Global Mid Cap Growth Commentary

Q3 2022

SGA Sustainable Growth Advisers

Performance

The Global Mid Cap Growth portfolio returned -7.5% (gross) and -7.7% (net) in Q3 versus -6.7% for the MSCI ACWI Mid Cap.

Highlights

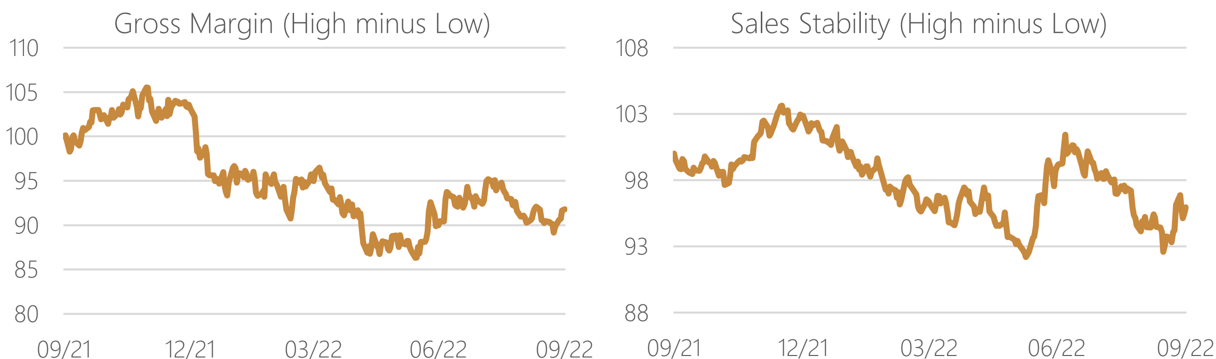
- Portfolio underperformed the MSCI ACWI Mid Cap Index in Q3 with business quality metrics generally not being rewarded as shown below
- Positions in MercadoLibre, CoStar, and Shandong Weigao contributed most positively to performance; positions in Match, Okta, and Ball Corporation detracted most
- We sold positions in RingCentral and Okta due to forced attrition and initiated new positions in Naver and Haleon given both companies' strong quality characteristics and attractive growth opportunities
- We also trimmed positions in MercadoLibre, Atlassian, CoStar, IQVIA, and Raia Drogasil on strength, and added to positions in Alcon, Ball Corporation, Steris, Mengniu Dairy, and EPAM Systems
- Higher interest rates are likely largely discounted in current stock prices, but a recession and its impact on corporate earnings is not yet factored into consensus earnings forecasts
- Coming downward earnings revisions for the index and eventual moderation of interest rate pressure should be a powerful tailwind to our relative performance in coming quarters as they have been historically

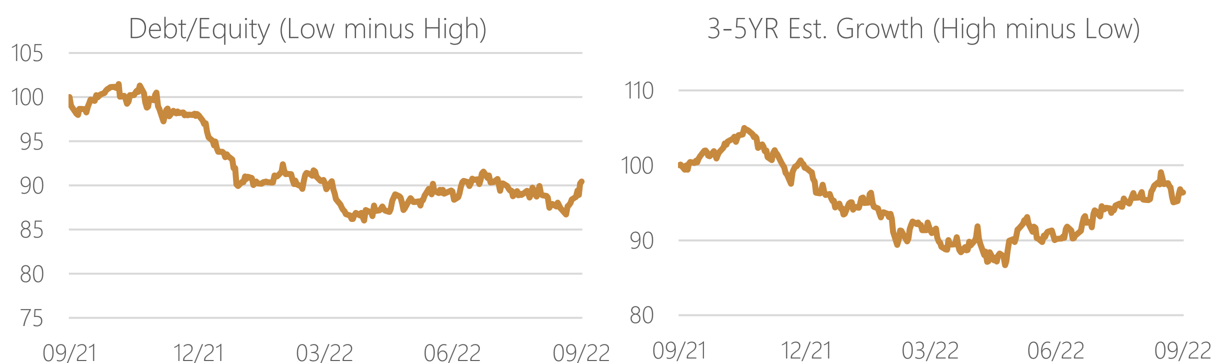
Slowing Global Economic Growth

Through September 30, 2022, global stocks were on track for their worst performing year since 2008; European and Chinese stocks were among the worst performing. Weakness in European markets reflected the significant impact of rising fuel prices in the region together with the more direct impact from sanctions on Russia. Emerging markets generated a wide range of returns with Brazil and India posting positive returns of +8.5% and +6.5%, respectively, and Emerging European markets such as Poland and the Czech Republic declining -25.1% and -19.2%, respectively. Chinese equities remained weak in Q3 posting a -22.5% decline as the country's zero-COVID policies continued to negatively impact economic growth despite new stimulus by the government.

In the U.S., following a period of optimism over a possible Fed pivot toward less restrictive monetary policies, market returns weakened as the Fed made it clear they would continue to pursue more restrictive monetary policies to achieve price stability despite rising pain from unemployment, stock market weakness and possible recession. In response, the broad market declined -16.5% off intra-quarter highs concurrent with a significant sell-off in bonds as the interest rate on the 10-year U.S. Treasury reached levels not seen in over a decade. This particularly pressured the stocks of longer duration growth companies. Meanwhile appreciation in the U.S. Dollar relative to other key currencies put further pressure on already slowing non-U.S. and Emerging Market economies and set the stage for a moderation in U.S. exports. The Dollar Index, a measure of the U.S. Dollar's value against a basket of six major world currencies (the Euro, Japanese Yen, British Pound, Canadian Dollar, Swedish Krona, and Swiss Franc), rose +7% in Q3 and is up +17% year-to-date through 9/30 continuing its longest upswing since 1997.

Quality Not Rewarded in The Last Twelve Months





Source: FactSet

While broad-based earnings growth expectations began to moderate towards the end of Q3, we expect consensus earnings growth estimates for the market to compress further given the increasingly challenging economic backdrop. Although we cannot forecast the severity or duration of the impending economic slowdown, we find comfort in the more predictable and resilient growth prospects of the companies in our portfolio.

Key Contributors

After being one of the portfolio's largest detractors in Q2, **MercadoLibre** was the largest contributor in Q3 as its shares benefited from a strong Q2 report driven by credit growth and provisioning as well as strong gross margins. Revenue growth slowed to 57%, in constant-currency terms, from 67% last quarter; however, margins surprised positively with operating margins staying flat at 9.6% and gross margins improving 500 bps compared to the same period last year. E-commerce growth decelerated, except in Mexico, while deliberate growth in its money-losing 1st-party business helped protect margins. The company also noted that it had reached scale economies in logistics which should further support margins moving forward. Growth in the company's fintech business decelerated slightly but remains strong, driven especially by growth in credit revenues, which now comprise 20% of total revenues. The company's rising credit exposure is an area we are increasingly monitoring given the risk of rising defaults in the wake of further expected economic weakening. While we believe the company is naturally hedged against an Argentine devaluation due to significant operating costs located in that country, we are mindful that consumer behavior may be unpredictable. Despite some near-term risks associated with their growing credit business, we continue to view the longer-term growth opportunity favorably. We continue to maintain an average weight position in the company, trimming on recent strength.

CoStar was the second largest contributor to performance in Q3 after they reported a strong quarter with record-breaking quarterly bookings totaling $84 million. Bookings were up in CoStar, LoopNet as well as the Apartments business. CoStar Suite bookings were up 60% YoY and up 145% in the last twelve months. Apartments.com bookings were up 35% QoQ and 138% YoY which is the second highest quarter of growth. LoopNet saw 43% YoY bookings growth aided by a 95% YoY pickup in sales headcount.

We continue to see strong pricing power, recurring revenues, and a global opportunity for CoStar. Unlike some of the other real estate related business models that have been impacted in the current environment, their business model relies on information, analytics and quantity of transactions and is thus more resilient. While we continue to monitor competition risk, cyclical risks, and vacancy risks, we believe CoStar has room to grow in the longer-term and we continue to view their growth opportunity favorably. We maintained an average weight position in the company.

Shandong Weigao was the third largest contributor to performance in Q3 as the company reported better-than-expected 1H 2022 results. Shandong reported resilient results, highlighted by 12% and 15% sales and profit growth respectively, despite continued near-term headwinds from Covid-related disruptions to supply chains and medical procedures as well as government price cuts. Gross margins were negatively impacted by government price cuts, as expected, but were also negatively impacted by supply chain disruptions. These pressures were offset, however, by strong market share gains and reduced distribution costs which led to improved operating margins. We see Shandong Weigao well-positioned to benefit from secular growth in the demand for healthcare services in China as its medical products are used in routine services and surgeries. Additionally, given the company's scale advantages, we expect it to continue to gain share as the market

consolidates in response to the Chinese government's value-based-purchasing policies. We raised the target to an average weight position during the quarter.

Autodesk and **Atlassian** were the fourth and fifth largest contributors to performance in Q3.

Key Detractors

Match was the largest detractor from returns in Q3 after the company's guidance for the second half of 2022 fell short of expectations and following significant changes in the management team of Tinder, the company's largest unit. Specifically, Match forecasted a sharp slowdown in FX-adjusted sales growth in Q3 with limited improvement expected in Q4 given an expectation that Tinder's sales growth would decline from +20% year-over-year to "low-teens" growth in the second half of the year. The basis for the expected slowing in Tinder's growth is a delay in multiple new monetization features following the management changes due to "disappointing execution on new product initiatives", according to the new CEO. While management turnover has been disappointing, we do expect the changes to be implemented and positively enhance ongoing growth. The episode, however, has impacted market confidence in the company's management strength. Match's Q2 results were in line with consensus expectations with +19% Q2 sales growth year-over-year and a 36% operating margin. Tinder grew its direct revenue 20% on a year-over-year basis, adjusted for FX driven by +14% payer growth, while its non-Tinder businesses grew sales by 12% year-over-year.

Five members of the Investment Committee met with new CEO Bernard Kim as well as Match's CFO/COO to better understand Kim's vision for the company and dig into key questions further. That meeting provided improved understanding and confidence in a return to growth. However, given increased uncertainty over management and execution issues, we reduced the position to an average weight position during the quarter.

Okta was the second largest detractor from performance in Q3 after it reported Q2 earnings that fell short of expectations. While the reported quarter was satisfactory with current backlog growing 36%, the guide was disappointing with expected backlog growth slowing to 30-31% in Q3 and another reduction to the 2022 FCF margin to low single digits. While the backlog growth rate deceleration seemed mild compared to the stock price movements, the guidance that billings growth for the year would be only 27% created confusion and concern that a more significant slowdown or competitive problem had arisen. All of this has been surprising to investors given that the cybersecurity market remains hot and companies in adjacent markets (e.g. PANW, CRWD) have been performing well despite the macro environment.

The primary culprit according to management, however, is the now ill-fated tactical decision to attempt to integrate the salesforces of the traditional Okta workforce identity business with the salesforce of the Auth0 customer identity acquisition. Additionally, as part of this product rationalization effort, the Chief Product Officer is departing, and the COO/Co-founder is taking a "sabbatical" (but will remain as Vice Chair of the board).

While there might be room for more growth in the company, we deemed the evolving competitive risk from Microsoft to be too high and, at this time, have reduced confidence in management's ability to successfully execute on the once promising but still highly dilutive Auth0 acquisition. As a result, we liquidated the position in favor of other higher confidence opportunities during the quarter.

Ball Corporation was the third largest detractor from performance in Q3 after it reported earnings that fell short of the average analyst estimate. Comparable earnings per share declined 5% year-over-year, falling short of consensus expectations for a 6% increase. Sales increased +20% year-over-year buoyed by stronger than expected sales in the EMEA region and South America, while North American sales were generally in line. Management reduced its outlook for volume growth given an expectation for reduced consumer spending due to rising inflation. Input cost inflation also impacted earnings during the period, but we expect the impact to wane as contract escalators kick in by early 2023. Longer-term, management's 5-year volume expectations remain largely unchanged. We expect the company's capex spending to decline meaningfully in 2023-2025 given that newly constructed plants are scalable for the next 3-4 years. This, together with help from contract escalators and improving volumes, should allow for high-single digit operating profit growth and improving free cash flow conversion over our 3–5-year investment horizon. We maintained an average weight position during the quarter, adding to the position on recent weakness.

The fourth and fifth largest detractors from performance in Q3 were **Kakao** and **Mengniu Dairy**.

Portfolio Activity

During the quarter, we eliminated our positions in RingCentral and Okta where both companies' theses had weakened due to slowing growth as more predictable and higher confidence growth opportunities emerged given increased market volatility. In their places, we initiated new positions in Naver and Haleon. In addition, we purchased shares in Alcon, Ball Corporation, Steris, Mengniu Diary, and EPAM Systems as we continue to build that position. In contrast, we trimmed positions in MercadoLibre, Atlassian, CoStar, IQVIA, and Raia Drogasil.

Purchases

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

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

We initiated a below-average weight position in the company and plan to build it opportunistically.

A position in United Kingdom-based consumer healthcare company **Haleon** was initiated during the quarter. Haleon is the former GlaxoSmithKline ("GSK") consumer healthcare business which was spun out to existing GSK shareholders in July 2022. It operates in three major OTC therapeutic areas: pain relief, digestive health, respiratory health, in addition to vitamins, minerals, supplements ("VMS") and oral health. Haleon's product portfolio is comprised of category-leading brands such as Sensodyne toothpaste, Panadol and Advil pain relievers, Centrum and Emergen-C vitamins, and Theraflu flu medicine, among others. Its brands are built on science, innovation, and human understanding and are trusted by millions of consumers globally.

A large percentage of the company's revenue comes from needs-based/event-driven categories, and demand is less sensitive to pricing/promotion as products remedy acute consumer needs. The strength of the company's brands (#1 in all main categories) serves as an arbiter of safety and efficacy for consumers. The company's products have proven efficacious, and are supported by science, for important needs that are particularly integral in the lives of consumers (e.g., pain relief, respiratory/digestive/oral health). The majority of the company's products are recommended by experts, which helps build trust and drive recurring purchases. The company should generate growth via increased household penetration with opportunities across all five product categories for innovation and reaching new customers. The runway for growth also includes capitalizing on new and emerging growth opportunities in new channels (e.g., e-commerce expansion), geographies (e.g., maximize Emerging Markets presence), and portfolio expansion (e.g., Rx-to-OTC switches, "naturals").

Among the risks we are monitoring are the company's high initial leverage which could lessen its ability to participate in consumer health M&A in the next few years. Additionally, we are keeping a close eye on the "demerger", with Pfizer (~32%) and GSK (~13%) currently remaining as shareholders. Although both companies have indicated that they intend to monetize their holdings, neither has detailed specifics or timing on when this will occur. Lastly, we are watching the liabilities related to exposure to Zantac litigation, and although Haleon is not named as a defendant in the lawsuits, its indemnification of GSK and Pfizer under the spin-off agreement may include liabilities related to OTC Zantac.

We initiated a below-average weight position in the company and plan to build it opportunistically.

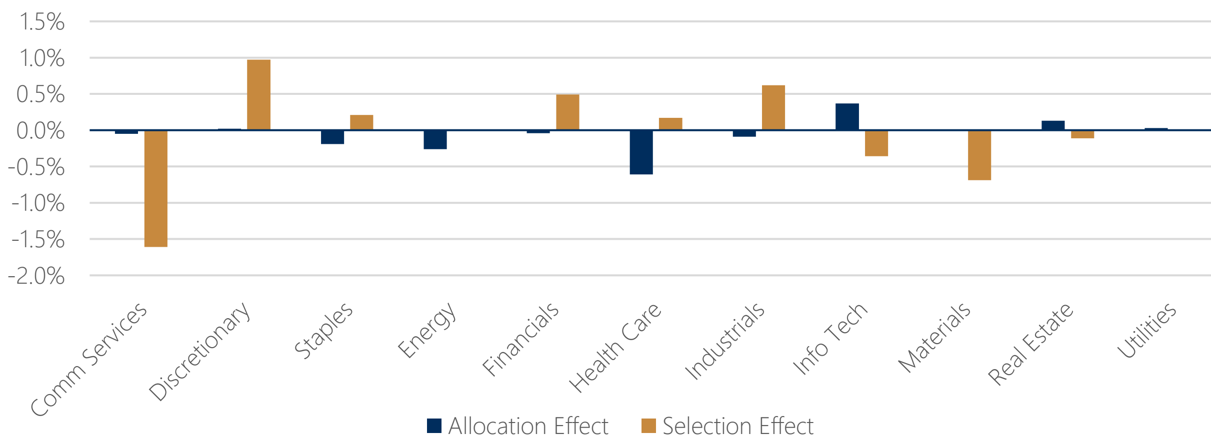
Sales

As noted above, we sold the portfolio's position in **RingCentral** and **Okta**.

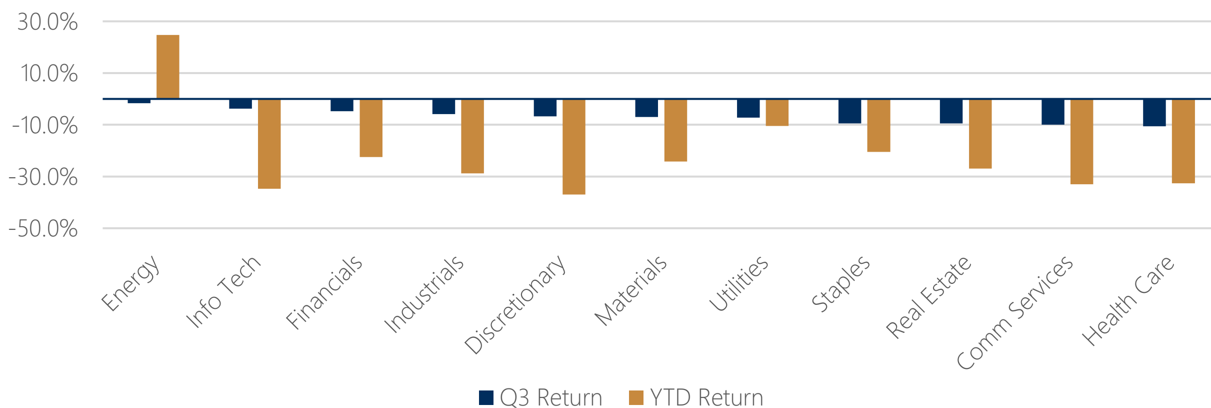
Portfolio Attribution

While all sectors of the ACWI Mid Cap posted negative returns during Q3, the Energy sector was the best performing area declining only -1.6% despite oil prices falling almost 25% over the period. This strength continued to pose a headwind for our approach given our lack of exposure to Energy companies due to their lack of recurring revenues and predictability. In contrast, Health Care, Communication Services, and Real Estate were the worst performers for the quarter.

The portfolio's relative underperformance was a result of both stock selection and residual sector exposures. Selection in Communication Services, Materials, and Information Technology were the largest relative detractors due to underperforming positions in Match, Okta, and Ball Corporation. This was partially offset by positive selection in the Consumer Discretionary, Industrials, and Financials sectors. Our overweight to Health Care and Consumer Staples detracted from relative returns as did not having exposure to Energy. Our overweight to Information Technology partially mitigated this underperformance as did an underweight to Real Estate.



Source: FactSet, MSCI



Source: FactSet, MSCI

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Outlook

With interest rates hitting multi-decade highs, markets have begun anticipating the repercussions of aggressive monetary policy on future global economic growth. High energy prices, continued ramifications of COVID, sustained inflation, and declining consumer sentiment are also likely to impact future growth rates in different countries. While 2022 and 2023 consensus estimates for the benchmark index have come down modestly, we expect this to continue in Q4 and in 2023. As investors become more acutely focused on the effects of higher interest rates and the higher U.S. dollar on economic growth and, in turn, corporate profits, the more sustainable revenue and earnings growth our portfolio companies generate should be rewarded. In the meantime, portfolio companies continue to generate superior earnings growth together with better gross margins and free cash flow, less debt, and more sustainable sales stability.

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

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Results are presented gross and net of management fees and include the reinvestment of all income. 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 Mid Cap Growth equity 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 Mid Cap Growth portfolio for the past year. SGA earnings growth forecasts are based upon portfolio companies' non-GAAP operating earnings.

Performance Results	Q3 2022	YTD 2022	1-Year	3-Year	Since Incep.
SGA Global Mid Cap Growth (Gross)	-7.5%	-37.4%	-39.5%	-1.1%	4.5%
SGA Global Mid Cap Growth (Net)	-7.7%	-37.8%	-40.0%	-1.9%	3.6%
MSCI ACWI Mid Cap (Net TR)	-6.7%	-27.3%	-24.1%	1.8%	3.7%

	Total Return					3 Year Standard Deviation				
Period	Before Fees	After Fees	MSCI ACWI Mid Cap Net TR Index	Number of Portfolios	Composite Dispersion	SGA Composite	MSCI ACWI Mid Cap Net TR Index	Total Assets in Composite at Period End (USD millions)	Total Firm Assets at Period End (USD millions)	Percentage of non-fee paying accounts
Nov. 1 - Dec. 31, 2018	-4.25%	-4.39%	-6.17%	Five or Fewer	N/A			0.113	9,096	100%
2019	38.88%	37.74%	26.00%	Five or Fewer	N/A			0.306	12,347	100%
2020	44.98%	43.79%	15.17%	Five or Fewer	N/A			6	18,780	8%
2021	-1.46%	-2.29%	16.39%	Five or Fewer	N/A	19.19%	19.29%	6	22,899	0%
Since Inception (November 1, 2018)	22.47%	21.44%	15.65%			19.41*	19.39*			

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 2018, 2019, and 2020 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 is an affiliate of Virtus Investment Partners, Inc. The SGA Global Mid Cap Growth Composite was created in November 2018. 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.

Global Mid Cap Growth Commentary

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 Mid Cap Growth composite has had a performance examination for the periods November 1, 2018 - December 31, 2021. The verification and performance examination reports are available upon request.

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SGA Global Mid Cap Growth Composite contains fee paying and non-fee paying mid cap global growth equity portfolios under full discretionary management of the firm. For comparison purposes the composite is measured against the MSCI ACWI Mid Cap 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 Global Mid Cap 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

Q3 2022

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Mengniu Dairy

Mengniu is the leading manufacturer and distributor of branded dairy products in China including milk, cheese, and infant formula. Operating in a largely oligopolistic industry, Mengniu's scale and vertical integration places the company in a strategic position to capitalize on the secular growth in consumption of dairy in China.

Mengniu sources milk from 40 facilities across China, with one of these being located in Xinjiang, a region at high risk of modern slavery. We consider this to represent a risk to our long-term growth thesis in the company. While we deem this level of exposure to be immaterial to the company's fundamentals, the potential for headline and regulatory risk stemming from a human rights violation could have a wide-range of impacts to our investment in the company, particularly given the geopolitical sensitivities of the U.S.- China relationship at present. Risks of this nature are very difficult to quantify, in terms of impact and probability, and we have used engagement as a means to learn more about the supply chain:

- Mengniu has a Supplier Code of Conduct that prohibits forced and child labor, consistent with the UN Convention Against Corruption and the UN Convention on Occupational Safety and Health. It also has explicit requirements regarding responsible supply chains that are included in all supplier contracts. All suppliers are certified for compliance, including in Xinjiang, and there is no sourcing outside of the company's certified supply chain. In addition, 100% of the employees of Mengniu's suppliers are subject to labor contracts, which per PRC law guarantees a minimum wage as well as health and work insurance.
- From a monitoring and auditing perspective, Mengniu has a Supplier Management System, where they periodically review supplier operations to ensure compliance with the code. Last year, the company conducted on-site audits at 485 out of 658 total suppliers.
- With regards to senior management accountability, Mengniu has a central business unit (that reports directly into the CEO) responsible for onboarding, certifying, and monitoring compliance of their raw milk suppliers. In addition, the Board has a Sustainability Committee, chaired by the CEO himself, to oversee all ESG related issues. Lastly, ESG-related KPIs, such as carbon reduction and supplier violations of the code of conduct, are tied to senior management compensation.
- Mengniu is commencing a relationship with SEDEX, one of the world's leading ethical trade membership organizations that works with businesses to create more responsible and sustainable business practices. SEDEX assesses risk at each supplier site across four main areas — labor standards, health and safety, business ethics, and environment — and uses a combination of self-assessments and third-party, ethical audits to determine both potential and actual exposure. We are very familiar with SEDEX through our due diligence on YUM! Brands, another portfolio company that collaborates with the organization.

After thorough analysis and engagement, we believe the risk of modern slavery to the Mengniu investment case is satisfactorily mitigated. However, in the interests of stakeholders, we believe there are additional actions the company can take to reduce the risk even further. For example, we encouraged Mengniu to conduct an independent external audit of the plant in Xinjiang and make these results publicly available to investors. We also expressed our opinion that investors would benefit from the publication of annual supplier audits to increase transparency into the company's supply chain. We have expressed our opinions with management on these topics and hope to see positive developments from the company in time.

Stock-Based Compensation

Stock-Based Compensation (SBC) is a common tool utilized by technology companies to attract and retain top talent in a highly competitive field. We believe SBC can be a highly effective incentive scheme for key executives. However, in some instances, the resulting equity dilution from SBC can compound over time to the detriment of existing shareholders if taken too far. We see this prevalent in the software industry where we own a number of companies including Salesforce, Intuit, Autodesk, and Workday. We believe the best practice to mitigate the detrimental impacts to shareholders of SBC is to cap gross share dilution.

ServiceNow, a company on our Qualified Company List, is among the leaders in the practice of capping growth share dilution, and we are seeing more interest from companies in adopting this approach. For example, Workday is considering the merits of this practice, and we recently took the opportunity to raise the subject during a meeting with the management of Intuit, a financial and tax preparation software provider. We explained our preference for a cap to gross share dilution, as opposed to net dilution, as we seek to guard against companies incurring inappropriately high levels of gross share dilution which would then require the diversion of inappropriately high levels of cash flows to fund offsetting share repurchases. Minimizing gross share dilution also potentially allows for more of a company's free cash flow to be returned to shareholders through buybacks and dividends. With buyback taxes likely to rise from here, achieving net dilution may become more expensive over time. Hence, companies should seek to limit gross dilution in the first instance. Furthermore, if inflation becomes more endemic and interest rates remain high, dividends may become more sought after by the investment community. Hence minimizing gross dilution can allow for a higher dividend payout to shareholders and may support the share price over the long term. Intuit management was open to receiving our comments, and we will continue to engage with the company and others under our coverage, on this pertinent topic.

Sherwin-Williams

We engaged with the management of Sherwin-Williams, a leading American paint manufacturer and distributor, for a broad ESG update over the quarter.

On the environmental front, the company has been working on a project to calculate its Scope 3 emissions. Far too few companies report Scope 3 emissions today and given their magnitude relative to Scope 1 & 2 emissions, we believe measurement and reporting is prudent to lower climate risk. For example, in the case of Sherwin-Williams, management noted that Scope 3 emissions are approximately 10 times that of Scope 1 & 2 emissions combined. It has been difficult for management to get a firm grasp of the company's Scope 3 emissions, partly due to reporting deficiencies among its supplier base, but after significant work they now have the confidence in the data and will be publishing to investors later this year. Following on from this, we raised the topic of Science Based Targets (SBTs), and pleasingly management confirmed they are looking to commit to establishing SBTs over the next year now that they have a measure of their complete emissions set. We emphasized the importance we place on emissions disclosure and SBTs and will follow up in the future to make sure they are on track with their commitments.

On physical climate risk, the paint industry's supply chain was largely disrupted in 2021 by hurricanes and winter storms and is a reminder that the company continues to face physical risks related to weather. Management is thinking and acting strategically to mitigate these risks. For example, the recent acquisition of Special Polymers not only added 50 million gallons of capacity to the company's system, but also diversified its supply base away from the Gulf of Mexico which is prone to weather events. It sounds like future acquisitions will also be evaluated through this additional lens and we expressed our support for efforts to diversify the company's supply chain further in the future.

Lastly on compensation, we noted there is a lack of direct links between executive compensation and ESG KPIs. Currently, the senior management team is evaluated on developing and executing the company's ESG strategy. However, the evaluation is qualitative rather than quantitative. The argument the company makes is that it can be difficult to set 12-month targets on longer term goals such as a 30% representation in management by women and minorities. While we see the merits of this argument in certain contexts, we expressed our preference to see the establishment of interim targets to make sure management remains on track with its ESG and D&I agenda.

Danaher

We spoke with management of Cytiva, the largest division of healthcare instrument and consumables company Danaher, over the quarter for an update on its environmental policies. The company is making efforts to reduce its environmental impact on a number of fronts. On product design, it is looking to minimize its usage of plastic. While not an easy task, the company is currently working with customers to design alternative options. On manufacturing, Danaher seeks to be powered with 100% renewable energy by 2025 and is exploring ways to cut its water usage. And lastly in distribution, Danaher has ceased using polyurethane for shipping cold products and is now using more environmentally friendly packaging. We are pleased to see small steps being taken in the right direction and will continue to monitor developments in this space.

Proxy Voting Summary Q3 2022

	Number of Resolutions	For	%	Against	%	Abstain	%
U.S. Large Cap Growth	7	6	86%	1	14%	NIL	0%
Global Growth	26	26	100%	NIL	0%	NIL	0%
International Growth	42	42	100%	NIL	0%	NIL	0%
Emerging Markets Growth	3	3	100%	NIL	0%	NIL	0%
Global Mid-Cap Growth	28	28	100%	NIL	0%	NIL	0%

Source: SGA, ISS

Carbon Risks Q3 2022

	Carbon Emissions	Carbon Intensity	Weighted Average Carbon Intensity
SGA Global Growth	17.6	65.9	59.1
MSCI ACWI	105.5	187.6	167.1
SGA Relative Exposure	-83%	-65%	-65%
SGA U.S. Large Cap Growth	6.8	30.7	29.5
Russell 1000 Growth	17.1	67.4	51.7
SGA Relative Exposure	-60%	-54%	-43%
SGA Emerging Markets Growth	26.7	49.5	50.3
MSCI EM	305.4	379.4	345.0
SGA Relative Exposure	-91%	-87%	-85%
SGA International Growth	27.2	76.0	91.2
MSCI ACWI ex-USA	189.5	219.6	200.3
SGA Relative Exposure	-86%	-65%	-54%
SGA Global Mid Cap	20.3	57.3	45.7
MSCI ACWI Mid Cap	208.9	269.9	259.1
SGA Relative Exposure	-90%	-79%	-82%
	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.