Global Growth Commentary

Q4 2022

SGA Sustainable Growth Advisers

Performance

SGA's Global Growth portfolio returned 8.7% (gross) and 8.5% (net) versus 9.8% for the ACWI and 5.3% for the ACWI Growth Index during Q4, 2022. For the year 2022, the portfolio returned -25.4% (gross) and -26.1% (net) versus -18.4% for the ACWI and -28.6% for the ACWI Growth Index as Energy and Utilities performed best.

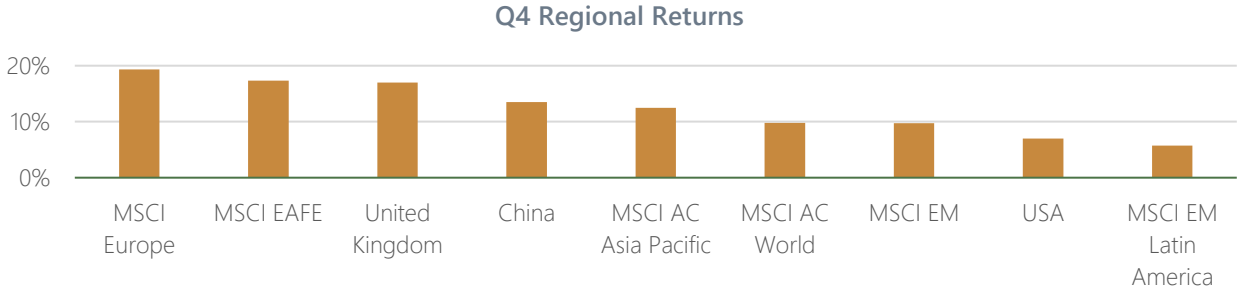
Source: FactSet, MSCI. The returns shown above are for the R6 share class (SGARX) of the Virtus SGA Global Growth Fund, for which SGA serves as the sole subadvisor. Returns are net of fees.

Highlights

- Portfolio returned 8.7% (gross) and 8.5% (net) versus 9.8% for the MSCI All Country World Index (ACWI) and 5.3% for the ACWI Growth Index; underperformance relative to the ACWI was due to portfolio sector exposures
- For the year, the portfolio trailed the ACWI but outperformed the ACWI Growth Index as valuations for long duration growth stocks were negatively impacted by sharply rising interest rates
- Portfolio's focus on companies with higher business quality continued to face headwinds during the quarter outside of the U.S. as companies with lower returns on equity and no earnings outperformed
- Underweight exposure to the U.S. contributed positively to relative performance; a bounce in Emerging Markets was also beneficial
- A new position was initiated in global insurer Aon, while other positions were trimmed and added to as we took advantage of market movements
- We are pleased to announce that Kishore Rao will replace Gordon Marchand on SGA's Executive Committee (the group charged with running SGA's business) effective July 1st, as Gordon retires from SGA

Market Environment Gradually Turning More Favorable

2022 was among the worst years for stocks and bonds across the world as the markets were negatively impacted by surging inflation, sharply higher interest rates, a major war in Europe and a reduced but still present risk from spreading new Covid variants with rampant infections in China. Financial turmoil in the United Kingdom and its ripple effects across global markets led to significant increases in volatility with markets hitting new lows in early October before eventually rebounding as earnings in Q3 generally met investor expectations. Signs that inflation may have peaked led to temporary rallies in stocks and bonds late in the year as investors reacted to a possible light at the end of the inflationary tunnel. This, together with lower oil prices, a weaker U.S. Dollar and lower interest rates than at the beginning of the quarter enabled Emerging and Non-U.S. Developed markets to outperform in Q4 while U.S. equity markets, which led much of the year, took a breather.



Source: FactSet, MSCI. Please see table included in this commentary for full performance presentation.

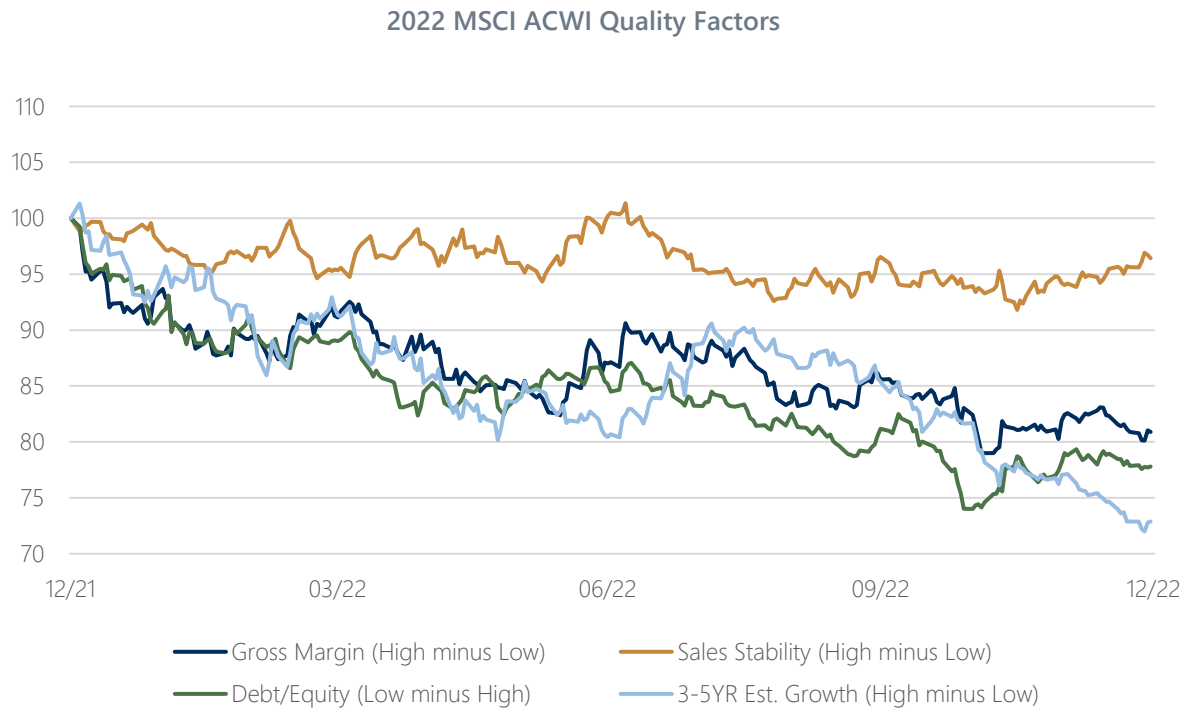
Global Growth Commentary

In Q4, U.S. markets reacted positively to initial signs of inflationary pressures moderating as oil prices declined, inventories increased and consumer demand for some big-ticket items began to weaken. While longer-term interest rates declined in Q4 as the Fed spoke of slowing the pace of rate increases, longer duration growth equities continued to trail as shown below. The U.S. market underperformed most other markets after being among the better performing markets in Q3. We believe much of the increase in interest rates is already factored into growth stock prices, although slowing profit growth is not. We expect this to change over the course of 2023 and both should become tailwinds for our approach as inflation pressures recede and corporate profit growth slows.

In the European Union, seasonally adjusted GDP growth increased by 0.4% in Q3, slowing from 0.7% in Q2 amid ongoing pressures related to the war in Ukraine, higher interest rates, tight energy supplies and weakness in exports to China. The UK saw its markets rebound in Q4 as a new government took over and immediately took steps to rescind tax and spending policies which had wreaked havoc on its markets in Q3. With Russia's setbacks in its war with Ukraine and better-than-expected energy supplies for the winter across Europe, market optimism led the MSCI Emerging Europe and MSCI Europe Indexes to produce strong returns for the quarter, led by Turkey, Poland, and Hungary.

After being amongst the worst performing markets in Q3, Chinese stocks performed better in Q4 amid signs that the government was finally stepping back from its draconian zero-Covid policy which had severely hurt economic growth in the country over the course of 2022. Other Asian and Pacific markets likewise benefited from the potential benefits that a reopening of the Chinese market could offer to regional growth. With great uncertainty over Chinese regulatory policies as well as questions over how the country emerges from the current Covid crisis, we continue to believe that investing in China entails greater risk and we remain highly selective.

Over the course of the second half of 2021 and 2022, our focus on high business quality, long duration growth companies faced a stiff headwind. Critical quality characteristics that we seek in our businesses such as pricing power which affords control over margins, recurring revenue streams, free cash flow generation, and long runways of growth were penalized as the market remained focused on the Energy sector which continued to benefit from higher oil prices. While our approach tends to struggle in periods which favor more cyclically sensitive companies given our focus on longer duration growth companies with greater predictability, we have found that such weakness is typically limited in duration. With interest rates now significantly higher, valuations of cyclicals less attractive, and economic growth showing initial signs of weakening, the greater predictability and sustainability of the portfolio's revenue and earnings growth should be rewarded.



Source: FactSet, MSCI

Key Contributors

Intuitive was the largest contributor to performance in Q4. The stock had been under pressure earlier in the year due to concerns over weakness in hospital purchases of capital equipment and the continued impact of Covid on medical procedures. However, the company posted solid Q3 results with revenues up 11% and the number of procedures conducted worldwide during the quarter growing 20%. Management also raised their guidance for procedure growth to 17-18% for the year, up from 14-16.5%. In addition, capital sales were better than expected during the period. Outside of core surgical robots and instruments, the company seems to be gaining momentum in building an installed base in its diagnostic platform, which we view as additive to long-term growth. While earnings per share growth for the quarter was flat, the company signaled increased leverage on operating expenses next year, as it is nearing the end of its investment cycle. We continue to have high conviction in the long-term opportunity offered by robotic surgery and the company's ability to execute and raised the target to an average weight position.

Thai retailer **CP All** was the second largest contributor to portfolio performance in Q4 after posting a solid Q3 report with revenues jumping 64% year-over-year as sales continued to benefit from the country reopening and stimulus packages which boosted economic activity and consumption in Thailand. Margins continued to improve as the company opened 227 new convenience stores, and its expansion into Cambodia is proceeding more quickly than expected. Makro sales continued to be steady, tempered by some higher costs related to its expansion. While the Lotus/Tesco acquisition had been delayed, it should now be on track and poised to make an attractive contribution to company growth. We maintained an average weight position in the stock and trimmed the position on strength. Overall, the company continues to benefit from reopening, and since China is now eliminating quarantine requirements for international travelers earlier than we expected, there is further upside to our expectations.

Danish pharmaceutical company **Novo Nordisk** was the third largest contributor to portfolio performance after reporting good Q3 results with sales growing 15%, earnings per share up by 20%, and the company raising its topline guidance for 2022 from 10-14% constant currency growth to 14-17%. The company's GLP-1 semiglutide diabetes medication, which accounts for 49% of sales, grew 44%+. Meanwhile, traditional insulins which comprise 28% of sales saw slower growth as expected. The company's recently launched obesity drug Wegovy experienced 62% of sales growth even though it was only launched in the U.S. and remains supply constrained. We expect long-term sustainable growth for Novo's obesity and diabetes franchises; however, we trimmed the position on strength and maintained a below-average weight position due to valuation.

The fourth and fifth largest contributors to performance in Q4 were **HDFC Bank** and **Visa**.

Key Detractors

Amazon was the largest detractor from performance in Q4 after the company's guidance fell short of the average analyst's expectations. The company also issued weaker than expected Q4 revenue guidance for its retail business, particularly its international business, in addition to increased negative currency translation headwinds. Also, AWS margins were about 2% lighter than expected although new bookings remained quite solid. Increased energy costs which had not yet been passed on to customers negatively impacted results. While disappointing to the market, broadly speaking the source of the weakness is the company's long-term focus on their clients and providing them with the most value possible, which should lead to better long-term growth for its business. We lowered our estimates for revenue and earnings growth given the company's willingness to absorb cost increases in the short-term. We concur that Amazon's customer focus should serve it well over the long-term; however, we do expect that it will gradually begin to pass on more of its increased costs to customers in 2023. We maintained an above-average weight position during the quarter, adding on weakness.

XP was the portfolio's second largest detractor in Q4 due to the continued difficult macro environment impacting its growth recovery and investor concerns over the likely impact of newly elected President Lula's fiscal policies on the Brazilian economy and markets. While the company's inflows were within the range of management's guidance, investors are used to seeing significant outperformance. Also weighing on the stock were ongoing sales from pre-IPO investor, Itau, which is liquidating its position in the company. While the company has increased its share buyback and also initiated direct purchases of the stock from Itau, it has not been sufficient to offset the increased liquidity. We expect this headwind to wind down over the next 2-3 quarters if the sales proceed at their current pace. With regard to XP's business, we continue to see great opportunity

for XP to expand its share of the developing Brazilian financial market and the demand for more complex financial products from a growing middle class over our 3–5-year investment horizon. Accordingly, we continued to add to the position on weakness during the quarter, maintaining a below average weight position.

Alphabet was the third largest detractor from returns for the quarter after it reported softer than expected Q3 results on the top- and bottom-lines. Revenue growth decelerated to 6%, or 11% on a constant currency basis compared to a 16% growth rate on a constant currency basis in Q2. The weakness was the result of slower than expected growth in the Search business, particularly in its financial services segment, and YouTube business due to macroeconomic pressures and to a lesser degree the Google Play Store as customers downloaded fewer mobile games. In contrast, the company's Cloud business posted solid 38% growth. With weakness in its high margin Search business coupled with stronger than expected currency headwinds, overall margins disappointed dropping from 32% last year to 25% this year. An acceleration in headcount from Q2 to Q3 and continued large investments in Artificial Intelligence also impacted margins for the quarter. We expect headcount growth to slow appreciably by Q1 and remain satisfied with their capital allocation policies including the decision to continue buying back about $15 billion in stock per quarter on the stock's weakness in 2022. We maintained an average weight position during the quarter, adding on weakness.

The fourth and fifth largest detractors for the quarter were **Salesforce** and **Medtronic**.

Portfolio Activity

During the quarter, we continued to take advantage of market movements to "harden" the portfolio, upgrading revenue and earnings growth where possible. We initiated a new position in insurer Aon, and trimmed positions in SAP, CP All, HDFC Bank, and Novo Nordisk among others on strength while purchasing additional shares in Alphabet, Microsoft, Amazon, XP, and S&P Global on weakness. For the year, turnover in the portfolio was 33%, which was generally in line with the longer-term average. We exited positions in Meta, PayPal, and Disney which underperformed the benchmark following our sales although positions in Regeneron and Illumina continued to appreciate following their sales. New positions in MSCI, S&P Global, and Aon outperformed nicely following their purchases but newly initiated positions in Adobe, Intuit, and Steris trailed the index following their respective purchases.

Purchases

A new position in leading professional services firm **Aon** was purchased in Q4. Aon is a global commercial insurance broker that has invested heavily in its data and analytics capabilities over the years to become a professional services firm that offers insights, which help clients better manage risk, employee retirement, and health benefits. Aon monetizes its insights, mainly through highly recurring (85% of revenues) commissions and fees, which provide more predictable cash flows. Because its three key focus areas (risk, retirement, health) are very important for companies, Aon's advice is valuable, especially given increasing risk in the world (climate change, cyber security, etc.), changing regulatory requirements, rising complexity, and continually changing market conditions. Historically, the industry has been largely relationship driven, but leaders in the industry such as Aon are increasingly leveraging their market leadership and scale to win clients based on their data and analytics. We believe this has allowed Aon to strengthen its strategic position in the industry, particularly in insurance. Approximately 71% of its business is related to P&C risk, with 18% in healthcare benefits and 11% in retirement. Aon serves corporate clients across 120 countries.

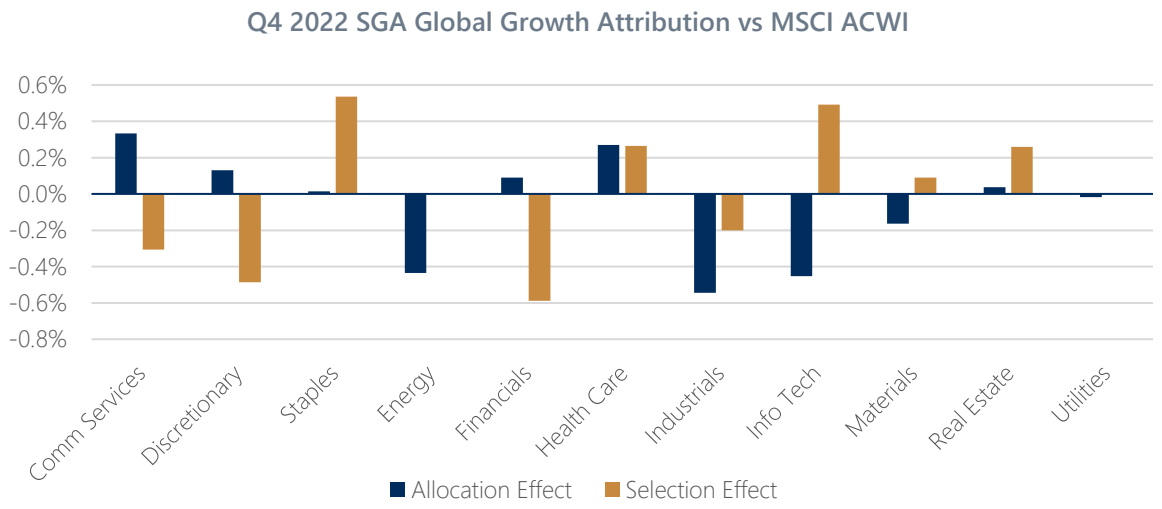
P&C and healthcare premiums are re-priced every year providing an annual recurring revenue base. Actuarial work and asset management fees in the retirement segment also provide a recurring revenue base. With steady take rates in core broking activities, the company has been taking on higher margin businesses which are enabled by analytics and has been successful delivering consistent revenue growth and margin expansion over the years. Going forward, we expect this to continue, aided further by inflation (which increases asset values) and higher interest rates (which benefits the company as they are holding client funds). The company also has a major initiative to become a more cohesive organization called "Aon United" (since it has grown largely via M&A over the years) which should help margins. Aon has also been active in creating new markets where it matches capital with risk, such as in cyber and intellectual property insurance. While subject to short-term fluctuations in global GDP particularly on the non-recurring portion of revenues, we expect overall steady growth based on rising premiums in risk, health, and increases in retirement assets over our 3–5-year investment horizon.

Global Growth Commentary

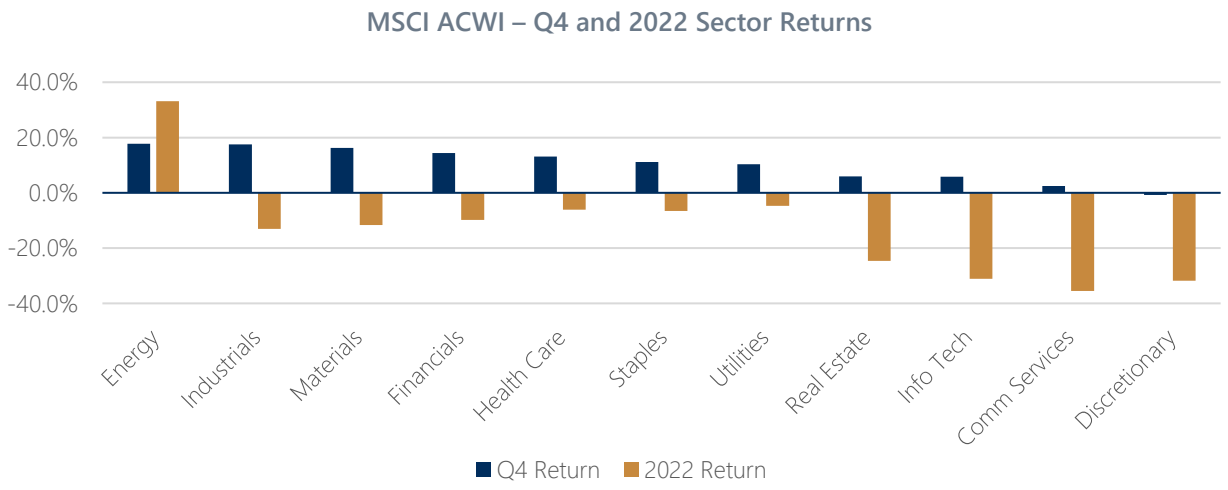
Among the key risks we will be monitoring are changes in regulatory policies, execution following the breakup of the merger with Willis Towers Watson, and ethical breaches which could be detrimental to client trust. Succession is also an issue to watch as CEO Greg Case and CFO Christa Davies have been very effective leaders.

Portfolio Attribution

The portfolio's underperformance relative to the ACWI in Q4 was driven largely by adverse sector exposures. The portfolio's underweight in Industrials, overweight in Information Technology, and lack of exposure to Energy had the largest impacts. Stock selection in the Consumer Staples, Information Technology, Health Care and Real Estate sectors contributed positively due primarily to positions in CP All, SAP, Visa, Adobe, Intuitive, Novo Nordisk, and Equinix. This strength was mostly offset by adverse selection in the Financials, Consumer Discretionary, and Communication Services sectors where positions in XP, Amazon, and Alphabet detracted most. The portfolio's underweight in U.S. stocks and overweight in Emerging Markets benefited relative performance.



Source: FactSet, MSCI



Source: FactSet, MSCI

Outlook

Over the last 18 months, while our investment approach has not been rewarded, we have taken steps to "harden" the portfolio, upgrading the level of predictability of growth in the portfolio, taking advantage of significantly lower stock prices to add above-average growers like MSCI, Intuit, Adobe, S&P Global, and Steris. We have spoken about the slowing in economic and profit growth we expect to see as higher interest rates increasingly impact businesses, employment, and consumer demand. A tight labor market, significant consumer savings accumulated during the pandemic, and higher inflation have boosted nominal sales and growth rates obscuring a slowdown in real results. In Q4, we began to see recognition of this risk in market preferences as some higher business quality characteristics such as high margins and sales stability were rewarded. While much of the impact from rising interest rates is likely already reflected in growth stock prices, we have seen moderate change in consensus forward earnings growth estimates despite meaningfully higher interest rates and a weakening global economy. It is clear to us that the cyclical rebound which drove growth rates higher for more economically sensitive companies is losing steam and a reduction in consensus earnings growth estimates for the Indexes is likely to follow. Such slowing in growth expectations has historically been very favorable for our investment approach, as the more predictable and sustainable growth of the portfolio stands out. We are excited by today's attractive valuation of solid growth businesses and expect the portfolio to generate double-digit revenue growth and mid-teens earnings growth, exceeding that of the market by a wide margin. We are confident that the shift in preferences now beginning to take place should be beneficial for your portfolio looking forward.

We thank you for your continued confidence in our team and look forward to speaking with you about any questions you may have about the portfolio or its positioning.

Organizational Update

As we communicated to you last year, co-founding partner Gordon Marchand will be retiring from Sustainable Growth Advisers on June 30, 2023. Gordon has been a member of the firm's Executive Committee since our inception in 2003. Following Gordon's retirement, we are pleased to announce that Kishore Rao will replace Gordon on the Executive Committee, joining co-founders George Fraise and Rob Rohn.

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. For interest and capital gains, SGA does not withhold taxes. For dividends, SGA will withhold taxes as reported by the client's custodian. Returns are calculated net of withholding taxes on dividends. The Net Returns are calculated based on the deduction of a model fee of 0.85% being the highest applicable fee that may be charged to SGA clients for the Global Growth strategy. Net Returns do not account for custodian and brokerage fees that clients pay to third parties. 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 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 Global Growth portfolio for the past year. SGA's earnings growth forecast data is based upon portfolio companies' non-GAAP operating earnings.

Performance Results

	Q4 2022	YTD 2022	1-Year	3-Year	5-Year	7-Year	10-Year	Since Incep.
SGA Global Growth (Gross)	8.7%	-25.4%	-25.4%	2.6%	7.4%	10.4%	10.6%	10.8%
SGA Global Growth (Net)	8.5%	-26.1%	-26.1%	1.7%	6.5%	9.5%	9.7%	9.8%
MSCI ACWI Index (Net TR)	9.8%	-18.4%	-18.4%	4.0%	5.2%	8.1%	8.0%	7.2%
MSCI ACWI Growth Index (Net TR)	5.3%	-28.6%	-28.6%	3.8%	6.4%	9.0%	9.2%	8.3%

Global Growth Commentary

Period	Total Return						3 Year Standard Deviation				
	Before Fees	After Fees	MSCI ACWI Net TR Index	MSCI ACWI Growth Net TR Index	Number of Portfolios	Composite Dispersion	SGA Composite	MSCI ACWI Net TR Index	MSCI ACWI Growth Net TR Index	Total Assets in Composite at Period End (USD millions)	Total Firm Assets at Period End (USD millions)
Feb. 1 - Dec. 31, 2011	4.91%	4.10%	-8.78%	-7.85%	Five or Fewer	N/A				1	2,686
2012	17.61%	16.63%	16.13%	16.69%	8	N/A				1,204	4,278
2013	21.77%	20.75%	22.80%	23.17%	10	0.3%				1,482	5,611
2014	2.40%	1.53%	4.16%	5.43%	12	0.3%	11.26%	10.50%	10.53%	1,368	5,332
2015	9.82%	8.89%	-2.36%	1.55%	13	0.2%	11.99%	10.79%	10.73%	949	5,318
2016	4.47%	3.59%	7.86%	3.27%	14	1.0%	12.92%	11.06%	11.28%	1,234	5,672
2017	34.27%	33.16%	23.97%	30.00%	15	0.5%	12.36%	10.36%	10.72%	2,309	9,971
2018	-0.87%	-1.72%	-9.41%	-8.13%	21	0.3%	12.00%	10.48%	11.47%	2,935	9,096
2019	33.42%	32.32%	26.60%	32.72%	24	0.4%	11.58%	11.22%	12.09%	3,727	12,347
2020	31.88%	30.79%	16.25%	33.60%	24	0.8%	16.67%	18.13%	18.16%	6,238	18,780
2021	9.86%	8.93%	18.54%	17.10%	30	0.5%	16.16%	16.84%	16.55%	8,078	22,899
Since Inception (Feb. 1, 2011)	14.87%	13.91%	9.88%	12.54%			13.96%*	13.71%*	13.99%*		

N/A- Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
The 3 Year Annualized Standard Deviation for years 2011, 2012, and 2013 is not shown as 36 months or returns not available
* Since Inception Annualized Standard Deviation. SGA Composite Dispersion based on Gross Returns.

Sustainable Growth Advisers, LP ("SGA") was formed in 2003 and is a registered investment advisor under the Investment Advisers Act of 1940. SGA manages portfolios of publicly traded equity assets according to its "Large Cap Growth Equity" investment approach for pooled funds, institutions, trusts and private accounts. SGA is an operationally independent investment management firm that and is an affiliate of Virtus Investment Partners. The SGA Global Growth Composite was created in February 2011. The firm maintains a complete list and description of all composites, which is available upon request.

Sustainable Growth Advisers, LP claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sustainable Growth Advisers, LP has been independently verified for the periods July 1, 2003 – December 31, 2021.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The SGA Global Growth composite has had a performance examination for the periods February 1, 2011 - December 31, 2021. The verification and performance examination reports are available upon request.

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SGA Global Growth Composite contains fee-paying large cap global growth equity portfolios under full discretionary management of the firm. For comparison purposes the composite is measured against the MSCI ACWI Growth TR Index (Net) and MSCI ACWI TR Index (Net).

Effective March 31, 2014 SGA has elected to retroactively change the primary performance benchmarks for the firm's Global Growth equity strategy from the MSCI All Country World Index (ACWI) Gross and MSCI All Country World Growth Index (ACWI Growth Gross) with the MSCI ACWI Growth Net Total Return and MSCI ACWI Net TR as a secondary benchmark. The reason for the change from the gross version of the benchmarks to the net version of the benchmarks is to present a more appropriate comparison benchmark and better align with industry standards in terms of performance calculations and reporting for global equity products. The MSCI ACWI and MSCI ACWI Growth net total return indices reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The net total return indices are most representative of what a passive investor in the index could expect to achieve taking into account the price level movements, dividends and taxes that are withheld on those dividends.

Effective June 30th, 2013 SGA had elected to change the primary performance benchmark for the firm's Global Growth equity strategy from the MSCI World Growth Index and MSCI World Total Return Index to the MSCI All Country World Index (ACWI) with the MSCI All Country World Growth Index (ACWI Growth) as a secondary benchmark. This change was made in recognition of the fact that SGA's investment team has the ability to invest in emerging market domiciled companies and a benchmark that includes both developed and emerging markets such as the MSCI ACWI most accurately reflects the opportunity set from which client portfolios in the composite are built. It should be noted that SGA is benchmark indifferent in terms of stock selection and portfolio construction and this change was made in order to reflect current industry standards for performance reporting and benchmarking of Global mandates that have the ability to invest in both developed and emerging markets.

Global Growth Commentary

The composite calculation has been appropriately weighted for the size of each portfolio on a time-weighted, total return basis. Monthly portfolio returns have been used in the construction of the composite. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.

The U.S. Dollar is the currency used to express performance. Results are presented gross and net of management fees and include the reinvestment of all income. For interest and capital gains, SGA does not withhold taxes. For dividends, SGA will withhold taxes as reported by the Client's custodian. Returns are calculated net of withholding taxes on dividends. The Net Returns are calculated based upon the highest published fees. The net performance has been calculated by reducing the gross performance by the amount of the highest published fee that may be charged to SGA clients, 0.85%, employing the Global Growth 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 annual dispersion presented is an asset-weighted standard deviation calculated using gross returns for the accounts in the composite the entire year. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Past performance is not indicative of future results.

The standard investment management fee schedule for the firm is 0.85% on the first $25 million and 0.65% on the next $75 million and 0.50% over $100 million. Actual investment advisory fees incurred by clients used in the composite may vary from the standard fee schedule.

Sustainability Report

Q4 2022

SGA Sustainable Growth Advisers

MercadoLibre

Over the quarter, we engaged with Latin American e-commerce and fintech giant MercadoLibre on the risks of modern slavery throughout its merchant network. Specifically, we encouraged management to address the gaps in the oversight of third-party vendors on its platform. With over 10 million vendors in its third-party network, the scale of the platform is a challenge to effective oversight and management is hoping to find a technological solution to the problem. We encouraged the company to begin manual assessments with the top 0.1%, or even .01%, of third-party vendors to minimize the risk of reputational damage related to any potential human rights violations and send a clear signal to the rest of the network. Management asserted they currently conduct assessments for third-party merchants from Mexico and China; however, we have not independently verified this claim.

We also discussed Board independence, noting a joint CEO/Chairperson role and potential nepotism on the Board, and made suggestions for incremental improvements to governance. We encouraged the creation of a lead independent director as an interim step if the separation of the CEO/Chairman position is unlikely to take place in the near-term. We also lent our support towards annual director elections which can enable continuity, while also refreshing the Board with new ideas, energy, and oversight.

MSCI

We recently met with Rob Ashe, MSCI's lead independent director, and members of the company's ESG team for a discussion on corporate developments. We expressed our concerns on the recent, and on-going, turnover in the CFO position raising potential risks around talent retention. MSCI has now had six CFOs in the past 15 years, with an average tenure of just 3 years. Rob addressed the most recent CFO's departure and implied that while she had the requisite financial sophistication for the job, she lacked an intrinsic understanding of the business to add the level of value needed from the position. Rob expressed his confidence in the current CFO, Andy Wiechmann, as strongly aligned to these dual requirements, and he expects him to serve in this role for a long tenure. We will continue to monitor Andy's integration within the organization and broader personnel changes.

On the climate front, MSCI is committed to reaching net-zero GHG emissions across the value chain by 2040 and has enhanced its science-based and net-zero emissions reduction targets, which have been approved by the Science Based Targets initiative (SBTi). Lastly, we discussed executive remuneration and how alignment can be improved with MSCI's new Performance Stock Options (PSOs). Compared to the previous Long-Term Incentives (LTIs) which were based solely on total shareholder return over a 5-year period, PSOs include revenue & EPS growth as key performance indicators and vest over a 3-year period.

Amazon

We met with Amazon over the quarter for an update on the establishment of Science Based Targets (SBTs) and oversight of third-party vendors. Amazon joined the Science Based Targets Initiative in 2020 and planned to establish SBTs by 2022. Alas, this target has not been met and we engaged with Amazon to understand the reasons why. As we understand, the SBTi has experienced technical difficulties benchmarking Amazon to peers and is also working through a large backlog of demand as SBTs have become increasingly popular among the corporate community. The SBTi is continuing to work through Amazon's net zero plans and Amazon hopes to resolve this in the near-term. We also discussed Amazon's ambitious 2040 carbon neutral goals. Management relayed their confidence in reaching these goals with a transition pathway across power, transport, and buildings. In one year alone, Amazon has increased their renewable energy usage from 65% to 85%. In transport and logistics, there is still a long road ahead for the company, and this will be reliant on technological innovations.

We also discussed an update on the company's oversight of third-party vendors. Amazon's supply chain standards apply to all third-party vendors and when there are credible allegations of violations of these policies, Amazon will investigate. When questioned on suppliers from the Xinjiang province in China, Amazon follows their standard 'not guilty until proven' approach, as opposed to an outright banning and 'guilty until proven innocent' system that some have been applying to Xinjiang. We

believe Amazon's response to modern slavery risks remains a work in progress, and we encouraged management to adopt greater responsibility for their third-party networks.

Workday

We continued our dialogue with the management of Workday on recommendations to improve corporate governance. Management reiterated their intention to decrease stock-based compensation (measured as a % of revenues) to mid-high teens levels; however, this will take some time to affect due to the lagging nature of rewards. We reiterated our request for a cap to annual gross share dilution, to redesign short- and long-term compensation plans to be based on objective, performance-based metrics, and to include ESG factors.

Given the recent weakness in the share price, we proposed the idea of initiating a capital return program funded through the free cashflows generated from the business. This would potentially draw in an incremental set of investors, particularly given many of its larger peers are diverting cashflows to fund acquisitions, provide support to the stock price, and enhance its value in employee retention and recruitment, benefitting the company, employees, and shareholders. Pleasingly, whether this is related with our engagement or not, in December the company announced its first ever capital return program, a $500 million share repurchase authorization.

Equinix

Equinix has one of the largest carbon footprints in our portfolios given the heavy energy requirements of its data centers. Equinix currently discloses Scope 1 & 2 emissions and is undertaking a project to calculate Scope 3 emissions which will likely form a significant share of its total carbon footprint. Equinix has established interim SBTs and the findings from its Scope 3 calculation exercise will shape its Net-Zero targets, which we lent our support for. Renewable energy is a key component of Equinix's climate strategy with over 95% of energy currently sourced from renewable or 'clean' sources across 27 countries, which includes the impact of offsets. The procurement of renewable energy involves the trading of long-term energy contracts which have the potential to add volatility to cash flows and is something to be mindful of.

SAP

We met with the management of enterprise software company, SAP, over the quarter to discuss key ESG issues impacting the business. We addressed areas flagged for attention, such as the lack of an annual Say on Pay vote (which we expect to be resolved in the near-term) and the lack of an independent Chairperson. In regards to stock based compensation, we argued that 1.5% gross annual dilution was higher than expected for a company growing in the high single-digits to low double-digits and provided peer reference points to justify our case. We plan to prioritise this matter in future dialogue with management. On climate, management commented on their enthusiasm for capitalizing on the need for Scope 3 emissions and supply chain diversity software solutions, and we encouraged them to disclose the progress of this product segment to increase transparency to shareholders by demonstrating their leadership, commitment, and execution. We also discussed recent ESG controversies such as reports of bribery and alleged sexual abuse at company events, to which management has responded by increasing the number of compliance officers, limiting commissions in public sectors deals, reviewing current policies, and moving its whistle blower function to a third party to ensure independence.

Proxy Voting Summary Q4 2022

	Number of Resolutions	For	%	Against	%	Abstain	%
U.S. Large Cap Growth	20	14	70%	6	30%	NIL	0%
Global Growth	41	33	80%	8	20%	NIL	0%
International Growth	32	30	94%	2	6%	NIL	0%
Emerging Markets Growth	17	17	100%	NIL	0%	NIL	0%
Global Mid-Cap Growth	6	4	67%	2	33%	NIL	0%

Source: SGA, ISS

Carbon Risks Q4 2022

	Carbon Emissions	Carbon Intensity	Weighted Average Carbon Intensity
SGA Global Growth	15.6	66.4	63.1
MSCI ACWI	99.8	187.5	161.3
SGA Relative Exposure	-84%	-65%	-61%
SGA U.S. Large Cap Growth	6.7	28.5	28.8
Russell 1000 Growth	18.0	67.2	48.2
SGA Relative Exposure	-63%	-58%	-40%
SGA Emerging Markets Growth	20.5	43.6	44.9
MSCI EM	281.0	385.8	324.3
SGA Relative Exposure	-93%	-89%	-86%
SGA International Growth	22.2	74.9	95.5
MSCI ACWI ex-USA	166.0	223.3	189.3
SGA Relative Exposure	-87%	-66%	-50%
SGA Global Mid Cap	16.7	53.3	45.7
MSCI ACWI Mid Cap	197.3	271.3	242.0
SGA Relative Exposure	-92%	-80%	-81%
	t CO_2e/$M Invested	t CO_2e / $M Sales	t CO_2e / $M Sales

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

SGA integrates ESG factors, including ESG risks and opportunities, into its investment process. SGA believes environmental, social and governance factors inherently impact a company's brand equity, employee satisfaction, competitive position, financial performance, and ultimately long-term shareholder value. Investments are made with the objective of maximizing risk-adjusted financial returns to its clients. SGA does not place a premium on social returns, nor does SGA allocate its clients' capital based on thematic or top-down views. The opinions expressed herein reflect the opinions of Sustainable Growth Advisers, LP and are subject to change without notice. The securities referenced in the article are not a solicitation or recommendation to buy, sell or hold securities. These materials are provided only for qualified and sophisticated institutional investors.