International Growth Commentary

Q4 2022

SGA Sustainable Growth Advisers

Performance

SGA's International Growth portfolio returned +12.1% (gross) and +11.9% (net) in Q4 versus +14.3% for the MSCI ACWI ex USA Index and +12.9% for the MSCI ACWI ex USA Growth Index. For the year 2022, the SGA International Growth portfolio returned -17.7% (gross) and -18.4% (net) compared to -16.0% for the MSCI ACWI ex USA Index and -23.1% for the MSCI ACWI ex USA Growth Index.

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

Highlights

- Portfolio lagged its benchmarks in Q4's strong market rebound. For the year, the portfolio trailed the MSCI ACWI ex USA Index but outpaced the MSCI ACWI ex USA Growth Index
- Companies with higher growth prospects continued to underperform; a cyclical rally in Q4 posed a headwind for the portfolio's relative returns
- New positions were initiated in Canadian Pacific and Atlassian; no positions were liquidated. Several positions were trimmed on strength, including AIA Group, FEMSA, Shandong Weigao, Yum China, Novo Nordisk, and Linde, while positions in Heineken, Adyen, XP, and Sartorius were added to on weakness
- Portfolio remains well-positioned to deliver attractive, above-average growth in earnings and cash flows over the next three years with greater predictability
- 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

Better-Than-Feared Economic Conditions in Europe, China Re-Opening, and a Weaker U.S. Dollar Lifted International Markets in Q4

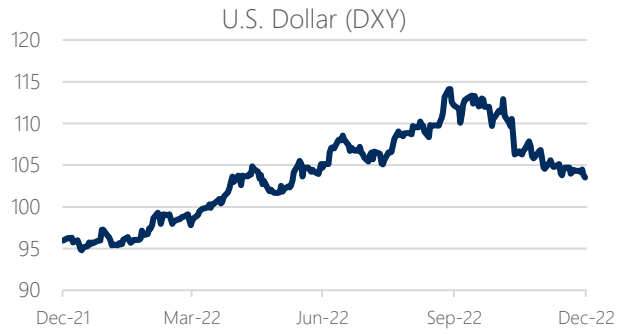
International markets rebounded in Q4 on the back of a weaker U.S. Dollar, moderating concerns about Europe's energy crisis amid mild winter weather, better-than-feared economic data, and China's abrupt pivot away from its zero-Covid policies which supported a strong recovery in Chinese stocks.

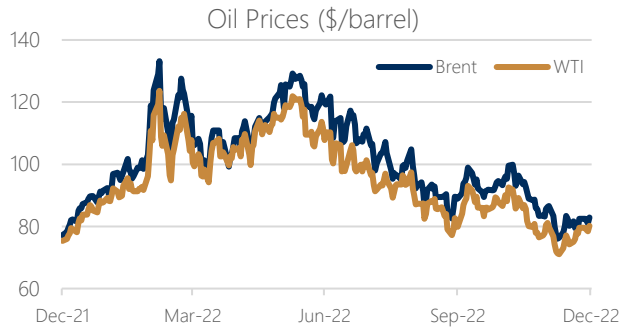
Economic growth continued to slow in the European Union amid ongoing pressures related to the war in Ukraine, higher interest rates, tight energy supplies, and weakness in exports to China. However, better-than-feared data in Germany, which has so far escaped recession, lifted investor sentiment as fears of an imminent European recession receded. Likewise, the UK saw its markets rebound in Q4 as a new government took over and immediately took steps to rescind the 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.

Chinese markets whipsawed during the quarter as investor pessimism in October turned to optimism following the country's decision to exit its zero-Covid policy strategy in response to protests and growing civilian displeasure with its draconian restrictions. The MSCI China Index soared 36% in the final two months of the year after having lost more than 62% cumulatively since its peak in February 2021. The China Index remains nearly 50% below its peak despite its recent rally. China's anticipated economic re-opening also lifted other Asian markets which are expected to benefit from a recovery in

Please see table included in this commentary for full performance presentation.

Chinese demand, including the Philippines, Malaysia, Thailand, and South Korea. In contrast, Latin American markets, the best-performing region for the year, lagged in Q4 as declining oil prices and political turmoil weighed on the region. Likewise, oil-exporting countries in the Middle East, including Qatar, Saudi Arabia, and UAE performed poorly, as did Indonesia, another oil and gas exporter, given falling energy prices.





Source: FactSet

Growth expectations, which moderated over the course of 2022, improved in Q4 given rising investor optimism around a cyclical recovery in China and a more resilient economic backdrop in Europe. While we view China's re-opening as a positive for growth eventually, the near-term remains murky as new outbreaks and rising Covid infections are likely to challenge hospital systems, pressure supply chains, and disrupt economic activity intermittently. Additionally, with the impact of a historically significant global central bank tightening cycle over the past year still flowing through to global economic activity, we continue to expect a more challenging environment for economic and profit growth ahead. Longer-term, structural issues such as an aging population in China and a more uncertain regulatory landscape in the country given its "common prosperity" goals, along with de-globalization trends, are likely to impede global growth potential. Despite such challenges we find comfort in the ability of our sustainable growth companies to compound cash flows at attractive rates over the long-term with greater predictability and resiliency and expect these higher-quality companies to be rewarded by the market over time.

Largest Contributors

Novo Nordisk was the 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 diabetes drug Ozempic, 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% 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 but trimmed the position to an average weight target on strength during the quarter.

Shandong Weigao was the second largest contributor to performance in Q4 with its shares benefiting from strength in Chinese stocks. We continue to view Shandong Weigao as well-positioned to benefit from secular growth in healthcare demand in China as its medical products are used in routine services and surgeries. We expect Shandong to continue to gain market share as the market consolidates in response to government value-based-purchasing policies given its scale advantages. The stock's recent strength reflects investors becoming more comfortable with the impact of China's government policies on the company's growth prospects. China's re-opening should also be a positive for the company given a likely recovery in surgical volumes and patient traffic, although some near-term disruption may be expected in the first half of 2023. We maintained an above-average weight given our favorable long-term view but trimmed the position back to target on strength.

AIA Group was the third largest contributor to performance in Q4 as stocks expected to benefit from China's reopening outperformed. The removal of restrictive zero-Covid policies should be beneficial for AIA's ability to generate new business as high-end life insurance sales are complex and typically require in-person meetings to close. AIA's third-quarter business

update highlighted positive momentum as value of new business grew 7% in constant currency with growth across all geographies. Annualized new premiums grew 8% and total premiums rose 2%. With China representing the company's largest growth driver and the greater likelihood of a more supportive operating environment, we expect new business growth to improve moving forward. Longer-term we see AIA as being well positioned to benefit from key secular growth tailwinds including favorable demographics and rising penetration of insurance products across its key markets in Asia. We maintained an above-average weight during the period, trimming on strength.

Linde and **HDFC Bank** were the fourth and fifth largest contributors to performance.

Largest Detractors and Smallest Contributors

Temenos was the portfolio's largest detractor in Q4 as weaker-than-expected results and a disruptive transition from a license-based business model towards a subscription-based model weighed on investors' confidence in the company's ability to execute. Temenos reported disappointing third-quarter results with total revenues declining 8% as total software sales dropped 19%. Operating profits declined 53% and margins contracted to 19% from 37%+ one year ago. The company attributed the weakness to a lengthening sales cycle linked to several large deals in its pipeline being postponed as banks have become more cautious given rising macro-economic uncertainty. The company acknowledged poor execution in the U.S., a key growth market, leading to the immediate departure of its Chief Revenue Officer. While we expected Temenos' transition period to impact results and anticipated that a weaker macro environment could push out deals, the magnitude of its recent miss was a surprise to us. Despite our disappointment we continue to see an attractive long-term growth opportunity for Temenos but will continue to monitor its progress on key growth initiatives and overall execution. We engaged with the company and have confidence that the Board will address management execution issues. Given reduced visibility and greater uncertainty around near-term growth, profitability, and cash flow generation, we lowered our target weight but continue to believe that the long-term future is bright for Temenos.

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 possible impact of newly elected President Lula's fiscal policies on the Brazilian economy and markets. While XP's inflows were within the range of management's guidance during the quarter, some investors might have been disappointed as they are used to seeing the company beat expectations. 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, this has not been sufficient to offset the temporarily increased selling liquidity. We expect this pressure 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 market share of the developing Brazilian financial markets and the demand for more complex investments from a growing middle class over our 3–5-year investment horizon. We purchased additional shares on weakness during the quarter but maintained a below-average weight position.

Canadian Pacific was the portfolio's smallest contributor to portfolio performance in Q4. The position was initiated during the quarter following a strong earnings report which validated our conviction in the company's longer-term growth opportunity and competitive positioning. Canadian Pacific delivered 6% volume growth, 19% revenue growth and stable 40% operating margins in Q3. The company's Q4 guidance was re-iterated, implying high teens revenue growth and operating margins returning to 45%. Management remained confident in the outlook for further market share gains. We initiated a below average weight position during the quarter and will continue to build the position opportunistically over time. A more detailed description of our thesis is included below in the New Positions section.

Atlassian and **Dassault Systemes** were the second and third smallest contributors to performance for the quarter.

Portfolio Activity

Portfolio turnover picked up slightly in Q4 with positions in Canadian Pacific and Atlassian initiated. No positions were liquidated but we trimmed positions in FEMSA, Shandong Weigao, AIA Group, Yum China, Novo Nordisk, and Linde on strength. We added to positions in Heineken, Adyen, XP, and Sartorius on weakness.

New Positions

A new position in **Canadian Pacific** (CP) was initiated in Q4. CP owns and operate transcontinental freight railways in Canada and the United States, transporting bulk commodities, merchandise freight, and intermodal traffic. The company provides services over a network of approximately 13,000 miles, directly serving the principal business centers of Canada, the U.S. Northeast and Midwest regions, and Gulf ports. The proposed acquisition of Kansas City Southern (KCS) – pending regulatory approval expected in Q1 2023 – would create a one-of-a-kind rail network spanning United States, Mexico, and Canada. Railroads possess structural cost advantages over their primary competition, the trucking industry, which continues to suffer from secular cost inflation in the form of driver shortages, higher insurance costs, highway deterioration, and increasing regulation. Furthermore, the North American industry has been consolidated into a series of regional duopolies. Canadian Pacific benefits from strong contract renewal pricing and has achieved consistent price increases exceeding inflation over the last decade. The company has contractual relationships with a broad set of shippers for essential agricultural and energy commodities, industrial products, and intermodal shipments necessary to the North American economy which leads to a high proportion of repeat revenues and predictability. CP's unique rail network and the company's success with Precision Scheduled Railroading (PSR) should sustain volume growth, pricing increases exceeding inflation and, in turn, sustained mid-to-high-single-digit profit growth moving forward.

Among the risks we are monitoring for CP include potential adverse regulatory developments and interventions relating to its pricing, services, and safety. Additionally, while the approval of its KCS acquisition is expected, there could be material, unforeseen adverse concessions required by the regulators, customers, or local communities. Shifts in trade and cargo flows to ports where CP does not have a presence could impact future growth and profitability. Lastly, we continue to monitor risks from autonomous trucking or other technological innovations that could disrupt the rail industry over time.

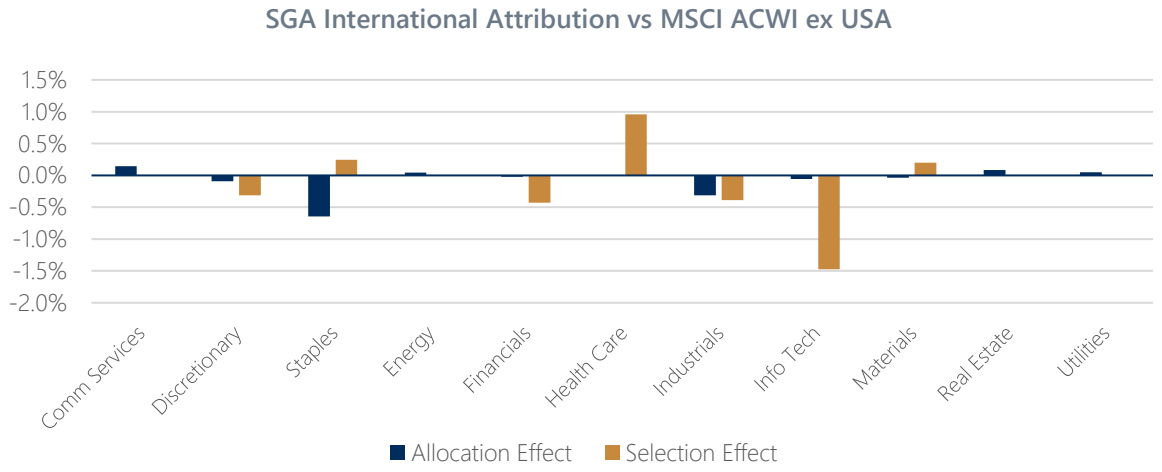
A new position in **Atlassian** was initiated in Q4. Atlassian is an enterprise software company that provides project management, content creation and sharing, and service management products for software developers, IT departments, and business users. Atlassian is known for its unique model of product-led and low-touch sales strategy, transparent and disruptive pricing, high R&D focus, and high retention enabling a consistent land-and-expand growth pattern. Atlassian offers best-in-class products at significantly lower costs compared to competitors. The low cost along with consumer stickiness enables Atlassian to embed pricing in its growth formula. Over 95% of its revenues are recurring, including revenues from subscription services and annual maintenance, and the company's net retention rate for medium and large customers is over 130%. Atlassian's growth opportunity is supported by secular trends, including companies' digital transformations which demand increasing technology utilization to extend competitive advantages and improve efficiency. This requires more collaboration between software developers, IT teams, and business operations, which serves to increase demand for Atlassian's products over time. We see a long-duration growth opportunity ahead for Atlassian. With significant weakness in its stock price over the past year and now a more attractive valuation, we decided to initiate a below average weight position in Q4. We expect to build the position opportunistically over time.

Among the risks we are monitoring for Atlassian include competition within the collaboration software market, the ability of the company to raise prices over time without materially impacting customer churn, and the pace of cloud migration by its end customers which could complicate the company's internal plan to discontinue its server products by early 2024.

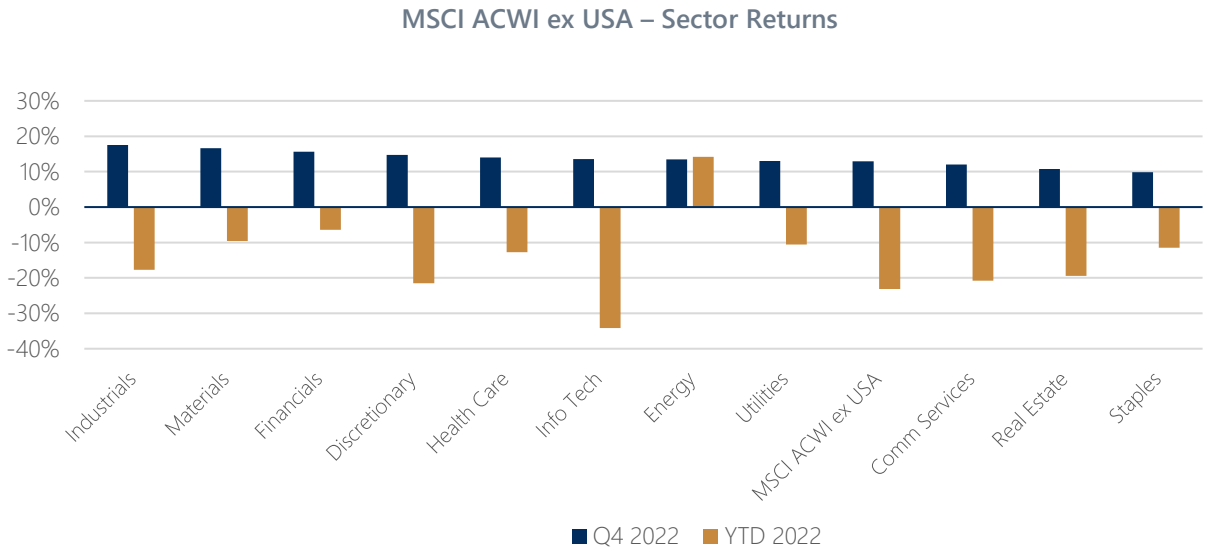
Market and Portfolio Attribution

Stock selection and allocation effects detracted from relative returns in Q4. Selection in the Information Technology and Financials sectors detracted most due to weakness in Temenos and XP, offsetting positive selection effects in the Health Care and Consumer Staples sectors driven primarily by strength in Novo Nordisk, Shandong Weigao, and CP All. The portfolio's overweight in the Consumer Staples sector and underweight in the Industrials sector, purely a by-product of our bottom-up process, weighed on relative returns during the period as the Staples sector lagged while the Industrials sector outperformed. Stock selection in Developed Markets detracted while selection in Emerging Markets contributed positively. Faster-growing companies continued to underperform and companies with higher-quality business metrics were not rewarded, posing a headwind for our approach in Q4 and 2022.

International Growth Commentary



Source: FactSet, MSCI



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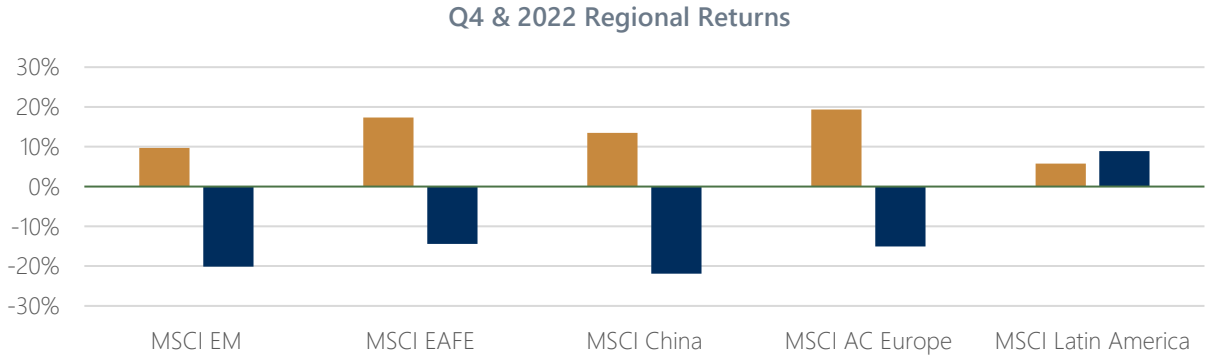

Source: FactSet, MSCI. Please see table included in this commentary for full performance presentation.

Summary

A weaker U.S. Dollar, a better-than-feared economic backdrop in Europe, and China's re-opening plans supported a strong market rebound in Q4. The rise in investor optimism lifted growth expectations, which had started to decline over the course of 2022, while supporting a strong rally in cyclicals and markets closely tied to Chinese growth and demand later in the quarter. Although we view China's re-opening as a positive for growth, we believe its longer-term growth potential is likely to be more muted compared to the past 20 years given its aging population, regulatory priorities, and more adversarial relations with the West. This will have significant implications for global growth broadly as China will no longer be the growth engine of the world as it once was. In the near-term there will be fits and starts accompanied with its economic recovery as mass Covid outbreaks are likely to disrupt economic activity intermittently. With the impact of global central bank tightening still feeding through to global economic activity, countering an improving growth backdrop in China, we continue to expect a more challenging growth environment ahead. Investor sentiment and style leadership is likely to remain volatile as a result of these crosscurrents, but we are confident that the more predictable, resilient, above-average growth offered by the companies in our portfolio will be rewarded over time.

We thank you for your continued to support, welcome any questions or comments, and wish you a healthy and prosperous 2023.

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 International 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 International 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	Since Inception
SGA International Growth (Gross)	12.1%	-17.7%	-17.7%	4.2%	5.3%	8.8%	7.1%
SGA International Growth (Net)	11.9%	-18.4%	-18.4%	3.3%	4.5%	7.8%	6.2%
MSCI ACWI ex USA (Net TR)	14.3%	-16.0%	-16.0%	0.1%	0.9%	4.8%	2.8%
MSCI ACWI Growth ex USA (Net TR)	12.9%	-23.1%	-23.1%	-0.4%	1.5%	5.2%	3.7%

International Growth Commentary

Period	Total Return				Number of Portfolios	Composite Dispersion	3 Year Standard Deviation			Total Assets in Composite at Period End (USD millions)	Total Firm Assets at Period End (USD millions)	Percentage of non-fee paying accounts
	Before Fees	After Fees	MSCI ACWI ex-USA Net TR Index	MSCI ACWI Growth ex-USA Net TR Index			SGA Composite	MSCI ACWI ex-USA Net TR Index	MSCI ACWI Growth ex-USA Net TR Index			
Mar. 1 - Dec. 31, 2015	-4.63%	-5.30%	-10.32%	-6.77%	Five or Fewer	N/A				0.096	5,318	100%
2016	0.65%	-0.21%	4.50%	0.12%	Five or Fewer	N/A				0.097	5,672	100%
2017	37.83%	36.69%	27.19%	32.01%	Five or Fewer	N/A				0.133	9,971	100%
2018	-12.42%	-13.17%	-14.20%	-14.43%	Five or Fewer	N/A	12.85%	11.38%	11.55%	89	9,096	0%
2019	30.96%	29.87%	21.51%	27.34%	Five or Fewer	N/A	12.01%	11.34%	11.50%	307	12,347	0%
2020	25.55%	24.50%	10.65%	22.20%	Five or Fewer	N/A	15.87%	17.93%	16.48%	310	18,780	0%
2021	9.53%	8.61%	7.82%	5.09%	Five or Fewer	N/A	15.11%	16.79%	15.01%			0%
Since Inception (March 1, 2015)	11.36%	10.43%	5.93%	8.30%			14.32*	14.53*	13.66*			

N/A- Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
3 Year Standard Deviation is not shown for 2015, 2016, and 2017 as 36 months of returns are 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 and an affiliate of Virtus Investment Partners. The SGA International Growth Composite was created in March 2015. 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 International Growth composite has had a performance examination for the periods March 1, 2015 - December 31, 2021. The verification and performance examination reports are available upon request.

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

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 International 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.