International Growth Commentary

Q2 2023

Performance

SGA's International Growth portfolio returned 5.6% (Gross) and 5.3% (Net) in Q2, outperforming the 2.4% return for the MSCI ACWI ex USA Index and 1.9% return for the MSCI ACWI ex USA Growth Index.

Highlights

- Portfolio outperformed the MSCI ACWI ex USA Index and the MSCI ACWI ex USA Growth Index in Q2
- Concerns around slowing growth in China weighed on the index, offsetting strong returns in Latin America, Europe, India, and Japan
- XP, STERIS, and FEMSA contributed most positively to returns, while Shandong Weigao, Sartorius, and Yum China detracted the most
- A new position in Universal Music Group was initiated while several positions were trimmed on strength and others 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

Uncertain China Recovery Weighs on International Markets Despite Strong Returns Elsewhere

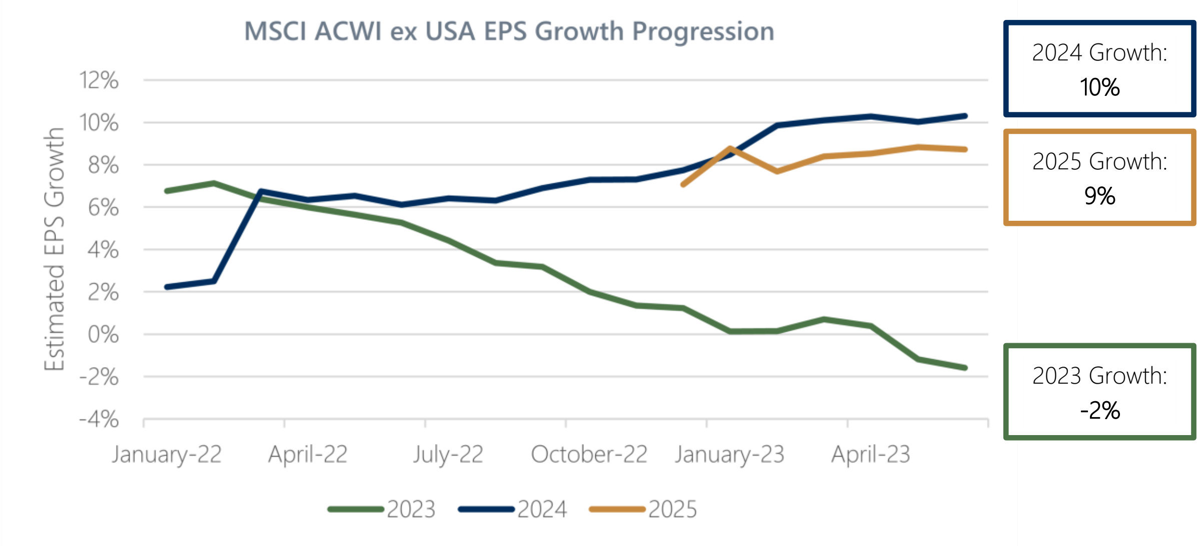
International markets continued their rebound in Q2, but the pace moderated as muted returns in emerging markets offset better performance in developed markets. Latin America, India, Japan, and Europe were among the best-performing markets and regions, while China, Malaysia, Thailand, Hong Kong, and South Africa were among the worst performing.

China was the second worst performing 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 China and other markets with greater dependence on the Chinese economy weighed on the broader market and negatively impacted several of our portfolio's holdings, including Shandong Weigao, Yum China, and AIA Group, although these companies delivered relatively resilient earnings results.

Strength in Latin American markets was supported by a rebound in Brazil, due to easing fiscal policy concerns and moderating inflation, and continued strength in Mexican stocks, due to improving economic conditions and promising near-shoring trends. The positive backdrop in the LatAm region supported several of the portfolio's holdings, including XP and FEMSA. Likewise, better-than-expected growth in India and Japan along with positive market inflows supported the outperformance of Indian and Japanese stocks, which helped our positions in HDFC Bank and Recruit. European markets also performed well despite a still challenging inflation backdrop and a more hawkish stance from the European Central Bank given better-than-feared economic data. Several of the portfolio's European positions were among the better performing during the quarter including Alcon and ICON, which benefited from the positive backdrop in addition to good quarterly results.

Near-term earnings expectations declined further in Q2 with 2023 earnings growth for the MSCI ACWI ex USA Index now expected to be -2%, down from expected growth of +1% at the beginning of the year. 2024 earnings growth expectations, however, remain relatively high at +10% and have improved from +8% at the start of the year. While China's likely pivot towards stimulus may provide some support for growth, the extent of its stimulus measures remains uncertain and any subsequent benefits are 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 16% per year over the coming three years, much faster than the 6% growth expected by the MSCI ACWI ex USA Index and likely with much greater resilience.

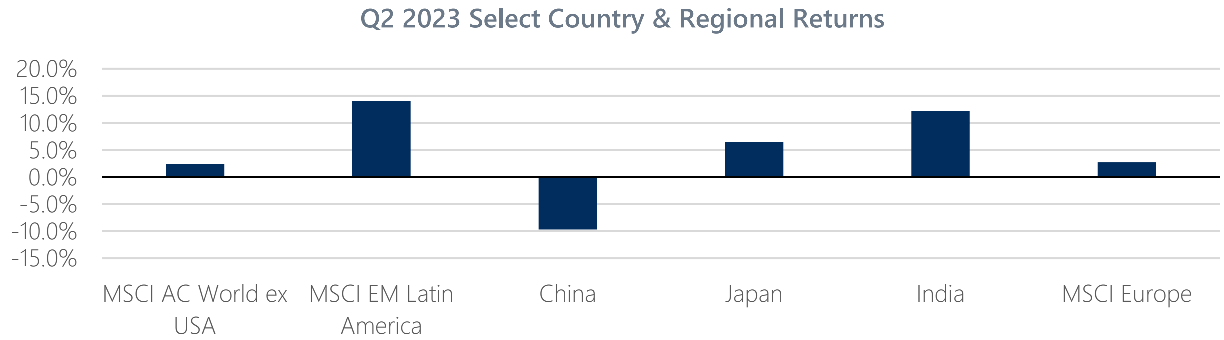
International Growth Commentary



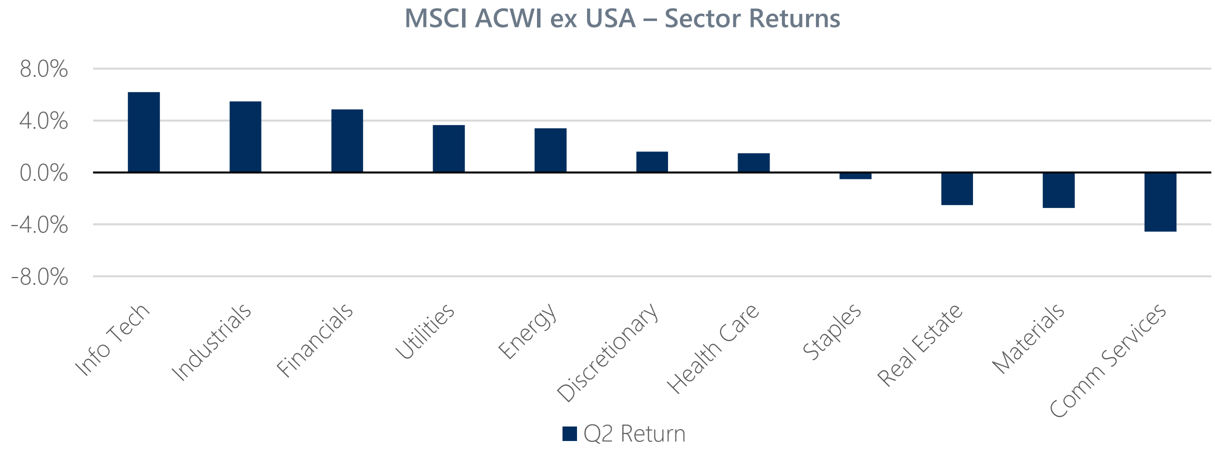
Source: FactSet, MSCI

Since Portfolio Inception (3/1/2015)	SGA International Growth	MSCI ACWI ex USA
EPS Growth	12.1%	5.6%
Earnings Variability	12.2%	48.7%

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



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



Source: FactSet, MSCI

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 and maintained a below-average weight.

STERIS, a leader in sterilization products and services, was the second largest contributor in Q2. STERIS' products and services help sterilize medical products to prevent infection in multiple healthcare settings and are used by healthcare providers, pharmaceutical manufacturers, and medical device companies. As a scaled leading player focused on healthcare settings, STERIS offers high quality competitive products and reliable services in a highly regulated industry. Given that the cost of the company's products and services are a small percentage of the overall costs for the customer, and STERIS offers efficiency advantages as well as reputational comfort, it can price its products and services more attractively than its peers. Demand is recurring for medical procedures which require these products and services, such as endoscopic procedures and surgeries as well we pharmaceutical products such as vaccines and biologics that must be delivered in sterile formulation. With ~80% of STERIS' revenues coming from consumables or services, its revenue generation is highly recurring. We expect STERIS to grow organically along with overall growth in healthcare consumption, and as a leader in a fragmented industry, it is expected to continue to make acquisitions to increase its density and footprint. STERIS delivered strong fiscal Q4 results, leading to a strong rebound in its shares in Q2. The company had experienced several challenges earlier in the year, mostly due to supply chain issues, which led them to lower expectations. Overcoming these challenges in their latest quarter and benefitting from a strong recovery in healthcare procedures as the pandemic continues to wane, drove impressive 16% and 13% revenue and EPS growth with strength across most segments. Growth was solid across capital equipment, consumables, and services, and it is evident that the company is now enjoying the benefits of having increased its installed base significantly during the pandemic as medical procedures and demand for consumables are recovering. We maintained an above-average weight position in the company.

FEMSA, one of the leading consumer companies in Latin America, was the third 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 raised our position in FEMSA to an above-average weight.

Alcon and **ICON** were the fourth and fifth largest contributors to performance.

Largest Detractors

Shandong Weigao, a leading Chinese medical device company, was the 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 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.

Sartorius, a supplier of laboratory and process equipment to the biopharmaceutical industry, was the second largest detractor from performance in Q2. Its bioprocessing unit provides essential materials that are used in the production of biopharmaceutical products such as monoclonal antibodies and vaccines. We believe this is a very attractive business well positioned for long term growth given the continued growth of production in biologic products. As its products are a relatively small, but vital, part of the production costs for the industry, the company has developed strong pricing power. With consumables accounting for about 65% of total revenues, its revenue generation is highly recurring and predictable. Additionally, once its products are implemented into biologic production, there is a high level of stickiness to the materials used in production because of regulatory requirements. Several near-term headwinds are impacting the business, however. First, the production of Covid vaccines has diminished which is creating a challenging growth comparison for the company. Secondly, it turns out that many customers hoarded essential Sartorius products during the pandemic as they were worried about availability given supply chain challenges experienced by Sartorius and its competitors. As the supply chain is normalizing, customers are starting to destock and use the inventory they accumulated, creating a revenue headwind, which resulted in Sartorius revising its guide for 2023. We are unsure about the exact timing of when this destocking will end; however, we believe demand could normalize by 2024 based on our industry checks. Third, there is also some impact from smaller biopharma customers not getting funding, although we do not believe this has a significant impact on Sartorius. These near-term headwinds, as well as an announcement of an expensive acquisition (albeit quite strategic for long term growth) negatively impacted the stock. Despite the near-term headwinds and uncertainty, we continue to believe in the longer-term opportunity for Sartorius and maintained our below average-weight position.

Yum China, China's leading restaurant company, was the third largest detractor in Q2. Yum China operates nearly 13,000 restaurants in 1,800 cities and towns spanning every province and autonomous region across mainland China. Yum China has exclusive rights to operate and sub-license the KFC, Pizza Hut, and Taco Bell brands in China under a 50-year master license agreement which includes a 3% royalty rate. Yum China has built considerable brand equity during its long history of operating in China with KFC and Pizza Hut the preferred brands in their respective categories. The company's scale also affords it advantages in terms of supply chain, advertising, and quality of real estate. Its restaurants have billions of customer visits annually and revenue is highly recurring given the accessible price points and diversity across dayparts and geographies. In addition, the company's KFC and Pizza Hut loyalty programs have over 400 million members combined and enhance customer engagement considerably. With attractive unit economics and the under-penetration of quick service and casual dining chains across China, the company has a significant opportunity to grow its units over time. The industry is also highly fragmented with Yum China, the largest operator, having well under 10% market share. The broad-based weakness in Chinese stocks weighed on Yum China's shares during the quarter despite the company reporting better-than-expected Q1 results. Same-store-sales grew an impressive 8%, well ahead of expectations, and operating profits more than doubled as restaurant margins reached all-time highs. The increased foot traffic and pent-up demand as China abandoned its strict Covid protocols benefited results. New unit growth of 9% was a little lower than usual but it is expected to reaccelerate later in the year. We continue to view the growth opportunity for Yum China favorably given still plenty of room for unit expansion and have high confidence in the management team's ability to execute. We added to the position on weakness but maintained an average weight position in the company.

MercadoLibre and **Infosys** were the fourth and fifth largest detractors from performance.

Portfolio Activity

Portfolio turnover was slightly below-average during the quarter. We initiated a new position in Universal Music Group and added to existing positions in AIA Group, Atlassian, HDFC Bank, Infosys, and Yum China on weakness while adding to our position in Canadian Pacific due to high conviction in their fundamentals. We trimmed positions in SAP, Wal-Mart de Mexico, Aon, Heineken, Novo Nordisk, L'Oreal, Nestle, Linde, Adyen, FEMSA, ICON, Sysmex, Temenos, and XP on strength.

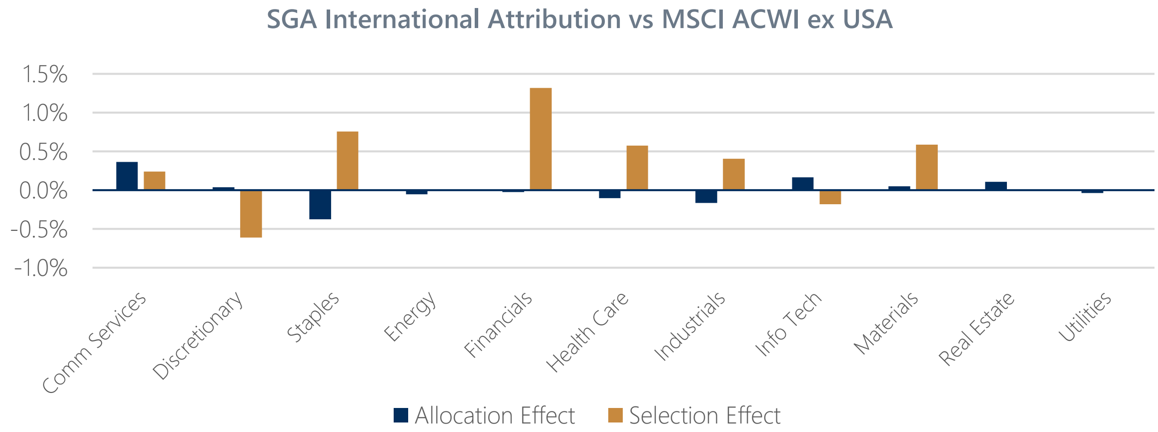
New Positions

A new position in **Universal Music Group** (UMG) was initiated in Q2. UMG is the world's leading music label with about a third of the global music industry market share. Notable record labels under its ownership include Interscope Records, Capitol Music Group, Def Jam, and EMI, and the company represents artists that vary across music eras and geographies. 77% of UMG's revenues comes from its recorded music business where it promotes and markets recorded music for its artists, sharing in the economics and maximizing their global reach. 17% of revenues comes from music publishing where UMG discovers and works with songwriters and collects royalties around the world for their work used in recordings and other public uses of music. The remaining 6% of revenue comes from merchandising that is lower margin but incremental to the business and helps fans connect closely with their favorite artists.

UMG's catalog and its lineup of superstar artists gives it pricing power versus distributors and other platforms where music is integral to the consumer value proposition. The advent of streaming has shifted the music label business to become more repeatable as the labels now get paid every time a song is played versus the previous transactional process that relied on the sale of individual songs and albums. Given this shift, roughly 60% of UMG's revenues are truly recurring as of 2022, and this proportion should continue to increase as subscription streaming revenue grows over time. One of the major positives of music consumption is its recurring nature as most people listen to the same songs over and over. This is an important advantage for UMG as it has amassed one of the largest catalogs in the industry. It is estimated that approximately 70% of music consumption comes from catalog music versus new releases due to the repeat listening habits of its consumers. This gives UMG significant negotiating leverage and a seat at the table in all discussions around the industry's direction, ensuring relevance for the foreseeable future. It also leads to a very stable, annuity-like stream of revenues that will grow alongside the market, since the agreements have already been made and the costs have already been incurred, leading to attractive, margin-accretive growth. With just 30% of the population in top developed markets subscribing to a streaming platform and penetration significantly lower in developing markets (~5%), we see an attractive growth opportunity ahead for UMG as music streaming continues to grow. Additionally, the company also has a large opportunity to grow with new and emerging platforms including social media, gaming, and digital fitness.

Among the risks we are monitoring for UMG include the possibility of changing industry dynamics and disruption from new emerging labels or direct listings from artists which could impair UMG's value proposition, profitability, and growth potential, including the need to provide better terms for artists. The development of AI tools to generate music also creates uncertainty around the future development of content and copyright protections. We are also mindful of the importance of maintaining a healthy and profitable ecosystem of digital service providers (i.e. Spotify, Apple Music, etc.), which may constrain UMG's pricing power.

Market and Portfolio Attribution



Source: FactSet, MSCI

Summary

International markets delivered positive, but muted returns in Q2 as weakness in Chinese equities offset strength in Latin America, Europe, Japan, and India. 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 ACWI ex USA index by +2.9% (net), bringing the outperformance over the past 12 months, a period of moderating growth expectations, to +6.3% (net).

Looking ahead we expect corporate 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 16% 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.

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 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	Q2 2023	YTD 2023	1-Year	3-Year	5-Year	Since Inception
SGA International Growth (Gross)	5.6%	14.1%	20.0%	8.4%	8.5%	8.4%
SGA International Growth (Net)	5.3%	13.6%	19.0%	7.5%	7.6%	7.5%
MSCI ACWI ex USA (Net TR)	2.4%	9.5%	12.7%	7.2%	3.5%	3.8%
MSCI ACWI ex USA Growth (Net TR)	1.9%	10.7%	13.3%	4.0%	4.1%	4.7%

	Total Return						3 Year Standard Deviation					
Period	Before Fees	After Fees	MSCI ACWI ex-USA Net TR Index	MSCI ACWI Growth ex-USA Net TR Index	Number of Portfolios	Composite Dispersion	SGA Composite	MSCI ACWI ex-USA Net TR Index	MSCI ACWI Growth ex-USA 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
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%	325	22,899	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

Q2 2023

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.