Emerging Markets Commentary

Q1 2022

SGA
Sustainable Growth Advisers

Performance

SGA's Emerging Markets Growth portfolio returned -3.7% (gross) and -3.9% (net) in Q1, compared to -7.0% and -10.3% for the MSCI EM Index and the MSCI EM Growth Index, respectively.

Highlights

- Portfolio outperformed the MSCI EM and MSCI EM Growth Indices in a volatile Q1
- Weakness in Russian, Chinese, and Asian stocks weighed on markets in Q1 while markets and companies benefiting from rising energy and commodities prices performed best
- Cyclical headwinds were offset by strong recoveries in portfolio positions following underperformance in 2021; Sanlam, CP All, and Wal-Mart de Mexico contributed most to performance, while PayTM, Yum China, and Country Garden Services detracted most
- Positions in Alibaba, Trip.com, and PayTM were sold and replaced by positions in Tencent and Naver
- Portfolio forecast to grow earnings 21% over the next three years, higher than the MSCI EM Index with higher quality characteristics and greater predictability

A Changing and Volatile Market Environment

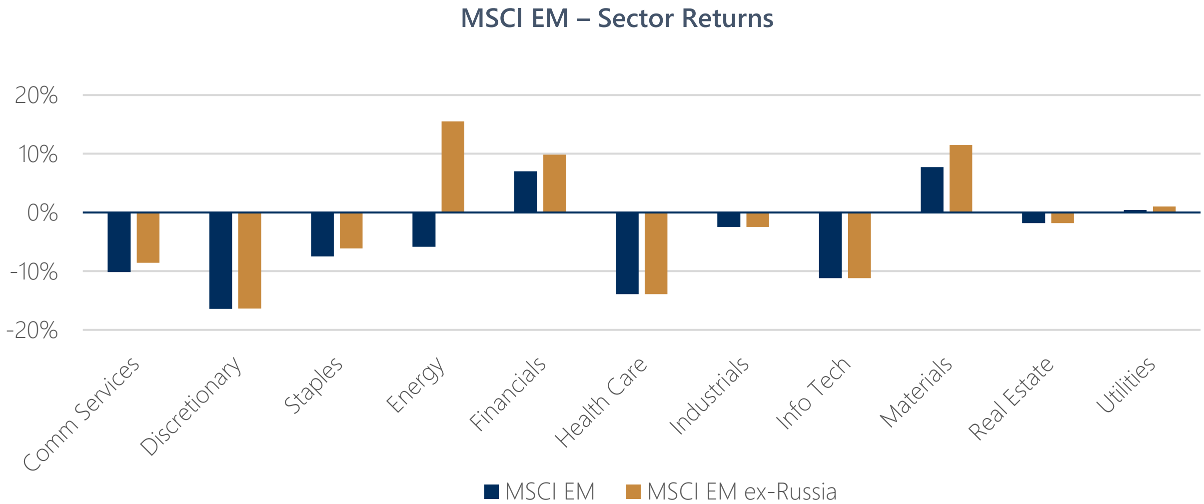
Emerging markets outperformed developed markets by a wide margin through the first half of the quarter but underperformed significantly in the second half following the Russian invasion of Ukraine. The severe drop in Russian markets combined with further weakness in Chinese and other Asian Pacific markets weighed heavily on indices offsetting strong results elsewhere.

A void of Russian companies in the portfolio, given a lack of sustainable growth opportunities, helped relative performance in Q1, however, a lack of exposure to more economically sensitive energy and commodities-related companies which benefited from rising energy and commodities prices was a headwind. A lack of such exposure may be a drag on relative performance in the short-term, but over the intermediate to long-term we expect that higher energy and commodities prices will eventually weigh on global growth, making the higher quality and more sustainable growth companies within our portfolios more valuable.

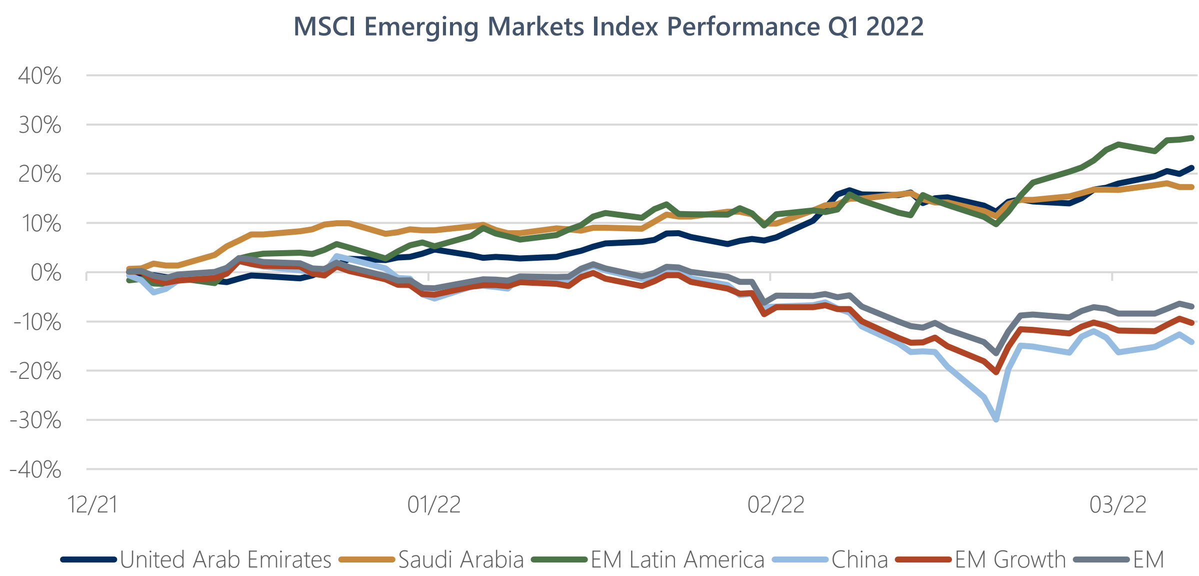
China was among the worst performing markets in Q1 due to concern about rising COVID-19 cases and new lockdowns which could impact its growth prospects. Geopolitical uncertainty stemming from China's relationship with Russia weakened sentiment further. Additionally, an SEC published short-list of companies facing delisting from U.S. exchanges given a lack of access to Chinese audit papers led to significant intra-quarter volatility in Chinese companies with U.S. listings. With some of the portfolio's holdings facing potential delisting, including Yum China, Huazhu Group, and JD.com, we decided to migrate our positions to their Hong Kong-listed shares. Sentiment improved later in the quarter as Chinese government officials signaled a willingness to ease fiscal and monetary policies and lessen regulatory intervention moving forward.

Rising oil and commodity prices provided a significant tailwind for energy and commodities exporting countries leading to strong performance in Latin America, which had been the weakest performing region in 2021, as well as in the Middle East. The outperformance of more economically sensitive stocks persisted in Q1 as energy, metals & mining, and banks performed strongly. Value stocks beat growth stocks by a wide margin but the reward to business quality factors improved relative to 2021 and was more favorable to SGA's approach.

Market and Portfolio Attribution



Source: MSCI



Source: MSCI

Largest Detractors

PayTM was the largest detractor from portfolio performance during the quarter. Our below-average weight position in PayTM was initiated in November of 2021 when we participated in the company's highly anticipated IPO. Since the IPO the stock has been negatively impacted by a number of factors, including weakening market sentiment towards global fintech companies, uncertainty around near-term margin and earnings progression, and more recently adverse regulatory developments. Our original thesis for PayTM was centered around its financial distribution capabilities and ability to reach the vastly underbanked Indian population more efficiently. The company's total addressable market is huge and is not limited to payment enablement, but spans across more lucrative areas such as credit, insurance, and wealth management. The announcement this quarter that the Reserve Bank of India had ordered a comprehensive audit of Paytm Payments Bank's KYC processes and directed the bank to stop onboarding new customers introduced new regulatory risks and reduced visibility. While we continue to see a significant longer-term opportunity ahead for PayTM, the lack of visibility around its growth progression in the face of a more challenging regulatory environment led us to reallocate the capital to higher conviction opportunities.

Yum China was the second largest detractor from performance. Concerns about a delisting of its U.S.-listed shares related to US regulators' lack of sufficient access to the working papers of Chinese auditors, led to significant volatility in its stock during the period. While the delisting issue remains fluid, we decided to convert shares to the company's Hong Kong-listing. New lockdowns and social restrictions in China in the face of rising COVID-19 cases also pressured the stock as investors worried about the negative near-term impact on foot traffic in its restaurants and the overall impact on its business. While we expect Yum China's Q1 results to be weak given store closures and lockdowns, we continue to see the business well equipped to handle the ongoing challenges over time given its strength in digital, delivery, promotions, store operating efficiencies, and supply chain management. Our conviction in the longer-term growth opportunity remains intact and we raised our target to an above-average weight during the quarter.

Country Garden Services was the third largest detractor from performance. Concerns about weakness in the Chinese property sector, rising COVID-19 cases, and broad-based pressure on Chinese equities weighed on Country Garden's shares during most of the period. Country Garden's shares recovered some of their losses, however, during the final weeks of March as Chinese government officials indicated a willingness to stimulate the economy and ease regulatory pressures. Despite concerns about the macro backdrop, the company reported solid 2021 results. Revenues and earnings grew 85% and 50% respectively driven by resilient results in its core property management business and continued fast growth in its value-added services. We continue to see an attractive longer-term growth opportunity for Country Garden but are cognizant of the risks related to regulation and weakness in property development which could adversely impact the company's ability to grow square footage under management. For those reasons we have maintained a below-average weight position.

Trip.com and **Shandong Weigao** were the fourth and fifth largest detractors from performance.

Largest Contributors

Sanlam was the largest contributor to performance during the period. A strong recovery in South African stocks along with the broader outperformance of financial services companies provided a tailwind for the South African insurer. The company reported strong results for 2021 and solid progress on strategic initiatives which also benefited performance in Q1. Sanlam's new distribution partnerships as well as improved Empowerment Credentials led to market share gains during the period and, in our view, positions the company well for future growth. New business volumes increased 14% in 2021 and were up 43% from 2019 levels. Net results from financial services increased by 18% on a constant currency basis while net operational earnings rose 28%, benefiting from higher investment income. Sanlam remains well-positioned to benefit from the growth of life insurance and other financial services across the markets and geographies it operates in and given an attractive cashflow-based valuation we maintained our average weight position during the quarter.

CP All was the second largest contributor to performance in Q1 after reporting quarterly results that were 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 maintained an above-average weight position in the company.

Wal-Mart de Mexico was the third largest contributor to performance following another quarter of steady growth. Revenues grew 9% in the quarter, operating profits and EPS grew 5%, and same-store-sales growth of 8% outpaced the industry again as it has done each quarter over the last seven years. Gross margins expanded modestly despite price investments in Central America while operating margins contracted slightly due to investments in growth initiatives such as e-commerce, and staffing. New unit growth was in-line with recent trends and contributed 1.3% to topline growth over the period. We continue to view the company's growth opportunity favorably given strong execution, leading position in omnichannel, and secular growth drivers driven by demographics, economic development in Mexico and Central America, and the shift from informal retail to more formal retail formats.

Raia Drogasil and **Bank of Central Asia** were the fourth and fifth largest contributors to performance.

Portfolio Activity

Portfolio turnover was in-line with the portfolio's long-term average in Q1 with positions in Naver and Tencent initiated and positions in Alibaba, PayTM, and Trip.com liquidated. Several other positions were trimmed on strength, including Asian Paints, Budweiser APAC, Mengniu Dairy, and Sanlam, while others were added to on weakness, including Bank of Central Asia, Fast Retailing, HDFC Bank, and Kakao.

Sold Positions

The portfolio's position in **Alibaba** was liquidated given reduced conviction in the company's growth opportunity moving forward as rising competition has slowed growth and profitability in its core e-commerce business while regulatory uncertainty limits long-term visibility. Reduced conviction in **Trip.com's** growth outlook and more attractive growth opportunities elsewhere led to the position being liquidated during the period. As mentioned in the quarterly detractors section, the portfolio's position in **PayTM** was liquidated given greater regulatory uncertainty and reduced visibility into future growth.

New Positions

A new position in South Korean search platform **Naver** was initiated during the quarter. Naver has leading positions in the Korean search, e-commerce, webtoon (digital comic), and cloud services markets. The Naver mobile app is a dominant super-app in Korea which offers search, shopping, news and payment within a single platform. The company has over 30 million domestic daily active users and is an essential part of people's daily lives, making it an attractive and important platform for advertisers, merchants, and content creators. The high usage frequency of services like payments, search, and e-commerce make its revenue stream highly repeatable. Naver is also expanding overseas with its content and e-commerce services, and targets 1 billion global users by 2026. It owns one third of Z Holdings, which operates the leading messenger app (Line) and web portal (Yahoo Japan) in Japan. We see an attractive growth opportunity ahead for the company as it benefits from its dominant position in Korean digital advertising and strong growth potential in newer businesses such as e-commerce, digital pay, and cloud services combined with a global expansion opportunity within global paid content and e-commerce.

Among the risks we are monitoring for Naver is the potential for adverse competitive or regulatory developments relating to its e-commerce and financial services businesses. Additionally, as the company invests into global expansion, its margin profile may be negatively impacted.

Tencent was re-introduced to the portfolio during the quarter. Despite ongoing regulatory uncertainty in China, we were positively surprised by the company's decision to divest most of its ownership in JD.com and distribute the proceeds via a special dividend to shareholders. Tencent's sizable portfolio of minority investments in other listed companies has been a hidden asset value for years with some questioning whether shareholders would ever see that capital returned. With the company's decision to divest and distribute most of its JD.com stake, however, it seems more likely that shareholders will increasingly see capital returned from these investments moving forward. Additionally, we continue to view Tencent's competitive position in social communications, gaming, online advertising, and digital financial services positively. The company continues to benefit from strong network effects and hundreds of millions of daily users across its social media platforms and online video games. The company's video gaming business has grown domestically and increasingly overseas in recent years and its online advertising business has high engagement but still very low levels of ad placements relative to domestic and global peers. Lastly, the company's digital financial services and cloud computing units offer attractive growth potential with still moderate levels of penetration in China.

The regulatory environment in China remains a key risk. The company has chosen to invest more in societal responsibility, while also voluntarily tightening video game time-playing limits on teens beyond regulations, delayed video game launches, and reduced take rates on payment processing for smaller businesses. These actions will weigh on near-term profitability, but we expect Tencent to continue navigating regulatory pressures while positioning the company for future growth and profitability.

Summary

The Russian invasion of Ukraine and subsequent steep losses in Russian markets along with rising geopolitical tensions and weakness in China tied to COVID-19 disruptions, a slowing economy, and regulatory pressures, weighed on emerging markets in Q1. Market performance was bifurcated as other markets, including those in Latin America and the Middle East, posted very strong returns on the back of rising oil and commodity prices. SGA's portfolio outperformed in Q1 despite cyclical headwinds driven by the outperformance of energy and commodities-related companies with the portfolio benefiting from a rebound in positions which had lagged in 2021.

Looking ahead, we expect growth to slow as geopolitical tensions interrupt the benefits to global growth from globalization and central banks take steps to combat inflationary pressures through tighter monetary policies. Rising energy and commodities prices will further pressure economic activity and consumer spending power. The SGA portfolio offers access to emerging markets with a lower risk profile driven by a focus on resilient cash flow compounders with strong pricing power and predictable and sustainable growth opportunities which we expect to become more important in this environment. Over the next three years we expect the portfolio to deliver 21% annual earnings growth, well ahead of the MSCI EM Index, with stronger business quality characteristics and greater predictability.

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 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. 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 Emerging Markets 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. Upon request, free of charge, SGA can provide a list of all portfolio holdings held in SGA's Emerging Markets portfolio for the past year. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. SGA earnings growth forecasts are based upon portfolio companies' non GAAP operating earnings. SGA Emerging Markets Growth Composite inception is 8/1/2014. ***Past performance is not indicative of future results.***

Sustainability Report

Q1 2022

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

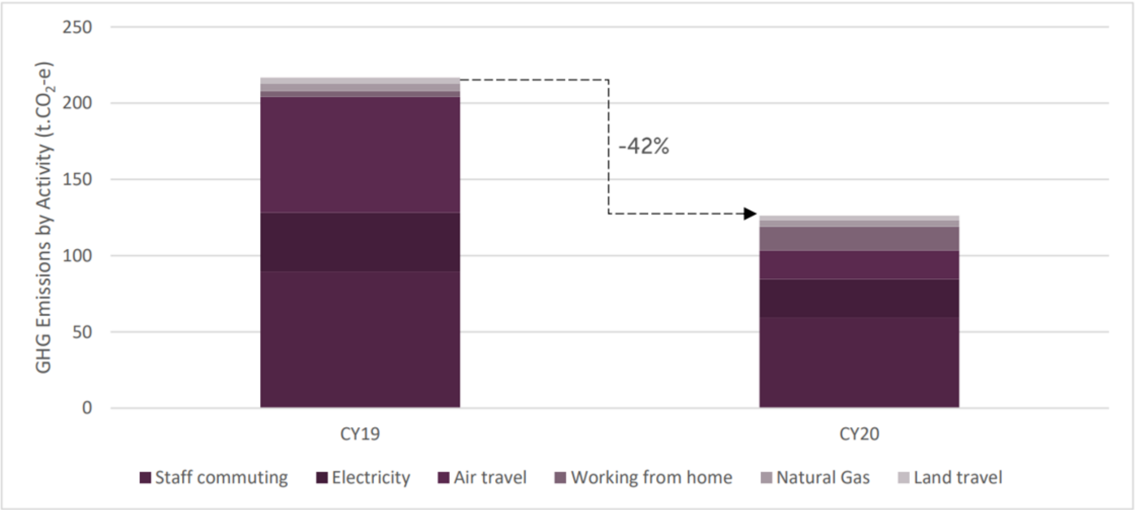
We recently conducted an exercise to map the carbon footprint of our firm's operations across calendar years 2019 and 2020 by a specialist carbon advisory firm. Total GHG emissions for the firm were estimated at 216.7 tonnes of carbon dioxide equivalent in 2019 and 126.2 in 2020. During 2020, our GHG 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	

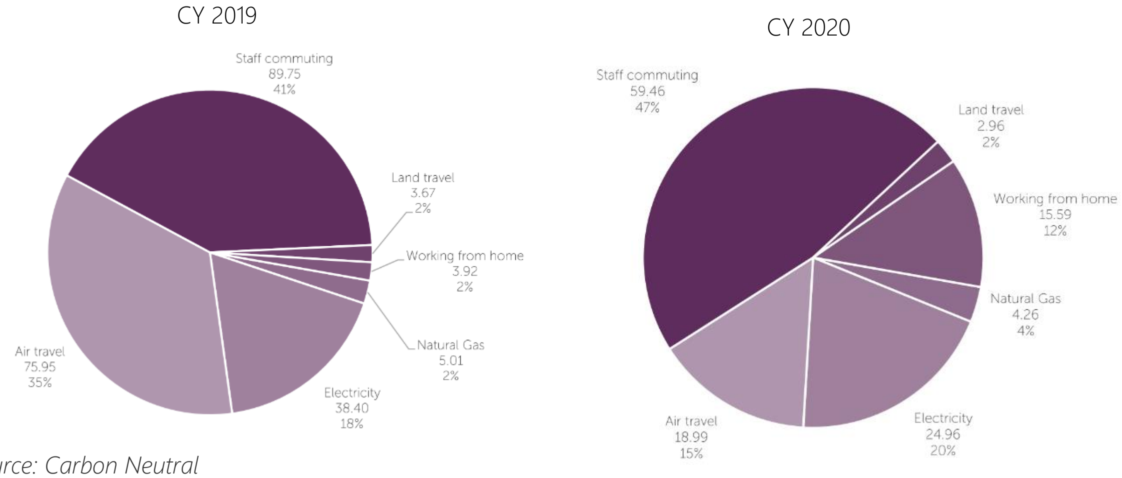
Source: Carbon Neutral

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.