Emerging Markets Growth Commentary

Q2 2023

SGA
Sustainable Growth Advisers

Performance

SGA's Emerging Markets Growth portfolio returned 2.3% (Gross) and 2.1% (Net) in Q2, compared to 0.9% and -0.7% for the MSCI EM and EM Growth Indices, respectively.

Highlights

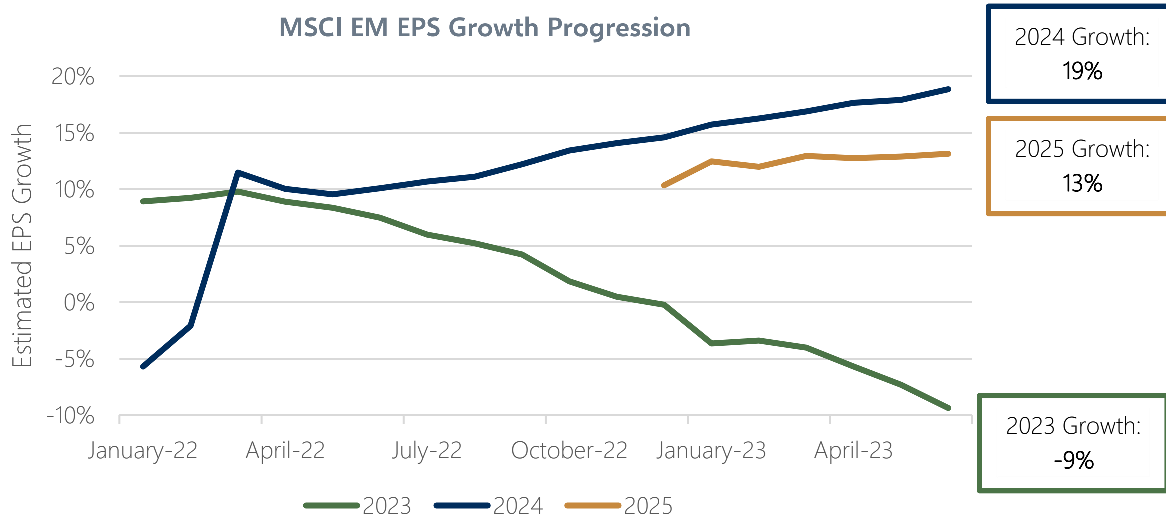
- Portfolio outperformed the MSCI EM and EM Growth Indices in Q2
- Concerns around slowing growth in China weighed on the EM index, offsetting strong returns in Latin America, Eastern Europe, and India
- XP, FEMSA, and Fast Retailing contributed most positively to returns, while JD.com, H World Group, and Shandong Weigao detracted the most
- There were no full position changes during the quarter. We trimmed positions in adidas, MercadoLibre, Raia Drogasil, and XP on strength while adding to positions in Infosys, Mengniu Dairy, JD.com, Bud APAC, and Tencent on weakness
- Portfolio remains well-positioned to deliver attractive, above-average growth in earnings and cash flows over the coming three years

Uncertain China Recovery Weighs on EM Returns Despite Strong Returns Elsewhere

Emerging markets rose a modest +0.9% in the quarter, lagging the strong rebound in developed markets as weakness in China, Malaysia, Thailand, and South Africa offset strong performance in Latin America, India, and EM Europe. China was the second worst performing EM market in Q2, declining nearly 10%, as disappointing economic data sowed doubts about its economic recovery. Low consumer confidence, high youth unemployment, and weak global demand for exports have weighed on China's post-Covid economic recovery, prompting the government to cut interest rates and contemplate additional stimulus actions to kickstart the economy. The broad-based weakness in Chinese stocks weighed significantly on the EM Index and negatively impacted several of our portfolio's holdings, such as JD.com, H World Group, and Shandong Weigao, although these companies delivered relatively resilient earnings results.

Brazil was one of the best-performing markets in Q2 as fiscal policy concerns eased and inflation fell close to target levels. The moderation in inflation raised hopes for the Brazilian central bank to cut interest rates from their currently high levels of 13.75%. The improving backdrop in Brazil drove a significant rebound in Brazilian stocks, which also supported our positions in XP and Raia Drogasil. Better-than-expected Q1 GDP growth and positive economic momentum in India supported the outperformance of Indian stocks in Q2. This positive backdrop helped our positions in Asian Paints and HDFC Bank, two companies we view as key beneficiaries of long-term secular trends in India such as a rising middle class, growing demand for traditional banking services, and increasing housing formation. Similarly, improving economic growth in Mexico, moderating inflation, and FDI data pointing to the country being a beneficiary of near-shoring trends supported strong returns for Mexican stocks during the quarter. The strength in Mexico also supported some of our holdings, including our position in FEMSA, which we view as a beneficiary of further economic development and consumption growth.

Near-term earnings expectations declined further in Q2 with 2023 earnings growth for the MSCI EM Index now expected to be -9%, down from an expected decline of -4% at the end of Q1. 2024 earnings growth expectations, however, remain high and improved over the course of the quarter to 19%, up from 17% at the end of Q1. While China's likely pivot towards stimulus may provide some support for growth, the extent of its stimulus measures remains uncertain and is likely to be tempered by secular challenges in the property market and local government debt levels. We expect the countervailing headwinds from restrictive monetary policies elsewhere, inflation, tighter credit conditions, and less fiscal stimulus to weigh on global economic and profit growth moving forward. Irrespective of the direction of the global economy, however, we remain focused on identifying high-quality companies that have the potential to deliver attractive growth in earnings and cash flows over the long-term with lower levels of risk and less macro-economic sensitivity. We see compelling compounding potential in the portfolio today with our companies expected to grow earnings 20% per year over the coming three years, much faster than the 7% growth expected by the MSCI EM Index and likely with much greater resilience.



Source: FactSet, MSCI

Since Portfolio Inception (8/1/2014)	SGA Emerging Markets Growth	MSCI EM
EPS Growth	14.2%	0.6%
Earnings Variability	8.1%	27.8%

Source: Bloomberg, FactSet, MSCI, SGA Earnings Estimates and Adjustments

Largest Contributors

XP, a leading independent broker platform operating in Brazil, was the portfolio's largest contributor in Q2. XP is disrupting Brazil's oligopolistic financial market structure, which has historically resulted in a lack of customer choice and poor customer experience. Through technology and a focus on better customer experiences, XP offers a higher selection of better products and lower fees, allowing the company to gain market share and dominate the online brokerage market. Opportunities to cross-sell other financial services, such as credit cards and insurance, help offset fee pressures from the traditional compression of commissions in the brokerage industry and make its platform stickier, leading to a high degree of recurring revenues. XP's growth opportunity is supported by low market penetration and improving financial savviness of investors in Brazil, which should lead to greater demand for different types of financial products over time. XP's stock nearly doubled in Q2 driven largely by signs of an improving macro backdrop in Brazil and positive investor sentiment. XP's quarterly results highlighted a continued difficult operating backdrop, however, as inflows remained weak and revenues were roughly flat compared to the same period last year. Despite the challenging backdrop the company saw solid growth in its financial advisor base and customer relationships, delivered strong cost controls, and saw good results in its newer verticals such as credit cards, retirement plan services, and insurance. We trimmed the position on strength during the quarter but maintained an above-average weight.

FEMSA, one of the leading consumer companies in Latin America, was the second largest contributor in Q2. FEMSA is engaged in two primary business: non-alcoholic beverages through its stake in Coca-Cola FEMSA ("KOF"), the largest independent Coca-Cola bottler in the world, and convenience stores through its OXXO stores which is the largest and fastest growing chain of convenience stores in Latin America. KOF's advanced bottling capabilities along with OXXO's scale and operating excellence provide FEMSA with considerable pricing power. Both businesses are highly predictable as KOF's products are consumed on a regular basis and have limited sensitivity to economic fluctuations while OXXO registers over 10 million transactions per day and is the third largest retailer in terms of revenues in Mexico. Growth is supported by packaging and product innovations at KOF, consumption growth in Latin America, and continued store expansion potential for OXXO

which we think can roughly double its store count from today over time. The company's drugstore initiative should add incremental growth potential over time. FEMSA's strong Q1 results, highlighted by 22% and 13% sales and operating profit growth, were positively received by the market and supported its strong stock performance in Q2. OXXO delivered impressive 18% same-store-sales growth with acceleration in both traffic volume and spend per ticket while results for KOF were solid with revenues and profits rising 21% and 20%, respectively, on 5% volume growth. We maintained an above-average weight position.

Fast Retailing, a global retail holding company of brands including Uniqlo, GU, Theory, and J Brands, was the third largest contributor to performance in Q2. Fast Retailing is known for its innovative use of clothing materials and marketing approach, creating products that serve utility and comfort, and which are less sensitive to changes in fashion trends. With most of its apparel products serving the basic and functional needs of its customers, the company benefits from re-purchase behavior leading to greater predictability and recurring revenue generation. Fast Retailing has global reach and ambitions to become the largest apparel retailer in the world with a significant growth opportunity ahead, particularly in emerging markets where the company generates a growing share of its revenues. The strong stock performance in Q2 was driven by better-than-expected quarterly results, raised full-year guidance, and overall strength in Japanese stocks. Profits came in significantly above expectations driven primarily by strong results in the Uniqlo International segment where revenues grew 35%+. Results were strong across almost all regions but especially in Greater China where sales rebounded as lockdowns ended. Management noted same-store-sales growth in Greater China reaching 40% in March. In addition to management's upward revision of full-year guidance the company also published a long-term strategic vision document with a lofty long-term sales target of 10 trillion yen, more than four times higher than the 2.3 trillion yen the company generated during the last fiscal year. We maintained an above-average weight position.

Raia Drogasil and **Asian Paints** were the fourth and fifth largest contributors to performance.

Largest Detractors

JD.com, China's largest retailer, was the largest detractor from performance in Q2. JD runs a hybrid e-commerce site supporting first-party and third-party goods. Its e-commerce site and nationwide fulfillment and courier network is designed to quickly deliver attractively-priced, authentic, foreign and domestic merchandise across China. The company's scale and strong reputation for authentic goods and superior delivery capabilities provide the company with pricing power and customer loyalty. We see an attractive growth opportunity ahead for JD as it continues to grow its active user base, currently over 500 million, while the company's focus on improving the selection of goods on the platform should support further penetration among existing users and greater repeat purchase behavior. Further e-commerce penetration in China should support growth as well. Weakness in JD's stock in Q2 was largely driven by concerns around China's economic recovery and weaker-than-expected consumer spending trends. JD's Q1 results were solid, however, as the company grew sales modestly and delivered better-than-expected margin improvement. The company's focus on scaling down unprofitable businesses, such as community purchase, and its decision to cut back on less attractive SKUs to get rid unprofitable categories, such as the supermarket category, has helped its margins and should support greater profitability moving forward. User growth was positive with daily-average-users growing double digits and the company's efforts to improve 3rd party merchandise selection appeared to be heading in the right direction as well. We added to the position on weakness during the quarter but maintained a below-average weight position.

H World Group, China's second largest and most profitable hotel chain, was the second largest detractor in Q2. H World Group is a leader in the Chinese hospitality industry and benefits from its strong brands, scale, use of technology, and strong management team. The reliability of H World Group's brands has led to significant consumer trust which in turn has enabled the company to grow a 126-million-member strong loyalty base. The strong loyalty among its customers, highlighted by about 75% of bookings being generated via its loyalty program, supports its pricing power and has helped the company grow profitably and reliably over time. A majority of H World Group's operating profit comes from a franchised business model where the company takes a standard percentage of gross revenues from underlying franchisees, which is recurring and asset light. With around 8,500 hotels in operation and more than 2,000 hotels in its pipeline we see an attractive opportunity for H World Group to continue expanding its hotel footprint over time and translate that into meaningful earnings and cash flow growth. The uncertainty around China's economic recovery weighed on H World Group's shares in Q2 despite the company reporting solid Q1 results. Revenues grew 67% year-over-year, better than expected, and key metrics such as the company's revenue-per-available-room (RevPAR) and average-daily-room-rate (ADR) recovered to 118% and 125% of

1Q 2019 levels in China. Management also noted cautiously optimistic franchisee trends, particularly in lower tier cities, which should bode well for future growth. We still see an attractive longer-term growth opportunity ahead but acknowledge that the pace of expansion may slow due to the uncertain economic environment, slower recovery in business travel, and property market issues. We reduced the target to a below-average weight given the more uncertain near-term backdrop.

Shandong Weigao, a leading Chinese medical device company, was the third largest detractor from performance in Q2. Shandong Weigao benefits from its manufacturing scale and strong R&D capabilities which enable the company to launch innovative, higher margin products over time. As most of the company's products are consumables, which must be replaced on an ongoing basis, the company's revenue generation is highly predictable and recurring. While we view Shandong Weigao as being well-positioned to participate in the growth of healthcare in a rapidly aging China, the company continues to see near term pressures from the Chinese government's value-based purchasing (VBP) policies. Specifically, government initiatives of VBP have lowered the prices paid for many medical consumables, pressuring the company's revenues and margin. These pressures and the broader macro issues weighing on Chinese stocks, negatively impacted the stock in Q2. China's strict Covid policies and lockdowns have also been headwinds until recently and weighed on the company's 2022 results. While sales grew just 4% in 2022, EPS grew 21% and the company delivered stable operating margins despite pressure on gross margins from VBP policies. In line with our thesis the company continued to gain customers and market share, benefiting from its scale advantages. While the recent results were good considering the difficult environment, we expect the Chinese government's VBP policies to continue to negatively impact the company throughout 2023. However, we believe that lower prices and the elimination of the "middlemen" in the healthcare system should enable Shandong Weigao to significantly increase market share in the coming years. As the company is the most scaled player in China with the lowest cost of manufacturing and R&D capabilities to continue to launch new products, we view the company as being well-positioned to deliver attractive long-term growth moving forward. We maintained an average weight position in the company.

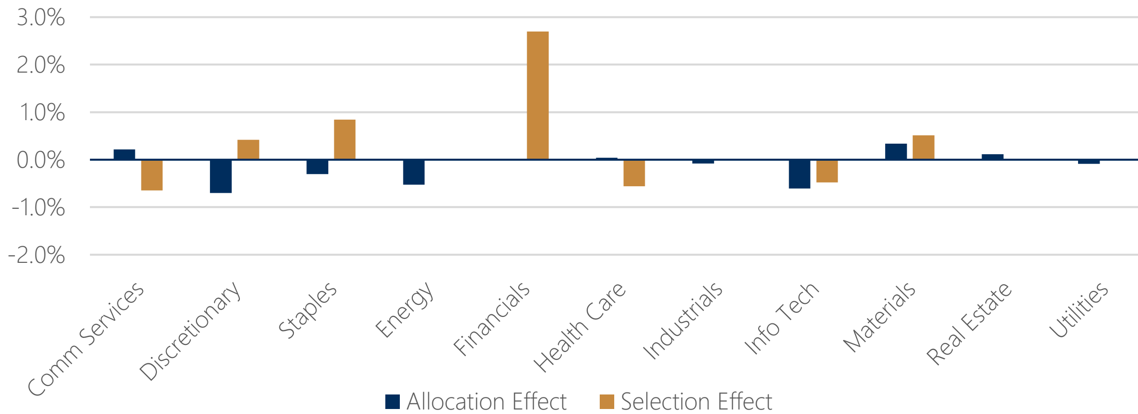
Bud APAC and **Kakao** were the fourth and fifth largest detractors from performance.

Portfolio Activity

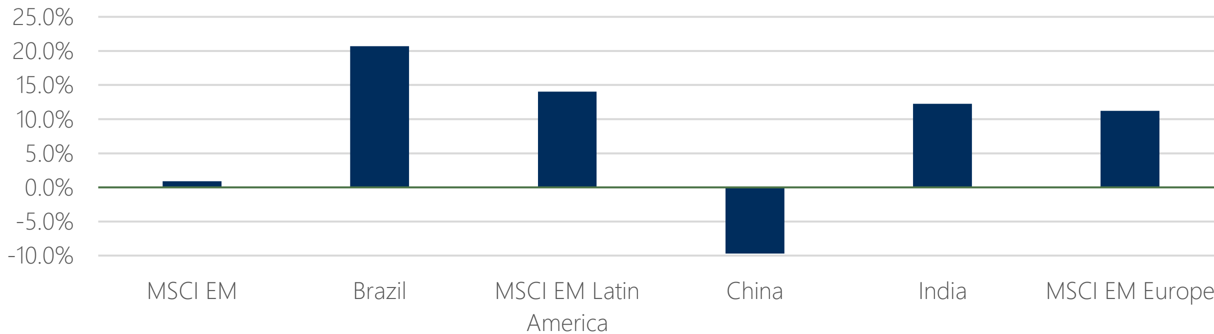
Portfolio turnover was below-average in Q2 with no new positions added or existing positions liquidated. We trimmed positions in adidas, MercadoLibre, Raia Drogasil, and XP on strength while adding to positions in Infosys, Mengniu Dairy, JD.com, Bud APAC, and Tencent on weakness.

Market and Portfolio Attribution

Source: FactSet, MSCI



Source: FactSet, MSCI



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

Outlook

Emerging markets delivered muted returns in Q2 as weakness in Chinese equities offset strength in Latin America, India, and EM Europe. Near-term growth expectations declined further over the course of the quarter given continued uncertainty around global growth and a weakening outlook in China. As we have noted in prior letters, the more predictable and resilient growth companies in the SGA portfolio have historically been rewarded during periods of slowing growth and rising uncertainty. This trend continued in Q2 with the portfolio outperforming the MSCI EM index by +1.2% (Net), bringing the outperformance over the past 12 months, a period of moderating growth expectations, to +9.7% (Net).

Looking ahead we expect emerging market profits to remain under pressure given slowing global growth due to the lagged impact of monetary tightening. China's likely pivot towards stimulus along with signs of moderating inflation and possibly less restrictive monetary policies in some regions could support a recovery in growth, albeit with uncertain timing. For now, however, we see limited evidence that we are on the cusp of a cyclical recovery, while also remaining cautious on the longer-term growth outlook given secular growth headwinds. Irrespective of the ebb and flow in macroeconomic conditions and expectations, the success of our approach is rooted in identifying companies that have unique characteristics which enables them to grow predictably and sustainably at above average levels over the long-term with lower levels of risk. We are enthusiastic about the long-term potential for the portfolio today with the companies in aggregate expected to compound earnings by 20% per year over the coming three years with good valuation support. We have confidence that the high quality and less volatile fundamental growth potential offered by the companies in the SGA portfolio will be rewarded over time and provide a smoother ride for our clients in emerging markets.

We thank you for your continued support and welcome any questions or comments.

Organizational Update

As communicated to you over the past year, co-founder Gordon Marchand retired from SGA effective July 1st after a long and distinguished career. He will continue to serve on the SGA Advisory Board.

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 Emerging Markets 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 Emerging Markets Growth portfolio for the past year. SGA earnings growth forecasts are based upon portfolio companies' non-GAAP operating earnings.

Performance Results	Q2 2023	YTD 2023	1-Year	3-Year	5-Year	Since Inception
SGA Emerging Markets Growth (Gross)	2.3%	7.4%	12.4%	1.9%	4.2%	5.7%
SGA Emerging Markets Growth (Net)	2.1%	7.0%	11.4%	1.0%	3.3%	4.8%
MSCI EM (Net TR)	0.9%	4.9%	1.7%	2.3%	0.9%	1.6%
MSCI EM Growth (Net TR)	-0.7%	3.3%	-0.5%	-1.4%	0.5%	2.6%

	Total Return							3 Year Standard Deviation						
Period	Before Fees	After Fees	MSCI EM Net TR Index	MSCI EM Growth Net TR Index	MSCI ACWI with EM Exposure Net TR Index	Number of Portfolios	Composite Dispersion	SGA Composite	MSCI EM Net TR Index	MSCI EM Growth Net TR Index	MSCI ACWI with EM Exposure 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
Aug. 1 - Dec. 31, 2014	-1.38%	-1.73%	-9.59%	-7.09%	-8.27%	Five or Fewer	N/A					0.193	5,332	100%
2015	-3.00%	-3.82%	-14.92%	-11.34%	-13.45%	Five or Fewer	N/A					0.094	5,318	100%
2016	2.10%	1.24%	11.19%	7.59%	11.73%	Five or Fewer	N/A					0.096	5,672	100%
2017	36.31%	35.19%	37.28%	46.80%	35.10%	Five or Fewer	N/A	12.64%	15.35%	14.69%	14.10%	0.130	9,971	100%
2018	-11.00%	-11.76%	-14.57%	-18.26%	-14.97%	Five or Fewer	N/A	12.87%	14.60%	14.98%	13.30%	0.116	9,096	100%
2019	30.97%	29.88%	18.42%	25.10%	21.30%	Five or Fewer	N/A	13.38%	14.17%	15.41%	13.95%	5	12,347	0%
2020	31.22%	30.13%	18.31%	31.33%	12.21%	Five or Fewer	N/A	18.45%	19.60%	19.96%	18.62%	6	18,780	0%
2021	-14.37%	-15.10%	-2.54%	-8.41%	-10.23%	Five or Fewer	N/A	18.56%	18.33%	18.96%	17.98%	86	22,899	0%
Since Inception (August 1, 2014)	7.79%	6.88%	4.33%	6.55%	3.00%			15.70*	16.74*	16.91*	15.89*			

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 2014, 2015, and 2016 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. The SGA Emerging Markets Growth Composite was created in January 1, 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 Emerging Markets Growth composite has had a performance examination for the periods August 1, 2014 - December 31, 2021. The verification and performance examination reports are available upon request.

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The SGA Emerging Markets Growth Composite contains fee paying and non-fee paying discretionary global large cap emerging growth equities that invests in companies around the world that are direct beneficiaries of the rapid emergence of the middle class across many developing economies and its related wealth creation. For comparison purposes the composite is measured against the MSCI ACWI with EM Exposure Net; MSCI Emerging Markets Growth Net and MSCI Emerging Markets Net Total Return Indices. The benchmarks are the most widely followed indices to track emerging market performance. The 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

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. Returns are shown Gross and Net of management fees and include reinvestment of all income. It should be noted that the account in this composite is a proprietary account owned by SGA and in an incubation period to market to current and prospective clients. Therefore, the account is not charged an investment advisory fee. However, for net performance SGA will utilize a model fee of 0.85% which is the highest fee applicable to this strategy. 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 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.

The standard investment management fee schedule for the firm is 0.85% on the first $25 million; 0.65% on the next $75 million and 0.50% over $100 million. Actual investment advisory fees incurred by clients may vary from the standard fee schedule. Past performance is not indicative of future results.

Sustainability Report

Q2 2023

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Danaher

Over the quarter we met with Danaher's Mitchell Rales (co-Founder and Board Member) and Linda Filler (Lead Independent Director) to discuss a current proxy item and better understand the co-Founders' long-term strategy for the business.

There is a current recommendation from ISS to vote against select members of the Audit Committee in response to the co-Founders' pledging of Danaher shares to secure personal liens. We note this kind of activity is prohibited for directors and officers; however, there is an exemption for the two co-Founders which has been in place for decades. While we are of the view that the current risk to Danaher is minimal as the amount of debt relative to the value of shares pledged is low (less than 25%), we requested the company institute a formal policy of capping the co-Founders' ability to pledge shares as collateral going forward. We ultimately decided to vote against the re-election of select Audit Committee members, noting that the underlying personal motivations for these pledges and tax avoidance is not to the benefit of minority shareholders.

On corporate strategy, we discussed the co-Founders' long-term plans for the business including succession planning and acquisition strategy. From our discussions, we confirmed the co-Founders' long-term mindset and alignment to the business and decided it is in the best interest of shareholders to keep Stephen Rales' (co-Founder) appointment as Chair of the Board given his deep understanding of the company and long-term successful leadership, although he is not independent.

YUM! Brands

We engaged with YUM! Brands' ESG leadership for an update on their Sedex partnership and to review several shareholder proposals prior to the upcoming annual meeting of shareholders.

YUM's supply chain is vast and complex given the nature of its operations, and we are pleased to see management continue to deepen their relationship with Sedex. Sedex is recognized as the leading industry data platform for supply chain assessment to store, analyze, share, and report on sustainability practices. YUM! Brands began working with the organization a few years ago, focusing on high-risk, high-value protein suppliers first (the company has over 6,000 protein suppliers alone) in Europe and Australia. Last year, YUM! Brands undertook a SMETA audit, which is a Sedex audit that is executed by 3rd parties to assess standards of labor, health and safety, environmental performance, and ethics within its protein supply chain. Under the program, companies are provided with a corrective action plan to help improve performance in deficient areas. This partnership provides YUM! Brands with an opportunity to collaborate with peers and collectively leverage data across a wide array of suppliers. We will continue to monitor progress in this area as YUM! Brands' involvement expands beyond protein supply chains.

We also discussed several shareholder proposals, as summarized below:

1. **Proxy proposal to reduce plastics usage:** Management recommends against, ISS recommends for, while Glass Lewis recommends against. The company has a fairly robust packaging policy, with goals that include reducing virgin plastic content by 10% by 2025 and moving consumer-facing plastic packaging to be reusable, recyclable or compostable across all brands by 2025. However, a report summarizing the risk of higher costs and regulations for using virgin plastics would be worthwhile. **SGA voted for the proposal.**
2. **Proxy proposal for report on lobbying payments and policies:** Management recommends against, ISS recommends for. YUM! Brands is very transparent in terms of lobby payment disclosure, including detailing every contribution greater than $150. A report would be an unnecessary cost and use of internal resources. **SGA voted against the proposal.**
3. **Proxy proposal to adopt share retention policy for senior executives:** Management recommends against, ISS recommends for. Current ownership requirements are in line with market practices and exceed internal requirements for the key positions of CEO and COO. **SGA voted against the proposal.**
4. **Report on paid sick leave:** Management recommends against, ISS recommends for. Paid sick leave policies are legally and practically the responsibility of franchisees, not YUM, as franchisees are the employers of record. **SGA voted against the proposal.**

Salesforce

We met with senior members of Salesforce's ESG team for an update on Board and management compensation programs: two areas we have previously flagged as pertinent ESG issues to the business.

Salesforce has been proactive in investor outreach and engagement over recent times following a public activist campaign. Many shareholders have shared similar concerns to ours on topics including Board tenure, composition, and management compensation. We are pleased to note that the company has taken decisive action. The Board has appointed a new Lead Independent Director, Robin Washington, and sufficiently expanded her role following dissatisfaction with the performance of the prior Director in this role. Furthermore, there have been five new Board appointments over the last 18 months, including a member from activist hedge fund, ValueAct, and the CFO of Mastercard. Compensation policies have been modified to emphasize performance and ESG metrics, and include the lowering of the CEO's long-term incentives. Performance targets for PRSUs (Performance Restricted Stock Units) were enhanced to better align to the new strategy for Salesforce, and the company is on track to reduce share-based compensation to 9% of revenues or below.

Lastly, we discussed the shareholder proposal to separate the Chair and CEO roles. We are of the view that this proposal is sub-optimal in that it would prevent the Founder from serving as Chairman in the future, which may not be in the long-term interests of shareholders. We re-emphasized the value in establishing an independent Chair and again took the opportunity to justify our case for implementing a gross annual share dilution cap akin to peers.

Workday

We engaged with management of Workday for an update on developments in corporate governance and executive compensation, continuing our dialogue from recent quarters.

Management continues to argue in favor of the dual-class share structure, asserting it is in place to protect the interests of both employees and customers, and takes pride in their leadership in other areas of governance including: majority voting for board election, a diverse, majority-independent board, and (presumably) a separation of the CEO and Chair roles next year when Carl Eschenbach becomes the sole CEO. We reiterated our preference for the company to accelerate the sunsetting of the dual-class structure ahead of its 2032 timeframe, particularly in light of the company's growth and current market value. On the topic of compensation, the new CEO's sign-on grants have raised some eyebrows from both shareholders and proxy voting groups. Less than half of this grant is performance-based, as a function of share performance over the next 5 years. We urged the company to significantly increase the mix of performance-based vesting as a means to enhance its culture and make the company more attractive to a broader set of shareholders. Lastly on stock-based compensation (SBC), management continues to assert that both share dilution and SBC will improve as hiring has moderated from the Covid boom. We pressed the company to reduce gross share dilution and set a cap akin to ServiceNow's 1.5% per annum ceiling.

CDP's Science-Based Targets Campaign

During the quarter we were pleased to again lend our support to CDP's annual Science-Based Targets Campaign, a letter campaign asking 2,100 high-impact companies to commit to and set 1.5°C-aligned Science-Based Targets. Last year's campaign was supported by over 300 peer organizations, up over 30% from the prior year, and we expect these ranks to increase further when the final count of participants is published. Our participation in this year's campaign follows our support for CDP's Non-Disclosure Letter Campaign in Q1.

Proxy Voting Summary Q2 2023

	Number of Resolutions	For	%	Against	%	Abstain	%
U.S. Large Cap Growth	415	366	88%	49	12%	NIL	0%
Global Growth	382	343	90%	39	10%	NIL	0%
International Growth	284	270	95%	14	5%	NIL	0%
Emerging Markets Growth	150	127	85%	23	15%	NIL	0%
Global Mid-Cap Growth	282	266	94%	16	6%	NIL	0%

Source: SGA, ISS

Carbon Risks Q2 2023

	Carbon Emissions	Carbon Intensity	Weighted Average Carbon Intensity
SGA Global Growth	14.4	67.2	72.5
MSCI ACWI	91.7	179.1	139.1
SGA Relative Exposure	-84%	-63%	-48%
SGA U.S. Large Cap Growth	6.5	28.9	27.9
Russell 1000 Growth	10.7	48.0	32.7
SGA Relative Exposure	-40%	-40%	-15%
SGA Emerging Markets Growth	18.1	37.9	37.4
MSCI EM	294.2	390.4	321.7
SGA Relative Exposure	-94%	-90%	-88%
SGA International Growth	19.3	72.1	91.2
MSCI ACWI ex-USA	162.0	214.7	175.9
SGA Relative Exposure	-88%	-66%	-48%
SGA Global Mid Cap	13.3	45.9	35.8
MSCI ACWI Mid Cap	193.9	260.1	215.6
SGA Relative Exposure	-93%	-82%	-83%
	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.