U.S. Focused Commentary

Q3 2021

SGA Sustainable Growth Advisers

Performance

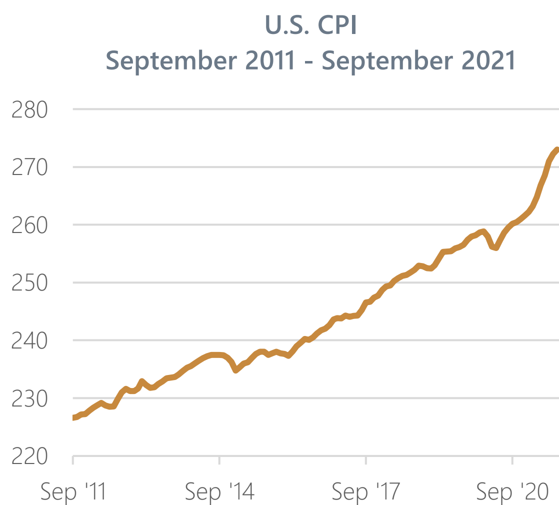
SGA's U.S. Focused portfolio returned 1.5% (gross) and 1.2% (net) in Q3 versus 1.2% for the Russell 1000 Growth Index and 0.6% for the S&P 500 Index.

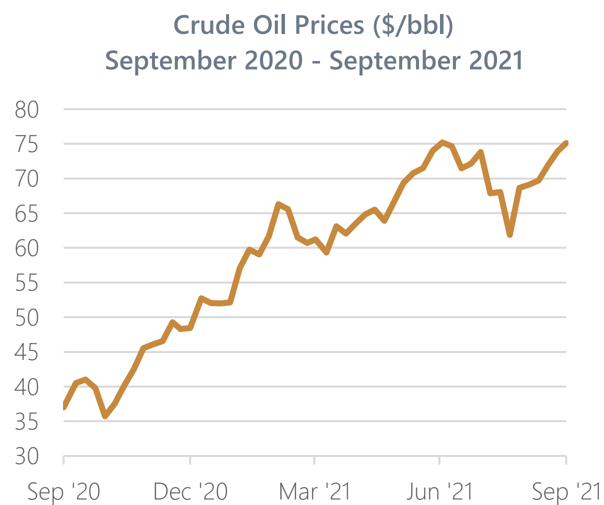
Highlights

- Portfolio modestly underperformed as the market climbed a wall of worry over rising COVID-19 infections, slowing growth and stubborn inflationary pressures.
- Sector allocations contributed positively to performance while stock selection detracted.
- A new position in Walt Disney was purchased and the portfolio's position in Equinix was sold.

Modest Gains in Light of Key Uncertainties Over COVID-19 and Inflation

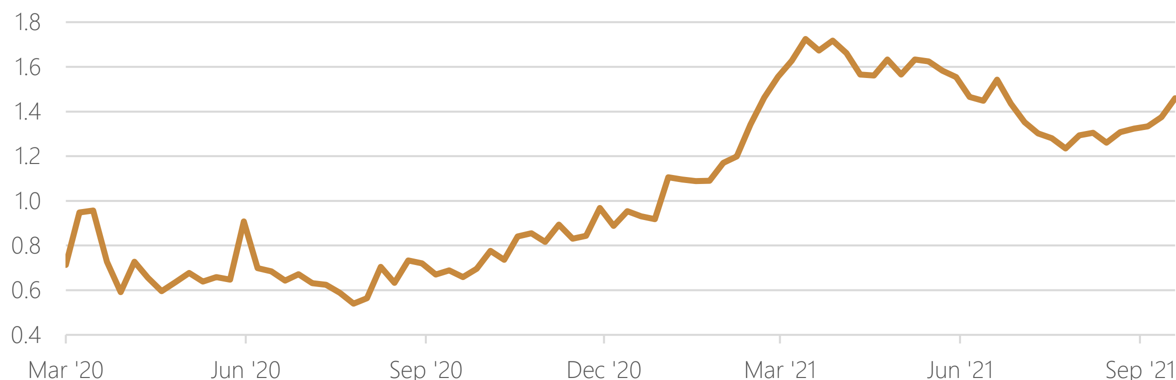
After reaching new highs early in the quarter, markets finished September with large cap growth stocks posting their weakest monthly returns since the pandemic induced sell-off in March of 2020. A leveling off of new COVID-19 cases and signs that the Delta variant induced surge may have peaked led investors to buy more economically sensitive stocks later in the quarter. This was against a backdrop where economic projections fell short of expectations and forecasts for economic growth and corporate profits for Q4 and 2022 moderated. Concerns over higher prices for consumer products, rising gasoline prices and continuing uncertainty over the course of the COVID-19 Delta variant soured consumer confidence and led to an increase in caution.





Source: FactSet

With inflationary pressures building due to persisting COVID-19 related production and transportation bottlenecks as well as pervasive labor shortages, market expectations began to reflect concern that inflation pressures may be more than "transitory". In such a situation companies that lack pricing power, and high elasticity of demand for their products, would likely have a much more difficult time given their inability to pass higher costs on. Persistent inflation would also pose a valuation threat to longer duration assets as multiples decline with higher discount rates.



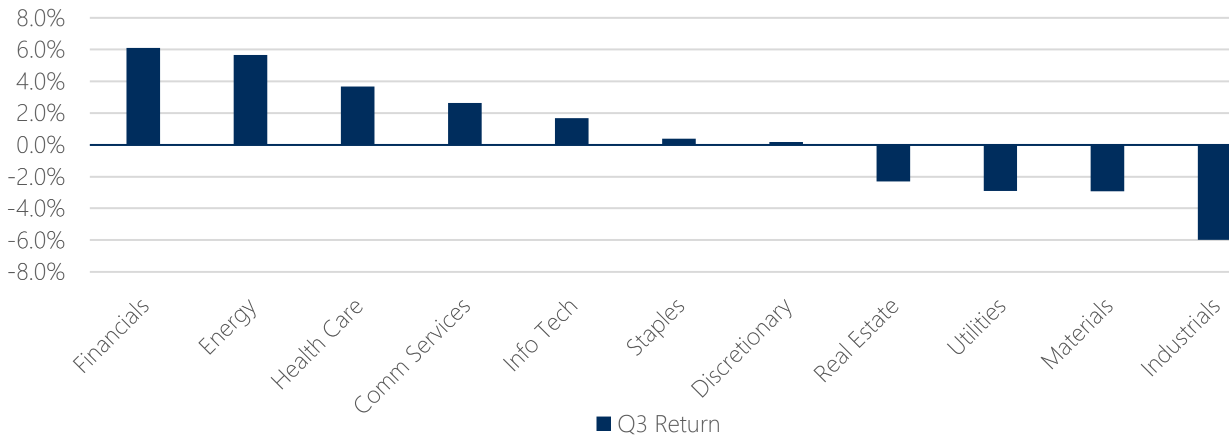
Source: FactSet

We began to grow concerned about the potential for rising inflation and bond yields in the summer of 2020 when the 10-year Treasury yield hit 0.5% marking an unsustainable level given the tremendous amount of monetary and fiscal stimulus being applied across the globe as a result of the pandemic. At that time, to apply more conservative valuation measures to the companies on our Qualified Company List (QCL), we increased the inflation premium we add to our discount rates used in our valuation. Recently, we conducted a comprehensive "All Hands on Deck" review of the expected impact a sustained period of higher inflation would have on our QCL companies. Each primary and secondary analyst evaluated their respective companies to determine whether the impact would be positive, neutral, or negative on the companies' ability to generate predictable and sustainable revenue and earnings growth. Our focus on businesses with strong pricing power, which has been a key element of our investment process since our inception, helps to reduce the risk our companies face from higher inflation as well as fluctuations in the business cycle. The ability of our companies to pass on higher input costs and wages increases the predictability and sustainability of their profit margins, revenues, and earnings.

Even with our focus on pricing power, it is critical to evaluate timely macro and micro factors that could temporarily impact a company's ability to pass on cost increases. During our exercise, we identified several companies on our QCL which may be vulnerable to higher inflation given production and transportation issues. Nike is an example of a company that meets our business quality criteria but faces temporary headwinds due to supply and transportation cost increases. In contrast, FleetCor has the ability to factor in rising costs as it puts together its closed-end service networks and sets pricing given the long-term nature and complexity of forming its service provider networks. Similarly, PayPal has the ability to pass through higher costs in its take-rate on transactions. Given the very small per-transaction cost and its strong standing among peer providers, the company is well positioned to benefit from an increase in inflation.

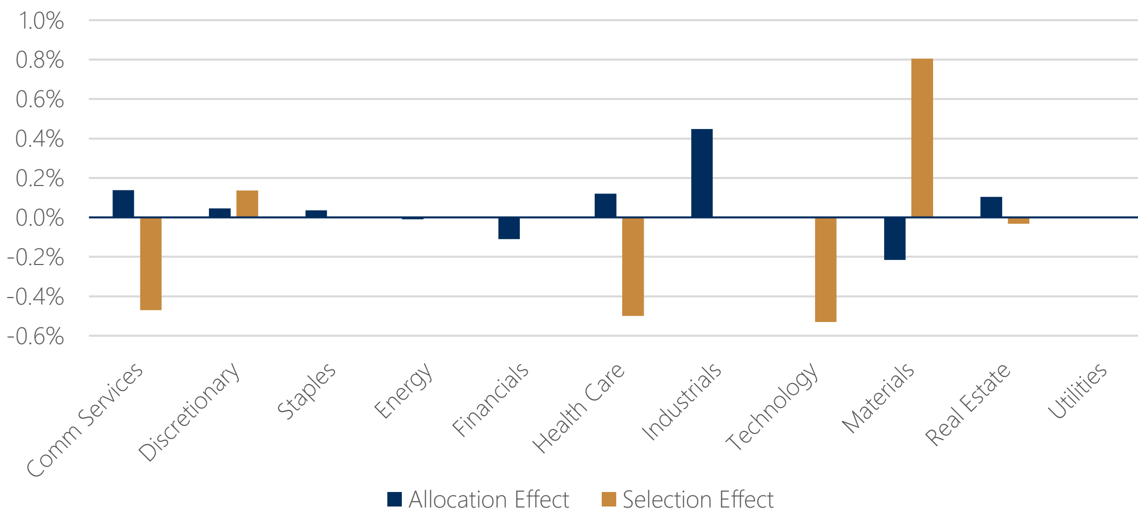
COVID-19 remains a significant risk to economic growth given the potential for further strains of the virus and large disparities across regions in terms of vaccination rates, and the inflation resulting from pandemic induced changes, (still) highly accommodative monetary and fiscal stimulus is likely to have a major effect on the investment environment over the coming year and beyond. We strongly believe that focusing on steady growth companies that possess attractive pricing power that enable them to pass on higher input costs and generate more predictable revenues and earnings regardless of the macro-economic background will be critical to success.

Market and Portfolio Attribution



Source: Russell

The market's return was influenced by an eclectic mix of strong returns in the Financials, Energy, and Health Care sectors. In contrast, returns were weakest in the Industrials, Materials, and Utilities sectors. Changes in market leadership over the course of the quarter led to large caps, growth, and higher quality performing best in the first half of the quarter and value, small caps, and lesser quality outperforming in September.



Source: FactSet, Russell

The portfolio's modest underperformance for the quarter was due to stock selection in the Information Technology, Health Care, and Communication Services sectors where positions in PayPal, UnitedHealth and Walt Disney detracted most from relative returns. This was partially offset by strong selection in the Materials and Consumer Discretionary sectors where positions in Ball Corp and Yum! Brands benefited relative returns most. Portfolio performance benefited from a lack of exposure to the underperforming Industrials sector and an overweight exposure in the Communication Services and Health Care sectors.

Largest Contributors

Enterprise software-as-a-service leader **Salesforce.com** was the largest contributor to performance as its shares benefited from a better-than-expected Q2 earnings report. The company reported strong revenues and short-term backlog with both growing 23%, and operating margins increasing to 20%. Salesforce continues to execute well and is enjoying strong adoption of both its core products and newer solutions, as well as cross-selling strength highlighted by Tableau and Mulesoft each being included in 8 of the top 10 deals the company booked for the quarter. We continue to have high conviction in Salesforce's longer-term growth opportunity but remain cognizant of the potential for further M&A activity which could weigh on near-term profitability and cash flow generation.

Aluminum container manufacturer **Ball Corporation** was the second largest contributor to portfolio performance this quarter after reporting 23% revenue and 32% earnings per share growth as global beverage volume grew 13% year over year. The company is seeing continued growth in beverage innovations and an acceleration in clients investing in cans. While growth from the hard seltzer category is moderating, it comprises of less than 5% of Ball's North American beverage volume, and it is being offset by strong volume growth in other segments. We expect start-up inefficiencies and growth investments which impacted margin in 2021 to reverse and become a margin tailwind in 2022. The company expanded its share buyback program, now expecting $2bn of buybacks in 2022, which we think reflects their confidence over the business outlook. We continue to see the company as being well positioned to deliver attractive volume growth with accompanying margin expansion.

Internet search leader **Alphabet** was the third largest contributor to performance after posting an exceptionally strong quarter with its search business exceeding the most bullish channel checks. The strength was broad based across retail, omni-channel, and travel, with Search results up 68%, and enhanced by investments it has made in artificial intelligence measures that improved user search results. YouTube also continued to perform well, with its revenues up 84%, with the strength attributed to more actionable and shoppable ads, as well as connected TV's growing U.S. reach, now up to 120 million. The company's cloud business continued to perform well with revenues up 54% with margins rising materially. We have been pleased to see free cash flow generation up 100% on a year-over-year basis thus far. We maintained the position during the quarter given a continued strong 3–5-year outlook for each of the company's businesses.

The fourth and fifth largest contributors to performance for the quarter were **Yum! Brands** and **Microsoft**.

Largest Detractors

Digital and mobile payments leader **PayPal** was the largest detractor from performance in Q3 after the company's revenue forecast for the third quarter fell short of some more aggressive analyst estimates. Q2 results were in line with our expectations with revenues up 19% and the total value of payments processed growing 40%. A larger than expected tapering off of eBay revenues which ended Q2 at less than 4% of PayPal's volume detracted from results. We expect pressures from the gradual separation of eBay and PayPal to moderate in Q4. The company reported 11.4 million new users with transactions per user increasing 11% year-over-year. We were pleased that Venmo total payment value increased 58% and revenues jumped 70% year-over-year. We continue to see attractive opportunity for PayPal as the company closes the eBay relationship and rolls out their new digital wallet product later this year while also continuing to expand internationally.

Entertainment leader **Walt Disney** was the second largest detractor from portfolio performance for the quarter despite a solid Q3 report. Disney reported it had 116 million Disney+ subscribers, exceeding the consensus estimate and generally in line with our expectations. The company's Theme Park recovery looks to be on-track with revenues reported to be at 60% of 2019 levels domestically and 46% internationally-with domestic profits turning positive validating our thesis of strong profit potential at the parks post COVID-19. The resurgence of COVID-19 Delta variant infections and the slower than expected ramp up in content production is putting downward pressure on the stock, however we expect the situation to improve as COVID-19 cases gradually recede, content production improves, and more consumers venture out to the theatres and parks.

E-commerce and cloud computing leader **Amazon** was the third largest detractor from portfolio performance for the quarter as the company reported a slowdown in ecommerce growth following particularly strong growth during the pandemic. Revenue growth ex-Amazon Web Services (AWS) grew 26% year-over-year versus 46% last quarter, and in line with levels seen prior to the pandemic. Higher fulfillment costs as more capacity has come on, but not been fully utilized yet, as well as

higher wages tempered profit growth. AWS results improved nicely with some benefits being seen from more business re-openings while operating margins moderated with new investments. Advertising revenues remained quite strong. While we expect some tapering off in the particularly strong growth in ecommerce that Amazon has seen over the course of the pandemic, we continue to see more than adequate growth in the AWS business to offer attractive opportunity over our 3-5 year investment horizon.

The fourth and fifth largest detractors from performance for the quarter were **Visa** and **Facebook**.

Portfolio Activity

A new position in Walt Disney was initiated during the quarter. This was funded by the sale of the portfolio's position in Equinix.

New Positions

Global media leader **Walt Disney** was purchased in the portfolio on the expectation that building strength in its Disney+ streaming service, a rebound in its global theme park and cruise businesses as well as an associated improvement in its retail product sales will drive profits higher over our 3-5 year investment horizon. We expect the company's original content production issues as well as theme park attendance to improve as COVID-related restrictions ease over our 3-5-year time horizon and expect attractive long-term margin and cash flow growth. As consumers increasingly embrace streaming services, which are still priced at a significant discount to traditional cable subscription rates, we see ample room ahead for Disney to lift pricing and gain share of the consumer's wallet. This business will increasingly be a key driver of Disney's growth given its ability to help the company monetize its premium content in more effective ways.

Disney continues to meet the key business quality criteria we focus on, offering attractive pricing power due to the unique value of their branded content. The company's ESPN, Pixar, Lucas Films, Marvel brands and Fox assets provide it with strong content relative to peer media businesses. The company enjoys a high level of recurring revenues despite the somewhat cyclical nature of their theme parks given their emphasis on longer-term contracts and distribution, and the unique and ongoing demand for their content. Finally, our research indicates that Disney's steps to build its direct-to-consumer distribution network offers significant longer-term growth opportunities albeit in conjunction with increased content expenses. Meanwhile, a successful direct-to-consumer relationship will lead to flywheel effects among the Park, Consumer Products, and Studio businesses, which we see as advantages that are unique to Disney.

While we see enhanced growth opportunities for Disney looking forward, we remain cognizant that the streaming industry has become highly competitive, and Disney's growth will be affected by how it continues to build its offering and differentiate itself from peers. We also understand that its theme park business, while expected to rebound strongly as the pandemic recedes, may face difficulty growing its margins significantly further. However, we do see opportunity for improved efficiencies in this business, some of which have become more apparent because of the pandemic. While the Fox acquisition turned out to be less attractive to Disney's business in the short-term, we do see that it has brought meaningful benefits to the company's content library and expect that it will be accretive. While cord cutting and sports rights pricing continued to be headwinds to ESPN, we see the impact lessening due to Disney's direct-to-consumer steps. In addition, the recent negotiated sports contracts such as NFL turned out to be more reasonable and attractive than expected.

Sold Positions

The portfolio's position in data center provider **Equinix** was liquidated in order to build a new position in Disney, which offered a more attractive return opportunity over our 3–5-year time horizon. Equinix continues to be positioned well and reported slightly better than expected revenue and profit growth while increasing their guidance for Q3. Its results in the Americas beat expectations while their results from the Asia Pacific region were in-line with expectations.

Summary

With markets having more than doubled since the pandemic lows in March of 2020, investors have discounted strong gains in corporate profits and largely dismissed as temporary recent issues including the spread of the Delta variant, rising inflation, and intensifying geopolitical challenges that threaten global growth. In Q3, markets rose marginally as investors evaluated these factors with U.S. markets holding up relatively well compared to Global markets. With inflationary pressures persisting beyond what many had expected, growth stocks faced pressure later in the quarter. We continue to see inflationary pressures as a real risk and have factored this into our evaluation of companies on our Qualified Company List. Because strong pricing power and predictable revenue generation are key characteristics we seek, we expect that our companies should be well suited to operate successfully in a world with building inflationary pressures. Likewise, we are confident that our ongoing focus on valuation and the critical role it plays in successful growth investing should help position our portfolio well should long-term discount rates rise. Finally, the tendency of our approach to benefit during times of rising volatility and protect capital in periods of market weakness should position us well if expectations for growth in 2022 and beyond prove optimistic. With a valuation similar to the market (based on our cash flow-based enterprise yield calculation), but superior business quality in terms of margins, debt, and earnings variability the portfolio should be well-positioned to perform both absolutely and relatively.

Please let us know if you would like to discuss the portfolio's positioning in more detail and thank you for your continued trust in our investment approach and team.

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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 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

Q3 2021

SGA
Sustainable Growth Advisers

The United Nations Sustainable Development Goals

"A blueprint to achieve a better and more sustainable future for all people and the world by 2030"

As Principals of Responsible Investing signatories, companies are required to report progress towards their actions supporting the 17 Sustainable Development Goals (SDGs) which broadly aim to free the world from poverty, hunger and disease. We believe the SDGs have the potential to be a useful framework to measure corporate progress on key sustainability issues. However, absent a globally recognized benchmark or framework for SDG reporting, we find little value in current corporate SDG reporting. The key issues to improve concern materiality, measurement, accountability, and verification.

Without adequately defined goal posts, the SDGs are ripe targets for greenwashing. We have observed numerous companies report they are contributing to all 17 SDGs, without any mention of the 169 individual targets published by the UN (each SDG typically has 8-12 targets). Companies overwhelmingly report on their positive impacts on these goals, with little discussion of their negative impacts.

For the SDGs to provide a valuable reporting framework to investors, companies should prioritize a smaller number of goals that are linked to the company's core business growth, and potential impediments to that growth. Companies should publish the methodology used to prioritize and measure goals, and also disclose specific targets and indicators to enable investors to track their progress. Just as with GHG emissions targets, goals related to SDG should be clearly defined over a short to intermediate term rather than aspirational overall a time frame long enough to outlast current management. Finally, transparency to allow independent verification of the SDGs will be a prerequisite to increasing the quality of reporting and allow for comparisons across companies and industries.

We will continue to monitor for progress as SDG reporting matures and evolves, with the hopes that corporate SDG reporting will become a valuable tool for investors to measure individual and collective corporate progress on key sustainability issues.

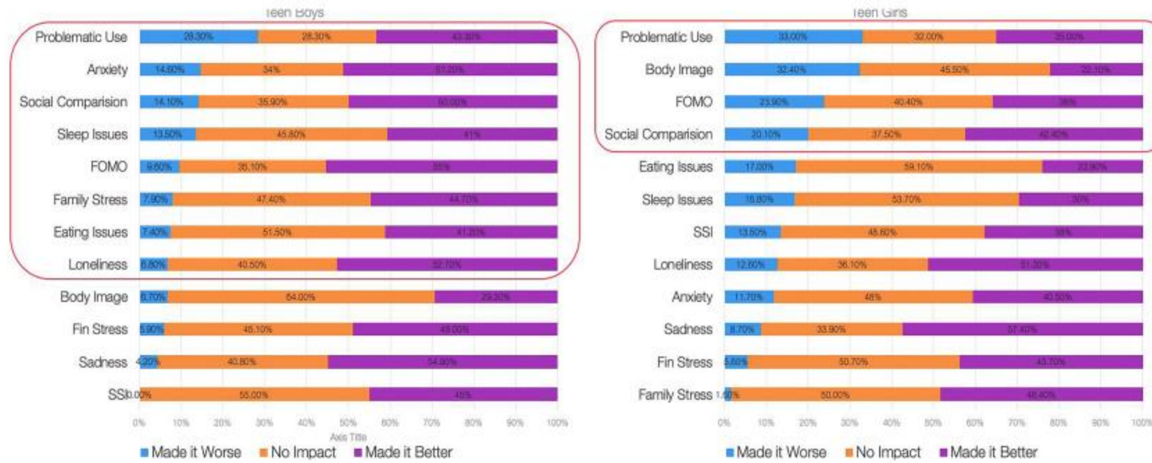
Recent Facebook Reports

The Wall Street Journal ('WSJ') recently published a series of articles on Facebook, dubbed "the Facebook Files". Based on a review of internal Facebook documents, the WSJ reported that Facebook is knowingly aware of the platform's negative effects on its users and has repeatedly failed to rectify such flaws. Focus was drawn to the "toxic" effects of Instagram on teenage girls, while ignoring the studies' broader findings that teens report having both positive and negative experiences with social media. In response to the allegations, Facebook released the full research decks in question and countered that the WSJ had intentionally misrepresented its research. As Facebook comments:

"It is simply not accurate that this research demonstrates Instagram is "toxic" for teen girls. The research demonstrated that many teens we heard from feel that using Instagram helps them when they are struggling with the kinds of hard moments and issues teenagers have always faced. In fact, in 11 of 12 areas on the slide referenced by the Journal (see below) — including serious areas like loneliness, anxiety, sadness and eating issues — more teenage girls who said they struggled with that issue also said that Instagram made those difficult times better rather than worse. Body image was the only area where teen girls who reported struggling with the issue said Instagram made it worse as compared to the other 11 areas. But here also, the majority of teenage girls who experienced body image issues still reported Instagram either made it better or had no impact."

BUT, WE MAKE BODY IMAGE ISSUES WORSE FOR 1 IN 3 TEEN GIRLS

Teens also generally thought that IG made things better or had no impact. However they were also more split around problematic social media use and the role we played in it. More teen girls thought that IG made body image issues worse rather than better



Q: What impact did using Instagram have on this experience?
'Buckets highlight groups of issues that were not stat sig different from each other.
*All differences called out are statistically significant at 95% CL following a Bonferroni correction for multiple comparisons.

Source: Facebook

Regulation, platform misuse and user well-being are material risks identified in our Facebook investment thesis. We are skeptical of any internal company research, and we will be engaging with management on this topic during our next meeting scheduled in the fourth quarter. In the interim, we expect political debates over the increased scrutiny of Big Tech to continue - as the Democrats and Republicans attempt to balance the competing needs of content moderation and free speech – with regulatory overhang on share multiples to persist. Ultimately, we believe social media platforms form an essential service in this digital society. While there are clear risks associated with its use, we believe the benefits to society far outweigh the risks.

Engagement with Workday

Workday is a leading provider in the Human Resource (HR) software-as-a-service market. We engaged with management over the quarter for an update on the key ESG risks and opportunities that impact their business.

While technology companies are often at face value assumed to have a low impact on the environment, Workday, as with many software companies, manages an energy intensive business model delivering cloud applications and powering data centers, supported by operations across a network of offices. Fortunately, software companies have generally acknowledged this energy intensity and have taken a leadership position in the race to lower carbon emissions. In 2016, Workday made a commitment to achieve net-zero carbon emissions and 100% renewable electricity use across its operations by 2021 and achieved this goal a year early. The company is now in the process of establishing interim Science Based Targets across its entire value chain, a campaign we actively support, and expects these to be published within the next 12 months.

We questioned Workday's current Diversity & Inclusion ("D&I") metrics, noting women and minorities are still underrepresented in management ranks. The company is slowly making progress in the right direction, and we acknowledge the current global shortage of female and minority talent in the technology sector. This is an area we will continue to monitor for change. As it relates to D&I, the company has a promising business opportunity within its VIBE product range which measures employee diversity and belonging inside enterprises and eventually will allow for inter-company comparisons as well. As more enterprises look to measure, monitor and manage their D&I metrics, Workday's VIBE product is well positioned within the group's broader HR suite to serve the needs of this growing market.

Turning to governance, we questioned the reasoning behind the recent appointment of the co-CEO to Chairman of the Board, and the decision to not hold annual elections for Board members - noting MSCI's low governance scoring of Workday's Board. Separately, management expressed their disappointment that MSCI chose to classify three directors as non-independent merely because their employers are customers of Workday. Based on our primary analysis of the facts, we believe the three directors in question should be considered independent. As many investors rely primarily on the conclusions of third-party service providers for their ESG analysis, we encouraged management to proactively engage with MSCI to resolve this matter. Management commented the decision to appoint the co-CEO to Chair is in line with the company's broader anti-takeover defenses which management put in place to protect the interests of its customers given past experiences leading other companies. We see merit in this line of argument however we still find it to be a potential conflict with minority shareholders. The company has made efforts to enhance corporate governance in the form of moving to a majority vote for election of directors and intentions to sunset its evergreen share issuance option plan. We emphasized to management that newer, early-stage technology companies are increasingly employing a sunset provision for dual class shares and expressed our preference that Workday do the same.

Finally, Workday has not yet incorporated ESG measures into their senior management remuneration policies although the Board is debating it at present. We expressed our support for this cause, noting the increasing importance of establishing clear incentives and accountability for ESG policies and goals within the organization.

Proxy Voting Summary Q3 2021

	Number of Resolutions	For	%	Against	%	Abstain	%
U.S. Large Cap Growth	35	33	94%	2	6%	0	0%
Global Growth	20	20	100%	0	0%	0	0%
International Growth	59	59	100%	0	0%	0	0%
Emerging Markets Growth	12	10	83%	2	17%	0	0%
Global Mid-Cap Growth	20	20	100%	0	0%	0	0%

Source: SGA, Broadridge

Carbon Risks

	Carbon Emissions	Total Carbon Emissions	Carbon Intensity	Weighted Average Carbon Intensity
SGA Global Growth	15.9	15,876	90.7	70.5
MSCI ACWI	257.5	257,481	350.9	310
SGA Relative Exposure	-94%	-94%	-74%	-77%
SGA U.S. Large Cap Growth	12.8	12,837	92.2	76.2
Russell 1000 Growth	37.5	37,471	111.5	78.1
SGA Relative Exposure	-66%	-66%	-17%	-2%
SGA Emerging Markets Growth	17.1	17,121	49.7	50.5
MSCI EM	361.5	361,498	453	425.9
SGA Relative Exposure	-95%	-95%	-89%	-88%
SGA International Growth	21.6	21,611	84.1	78.1
MSCI ACWI ex-USA	297.2	297,180	365.2	333.9
SGA Relative Exposure	-93%	-93%	-77%	-77%
SGA Global Mid Cap	11.9	11,874	61.5	51.2
MSCI ACWI Mid Cap	264.5	264,526	337.0	295.5
SGA Relative Exposure	-96%	-96%	-82%	-83%
	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.

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