We expect the company's fuel card business to see high single-digit growth with further support from rising oil prices, while its corporate payments and toll businesses should see high-teens growth. Lodging should continue to deliver strong growth year-over year. Additionally, we expect some additional strength from new steps beginning in Q2 to cross sell their corporate payments product to fuel card clients, and the company is seeing growing success in signing up more customers for its electric vehicle solution. We maintained our position in the company during the quarter.

CP All was the second largest contributor to performance in Q1 after reporting a quarter we deemed to be in line with expectations. With COVID-19 lockdowns largely behind them, CP All's three businesses are expecting steady recoveries barring material changes from renewed COVID-19 waves. We expect continued improvement at the company's 7-Eleven stores reflecting well managed operating expenses and continued store expansion. We were pleased to see that CP All's delivery operation showed resilience with it now comprising about 10% of sales and holding steady while instore traffic has risen. With domestic tourism now likely to improve given that inter-province travel is once again allowed and international travel is picking up, we see this as a likely accelerator to growth moving forward. Continued improvement at Makro and a likely pickup in the upgrading and rebranding of Lotus stores should provide additional opportunity. We trimmed the position on strength, maintaining our average weight position in the company.

Medtronic was the third largest contributor to portfolio performance in Q1 after being one of the largest detractors from performance in Q4. At that time, the stock had been under pressure due to the Omicron surge, as well as some product pipeline delays, despite reporting solid quarterly earnings. We were pleased to see the company again report attractive financial results with margins holding up well despite inflationary pressures. While the company manages near term issues related to the FDA Diabetes Warning Letter it had received and its stent recall (neither of which meaningfully impacts our estimates), we see attractive opportunity for the balance of the business given the pandemic reopening and a return to elective procedures which will enhance visibility into higher revenue growth. We maintained an average weight position in the company.

The fourth and fifth largest contributors to performance in Q1 were **Visa** and **XP**.

Largest Detractors

Meta Platforms was the largest detractor from performance this quarter after reporting Q4 results that were consistent with management guidance posting 20% revenue growth. The stock was negatively impacted, however, by the disappointing Q1 guidance forecasting 3-11% revenue growth which was well below our expectations. This was due to more formidable competition from TikTok and the resulting need for Meta to accelerate its transition to a short video format, which is likely to be cannibalistic to ad revenues for some time. Our confidence in the company's long-term growth thesis has been diminished due to intensifying competitive headwinds; continuing impact from Apple's IDFA change and its forthcoming additional consumer privacy initiatives; reduced bottom-line predictability given the escalating investments in the metaverse; growing concerns over a macroeconomic slowdown which could adversely impact economically sensitive digital advertising; and continued regulatory threats. Accordingly, we liquidated our position in the company and reallocated the capital to a higher confidence growth opportunity in Intuit.

PayPal was the second largest detractor from portfolio performance in Q1 as the company posted lower than expected earnings and reduced its new user add guidance for FY 2022 to 15-20 million, down from 50 million in FY 2021 and 75 million in FY 2020 which added to market fears that the company's growth is maturing. While free cash flow generation was strong, management's change in strategy toward prioritizing user engagement over new additional customers increased concerns over an intensifying competitive environment as well as management's ability to execute. With the reset in expectations following the company's surge in new users during the pandemic, strong and trusted relationships with merchants and consumers, an expanding product set, opportunities for further international expansion, and an improved valuation, we continue to see an attractive investment opportunity in the stock. However, with increases in sales and marketing expenses, as well as technology investments on the horizon as the company fights to maintain its position in a more competitive environment, we reduced our target to a below-average weight given greater uncertainties.

Recruit was the third largest detractor from portfolio performance in Q1 despite reporting another strong quarter driven by improvements in its key HR Tech segment. Recruit's sales and profits easily exceeded consensus expectations driven by the HR Tech's 97% year-over-year sales growth and attractive margins remaining over 30%. As Recruit starts to "lap" HR Tech's exceptionally strong FY 2021 results and the prospect of higher interest rates weighs on the job market in the U.S., market concern about the outlook for Recruit's near-term growth rate put some pressure on the stock. Given the uneven nature of the global economic recovery, Recruit's leading positions in HR Tech and providing various services including digital marketing to businesses ranging from Restaurants to Travel and Beauty, and most importantly, Recruit's long-term opportunity to bring more of the world's hiring processes online, we maintained an average weight position in the company, adding on recent weakness.

The fourth and fifth largest detractors from performance were **Autodesk** and **ICON**.

Portfolio Activity

Annualized turnover in the quarter was 44%, a little higher than average given the rise in market volatility. New positions were initiated in Intuit and MSCI while positions in Meta Platforms and Regeneron were liquidated due to forced attrition while IHS Markit was sold due to valuation. Additionally, positions in Yum! Brands, Heineken, AIA Group, Alphabet and CP All among others were trimmed on strength. We purchased additional shares in MercadoLibre, Workday, Intuitive Surgical, Salesforce.com, ICON, Recruit, and others on weakness.

New Positions

We initiated a new position in financial management and tax preparation software provider **Intuit** in Q1. The company's businesses include QuickBooks SMB accounting software which comprises about 50% of its revenues, ProConnect professional tax software which comprises about 5% of revenues today and facilitates accountants referring small to medium size businesses to Intuit's QuickBooks and its Consumer segment which comprises about 35% of revenues and is highlighted by the company's TurboTax tax preparation software. Credit Karma which connects consumers with lower cost financial services makes up the balance of Intuit's business.

Global Growth Commentary

Intuit serves a broad, interconnected ecosystem of customers, accountants, financial institutions, and government entities who trust their products to manage highly sensitive financial information. The company has earned its ability to increase the price of its products through maintaining this trust and gradually adding additional functionality to its offerings. This trust, and added functionality, together with the interrelated parties it serves, makes switching from Intuit to a competitor more costly and risky for current clients. Intuit's strong referral network within the accounting market and its significant scale advantages in the data it is trusted with should allow the company to use machine learning and artificial intelligence (AI) to automate workflows even more effectively relative to peers.

As a result of its strong reputation, high switching costs and risks, and its efforts to shift a majority of its small-mid size business accounting clients to recurring online subscriptions, Intuit enjoys a highly recurring revenue stream. These recurring revenues are supported by long runways of growth driven by the longstanding secular trend toward "do-it-yourself" (DIY) tax preparation. Given its dominant position in this and the domestic small-mid financial management market, the company expects to be able to sustain organic double-digit revenue growth and faster operating profit growth over our 3–5-year investment horizon while enjoying high cash flow generation due to its capital light business model and timely billing of subscription fees.

Competition, steps toward tax code or filing simplification, management change and seasonality are among the key risks we are monitoring with Intuit.

We initiated a position in **MSCI**, a leading provider of critical decision support tools and services for the global investment community. The company's products and services help clients design and issue ETFs and other index-enabled financial products and implement sustainable and other investment strategies, as well as enhance client functions in areas including performance measurement, risk management and ESG analysis. MSCI serves over 7,500 clients, including asset owners, asset managers, financial intermediaries, and wealth managers, across more than 85 countries. About $10 trillion of assets are benchmarked to the company's indexes. Approximately 61% of the company's revenues come from index related businesses, 28% from analytics and the balance from other products. MSCI generates about 50% of its revenues from the Americas, 35% from the EMEA region and 15% from Asia and Australia.

The company provides essential analytics and other services to the investment industry and is deeply embedded in clients' day-to-day workflow, leading to sticky relationships with annual retention rates in the mid-90 percent range and consistent pricing power across the majority of its businesses. In addition, its benchmark status creates a wide moat for the company's index business. As a result of these dynamics, 97% of MSCI's revenue is highly recurring, including 71% from subscriptions and 26% from asset-based fees. Retention rates have averaged around 95% across its businesses. Our research indicates long duration growth opportunities for the company from numerous tailwinds to its businesses including the globalization of capital markets, ESG, factor-based investing (e.g., volatility, momentum), increased interest in risk analytics, shifts from active to passive investing, increased regulations and the need for improved reporting and analysis in private equity and real estate.

Among the key risks associated with the company are its 26% of revenues that are tied to asset-based fees which are vulnerable to market downturns, particularly in Europe and the emerging markets. The possibility of new proprietary indexes being created and becoming the basis for new ETFs, structured products and over the counter derivatives also poses a competitive threat.

Sold Positions

As noted above, the portfolio's position in **Meta Platforms** was sold to make room for a higher conviction opportunity in Intuit.

The portfolio's position in **Regeneron** was sold due to forced attrition given the stock's strong relative performance and the chance to take advantage of volatility and reallocate capital to companies with more predictable and sustainable earnings growth over our 3–5-year time horizon at more attractive valuations.

The portfolio's position in **IHS Markit** was sold prior to the closing of its acquisition by S&P Global due to valuation following strong relative performance, and its proceeds were used to initiate a new position in index and ESG data provider MSCI which offered strong long-term growth at an attractive cash flow-based valuation.

Looking Forward

After years of monetary and fiscal stimulus following the Great Financial Crisis, we believe we are at an inflection point as inflation is increasingly forcing monetary authorities to move away from extraordinary levels of stimulus and toward tightening. It has been an incredible run with investors chasing returns in a low interest rate environment fueled by QE and a lack of attractive alternatives. During this time, passive investors have been rewarded handsomely whereas portfolios focused on high-quality fundamental growth with a valuation discipline have lagged. Significant risk-taking has been rewarded and passive indices, which by design are momentum-driven, have done well. Now rising geopolitical tensions are interrupting tailwinds from globalization that have benefited global growth for decades. In our view, it seems likely that the best days of the speculative asset rally are behind us, and we will move towards an environment where the true long-term drivers of stock returns, earnings and cash flows, will once again be the determining factors along with valuations.

SGA's approach offers access to an attractive asset class with a lower risk profile and portfolio attributes we expect to be more important in this environment. Through a very consistent and disciplined process and team-based approach we have been able to deliver attractive absolute, relative, and risk-adjusted results through full market cycles. While our valuation focus may at times lead us to trail in high momentum markets, this and our business quality focus have led to attractive upside participation, as well as downside protection over time. With economic policy at an inflection point, years of historically low interest rates ending, and market volatility likely to remain high, the consistency and predictability of the portfolio's earnings and cash flow growth, and its attractive valuation, should position the portfolio well moving forward.

We thank you for your continued support and look forward to answering any questions you may have.

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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 Global 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 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. Upon request, free of charge, SGA can provide a list of all portfolio holdings held in SGA's Global Growth portfolio for the year. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. SGA's earnings growth forecast data is based upon portfolio companies' Non-GAAP operating earning.

Sustainability Report

Q1 2022

SGA Sustainable Growth Advisers

Carbon Tax Analysis

The transitional risks of climate change relate to the adjustment towards a low-carbon economy. These include the impact of changes to government policies, regulations, technology, and market demand. Carbon taxes are becoming an increasingly preferred policy by governments around the globe to raise the cost of fossil fuels to more accurately reflect their externalities and discourage future use.

We recently completed an analysis of the impact of a carbon tax on the earnings of companies in our Qualified Company List ('QCL'). Specifically, we calculated the impact to 2022 estimated earnings assuming a tax of \$50/tCO_2e on all Scope 1, 2, and 3 emissions. We found the exercise valuable in two regards. First, it underscored the companies on our Qualified Company List that do not yet disclose Scope 3 emissions, which in most cases represent the majority of a company's total carbon footprint. Unfortunately, approximately one third of the companies on the QCL fall into this category, thus rendering any analysis of a carbon tax on these specific companies far less useful. For these companies with inadequate disclosure of emissions data, we are systematically reaching out to management to strongly encourage them to increase their disclosure. Second, the analysis identified those companies for which a potential carbon tax represents a material risk to earnings. For approximately 20% of QCL companies, a \$50 carbon tax would cause over a 10% reduction in earnings.

The QCL companies with the highest potential risk to earnings as a result of a carbon tax are mostly in the consumer goods, industrials, data warehouses, and retailers/restaurant industries and include Yum! Brands, Linde, Heineken, CP All, Equinix, and Amazon. While the likelihood of a global carbon tax is relatively low over our 3-5 year time horizon, we have utilized the results of this exercise to refine our proprietary ESG scores and risk category designations, as well as prioritize engagement with management regarding plans for emissions reduction, including net zero commitments and science based targets for emissions reductions.

SGA Operations: Carbon Footprint Analysis

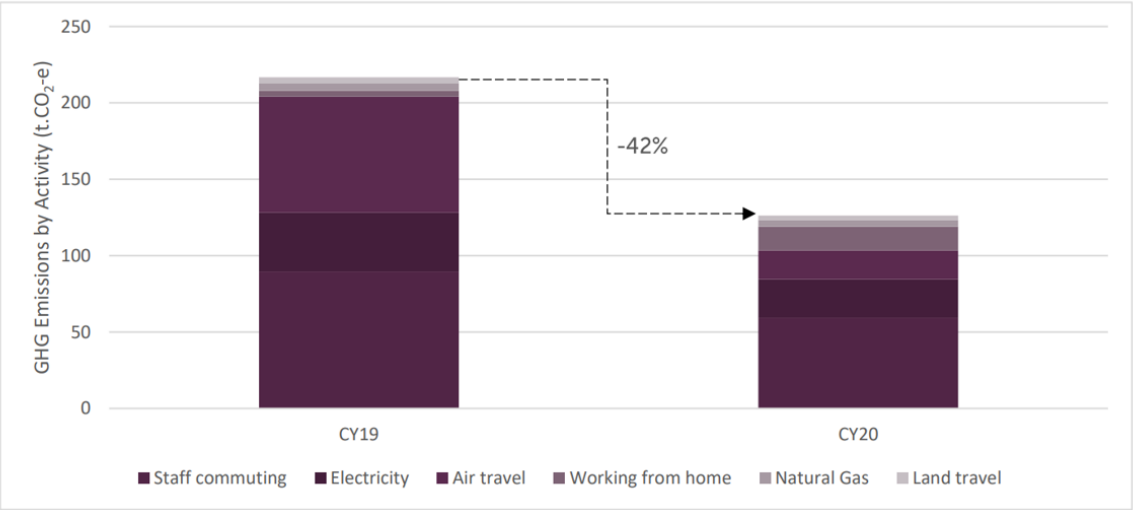
We recently conducted an exercise to map the carbon footprint of our firm's operations across calendar years 2019 and 2020 by a specialist carbon advisory firm. Total GHG emissions for the firm were estimated at 216.7 tonnes of carbon dioxide equivalent in 2019 and 126.2 in 2020. During 2020, our GHG emissions reduced approximately 42% due to our responses to COVID-19 which caused a large decrease in staff commuting and business air travel. A summary of GHG emissions sources by activity can be seen in the tables and figures, below.

Figure 1: GHG emissions by activity and scope (t CO_2e, %)

ACTIVITY	SCOPE	CY 2019		CY 2020	
		EMISSIONS	PERCENTAGE	EMISSIONS	PERCENTAGE
Natural Gas	1 & 3	5.01	2.3%	4.26	3.4%
Electricity	2 & 3	38.40	17.7%	24.96	19.8%
Air Travel	3	75.95	35.0%	18.99	15.0%
Staff Commuting	3	89.75	41.4%	59.46	47.1%
Land Travel	3	3.67	1.7%	2.96	2.3%
Working-from-home	3	3.92	1.8%	15.59	12.4%
TOTAL Gross GHG Emissions		216.70	100%	126.21	100%
TOTAL Net GHG Emissions		216.70		126.21	

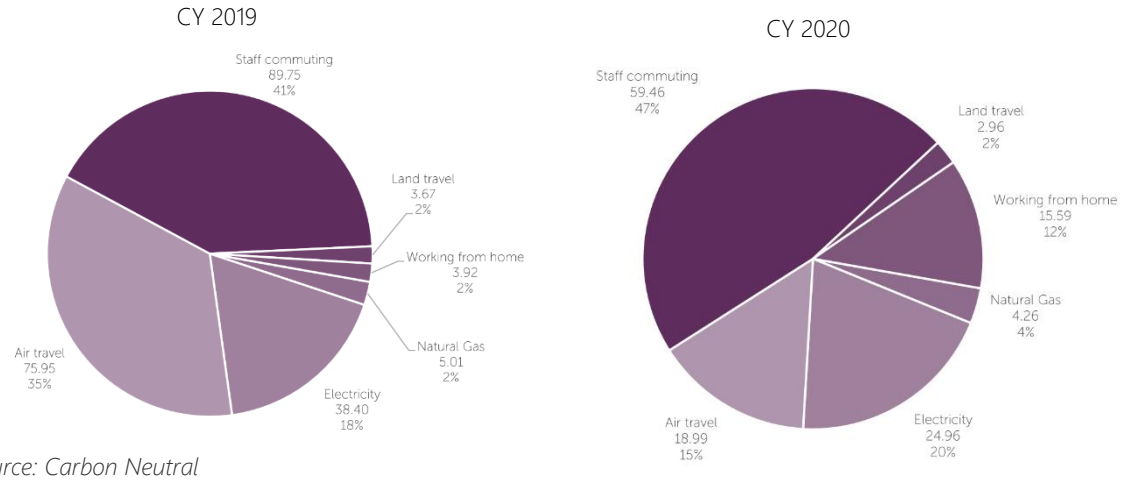
Source: Carbon Neutral

Figure 2: GHG emissions by activity (t CO_2e, %)



Source: Carbon Neutral

Figure 3. GHG emissions by activity (t CO2e, %)



Source: Carbon Neutral

We have not yet set quantifiable targets to reduce our operations' emissions; however, we are implementing the following:

- Formalizing our hybrid Work From Home policy to reduce emissions from staff commuting, our largest source of GHG emissions.
- Encourage the use of virtual meetings in place of in-person meetings, where appropriate.
- Eliminating the use of single-use plastics in the office.
- Reducing paper waste and encouraging adoption of electronic materials.

Yum! Brands

We met with the company's Chief Sustainability Office, Jon Hixon, over the quarter to discuss the results of our carbon scenario analysis; our initial analysis showed that Yum! Brands has one of the higher exposures to earnings risk from a potential carbon tax relative to companies on our Qualified Company List.

Almost all of Yum! Brands' carbon emissions are derived from scope 3 emissions which consist predominantly of the scope 1 & 2 emissions of the franchised restaurants and the company's global supply chain. While the potential for a carbon tax is not currently prioritized by management as a significant risk, the company is making headwinds to reduce its carbon footprint.

Yum! Brands recently issued Science Based Targets that include a 46% reduction in scopes 1, 2, and 3 emissions by 2030 (using 2019 as the baseline, as is standard) and has many projects in place to reduce emissions, including:

- A partnership with the University of Liverpool to convert 1,000 units in the UK and another 1,000 in Europe to net zero (corporate and franchised units) in the next year or so. These markets were specifically chosen because of their higher regulatory risk in terms of cost of energy;
- A project to reduce methane emissions in the supply chain in collaboration with large dairy suppliers; and
- Collaboration with top 30 suppliers to educate them on the benefits of Science Based Targets.

Yum! Brands maintains a significant degree of control over franchisees in terms of "brand standards" which includes emissions considerations regarding new builds and renovations. In addition, the company's centralized procurement system in major markets, such as the US, provides management with a high capacity to drive change in emissions.

We believe Yum! Brands is less susceptible to a carbon tax than our initial analysis first suggested as the majority of the burden would likely be borne by the franchisees, as opposed to Yum! Brands. While a tax would ultimately be negative to franchisee economics and unit growth, we assess the probability of implementation of such a tax within our 3-5 year time frame as low, and believe Yum! Brands is well placed relative to competitors to navigate such a potential environment given its scale advantage. We will continue to monitor the progress of the various initiatives cited above and plan to explore further the hypothetical allocation of financial burden from a carbon tax between franchisees and the parent company.

Proxy Voting Summary Q1 2022

	Number of Resolutions	For	%	Against	%	Abstain	%
U.S. Large Cap Growth	45	43	96%	2	4%	NIL	0%
Global Growth	50	48	96%	2	4%	NIL	0%
International Growth	5	1	20%	4	80%	NIL	0%
Emerging Markets Growth	25	21	84%	4	16%	NIL	0%
Global Mid-Cap Growth	17	17	100%	NIL	0%	NIL	0%

Source: SGA, Broadridge, ISS

Carbon Risks Q1 2022

	Total Carbon Emissions	Carbon Intensity	Weighted Average Carbon Intensity
SGA Global Growth	13,197	70.3	58.2
MSCI ACWI	81,696	189.6	162.6
SGA Relative Exposure	-84%	-63%	-64%
SGA U.S. Large Cap Growth	4,781	30.5	29.9
Russell 1000 Growth	8,427	50.4	32.9
SGA Relative Exposure	-43%	-39%	-9%
SGA Emerging Markets Growth	21,622	53.0	47.8
MSCI EM	232,503	391.7	325.6
SGA Relative Exposure	-91%	-86%	-85%
SGA International Growth	24,452	89.3	94.5
MSCI ACWI ex-USA	144,225	219.4	201.7
SGA Relative Exposure	-83%	-59%	-53%
SGA Global Mid Cap	13,046	58.1	44.3
MSCI ACWI Mid Cap	164,195	273.4	256.7
SGA Relative Exposure	-92%	-79%	-83%
	t CO_2e	t CO_2e / $M Sales	t CO_2e / $M Sales

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