Emerging Markets Growth Commentary

Q1 2024

Performance

SGA's Emerging Markets Growth portfolio returned -5.2% (Gross) and -5.4% (Net) in Q1, compared to 2.4% and 3.4% for the MSCI EM and EM Growth Indices, respectively.

Highlights

- Portfolio declined in Q1, lagging the broader market recovery fueled by rising investor optimism around the macro-economic backdrop.
- Market leadership was concentrated in semis, energy, and bank stocks, while consumer staples companies continued to lag.
- Positions in Fast Retailing, H World Group, and Bank of Central Asia contributed most positively to performance. Positions in AIA Group, HDFC Bank, and Naver detracted most.
- New positions in Tata Consulting Services and TSMC were initiated during the quarter. Positions in Yum China, XP, Infosys, Fast Retailing, JD.com, and Shandong Weigao were trimmed while positions in HDFC Bank, MercadoLibre, and Naver were added to.
- Portfolio is forecasted to grow earnings 15% per year over the next three years, in line with its long-term average, while the 15% expected growth for the EM Index is well-above average and less reliable.

Rising Optimism Leads Markets Higher

Following a tepid start to the year, renewed optimism around the global macro-economic backdrop, outside of China, sent broad market indices higher in Q1. The MSCI EM Index rose 9.3% following its January lows to finish the quarter up 2.4%. The SGA EM portfolio performed in-line with the market initially but lagged during the strong rebound. The largest contributor to market returns in Q1 were Semi and Semi Equipment stocks, which returned 20%+ and accounted for nearly all the quarter's gains on the back of continued excitement around AI and chip demand. While we initiated a small position in TSMC during quarter, which we discuss in more detail below, our portfolio's lower exposure to Semis and Technology stocks broadly were headwinds to portfolio performance during the quarter. Companies in the Energy sector, the best performing over the past year, also continued their outperformance in Q1 as oil prices climbed higher amid rising tensions in the Middle East and broader concerns around supply. Our lack of exposure to Energy stocks has also been a headwind to relative performance over the last year, however, we remain committed to our process and maintain our focus on highly predictable growth companies, which we have yet to identify in the Energy sector given our highly selective quality criteria.

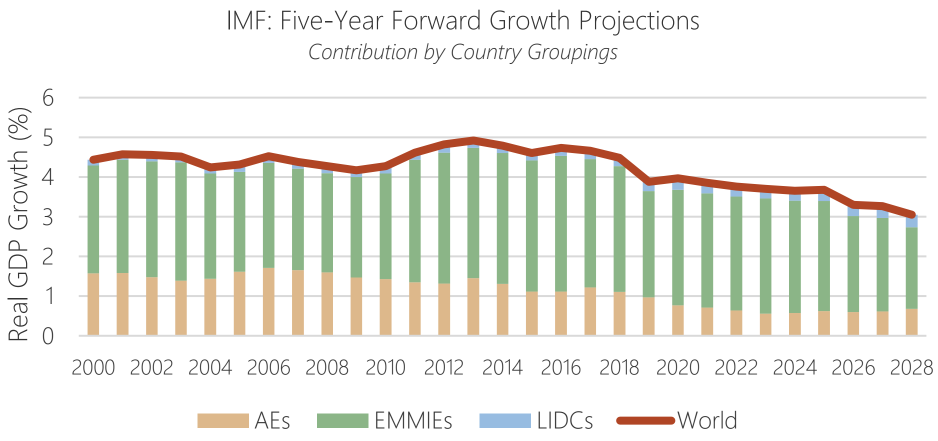
Growth expectations for the global economy continued to inch higher in Q1 with the IMF raising their 2024 and 2025 global growth projections to 3.1% and 3.2% respectively, reflecting greater resiliency in the U.S. and strong and improving growth outlooks in key emerging markets such as India, Brazil, and Mexico. Earnings growth estimates also climbed higher in Q1, after having bottomed in 2023, which provided a favorable backdrop for companies with greater sensitivity to fluctuations in the macro backdrop. Additionally, the continued underperformance of Consumer Staples companies, a large component of our portfolio due to greater predictability and resilience of the growth opportunities we have identified, weighed on the portfolio's performance in Q1. Despite their recent underperformance we continue to find good growth opportunities over our 3-5 year investment horizon with attractive valuations.

MSCI EM: NTM EPS Year-over-Year % Change

Source: FactSet, MSCI.

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

While recent upward revisions to GDP and profit estimates reflect better-than-previously-expected near-term growth, the longer-term outlook remains muted with global GDP growth expected to be below the prior decade's trend. Looking beyond the next few years several factors add to uncertainty for the global economy, namely de-globalization, rising geopolitical tensions, higher interest rates, fading fiscal support given high sovereign debt levels, and slowing secular growth in China. These issues are likely to drive greater volatility in global economic growth and higher macro-uncertainty which in our view should provide support for higher quality companies that can grow earnings and cash flows with greater durability and predictability.



Source: IMF staff calculations, October 2023. The predicted variable is real GDP growth. Forecasts from April World Economic Outlook (WEO), horizontal axis years refer to the year for which a forecast is made, for example 2028 forecast based on April 2023 WEO. "AEs" is advanced economies, "EMMIEs" is emerging market and middle-income economies, "LDICs" is low-income developing countries.

Despite a challenging start to 2024 for the portfolio, we remain enthusiastic about the longer-term opportunity given the attractive growth opportunities we continue to identify through our bottom-up research process and the increasingly attractive cash-flow based valuation of the portfolio, which is currently trading at an all-time-high 3.8% enterprise yield.

Largest Contributors

Fast Retailing, a global retail holding company of brands including Uniqlo, GU, Theory, and J Brands, was the largest contributor to performance in Q1. 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. Fast Retailing's shares benefited from good quarterly results with profitability surprising positively and the company showing particularly strong growth across geographies in its International Uniqlo business which saw revenues and operating profits increase 23% and 36% respectively. Consolidated revenues and profits grew 13% and 25%. The company's initiatives in product development and strong marketing efforts continued to drive an expansion in its customer base which helped drive the strong results across North America, Europe, and Asia. Results in China were strong as the company notched 23% sales growth and 20%+ same-store-sales growth. While revenue growth of just 2% in its Uniqlo Japan segment was weak, profits grew 18% on better-than-expected gross margin expansion. We trimmed the position on strength given our valuation discipline but continue to view Fast Retailing's longer-term growth opportunity favorably.

H World Group, China's second largest and most profitable hotel chain, was the second largest contributor in Q1. 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 200+ million loyalty base. The strong loyalty among its customers, highlighted by a significant majority 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 9,000 hotels in operation and close to 3,000 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. H World's quarterly results were strong with domestic revenue-per-available-room (RevPar) increasing 44%, total revenues rising 47% in Q4 and 57% for 2023 while operating income and cash flows improved significantly following a challenging operating environment in 2022. Other positives included an acceleration in room growth in Q4 from earlier in the year and the company's continued healthy hotel pipeline. We maintained a below-average weight position in the company given concerns around the Chinese growth backdrop.

Bank of Central Asia (BBCA), the largest private sector bank in Indonesia was the third largest contributor to performance in Q1. BBCA is a unique and high-quality bank benefiting from secular growth drivers such as an underbanked population in Indonesia and favorable demographics. The bank has delivered attractive returns on equity over time despite low leverage and high capital ratios, given a persistently high net interest margin in the mid-single digits. BBCA is the clear leader in transaction-based banking, including mobile and internet banking providing it with a significant competitive advantage. The strength of the bank's relationships and high CASA (current account savings account) ratio of 75%+ drives its pricing power given the low cost of funding through these deposits. We see an attractive long-term growth opportunity for BBCA given a low penetration rate for traditional banking in Indonesia, and low household usage of banking and leverage, which we expect will rise over time as the economy develops further. BBCA shares benefited from strong 2023 results which showed 14% loan and operating income growth, net interest income growth of 18% and continued expansion in its net interest margin which finished Q4 at 5.6%, up from 5.3% in 2022. The bank continues to see a strong recovery in loan activity with growth diversified across its corporate, SME, and consumer segments. Given strong execution and an attractively valued growth opportunity we maintained an above-average weight position in the company.

Adidas and **Unilever** were the fourth and fifth largest contributors to performance.

Largest Detractors

AIA Group, a leading life insurer across Asia, was the largest detractor from performance in Q1. AIA benefits from a strong brand and balance sheet, along with an extensive network of direct agents which enable the company to control its distribution and margins over time. The company supports its agents with technology and focuses on higher margin protection-type products which are less likely to be commoditized and are subject to less competition over time. AIA's business offers a high degree of visibility into future cash flows as there is very low churn from existing policy holders. A high persistency ratio (the percentage of policies that continue to pay premiums) and reliance on regular long-term policies provide a steady stream of cash flow and repeat revenues. Longer-term, we view the company as being well-positioned to capitalize on the growing demand for insurance and health products across its markets in Asia given the rising wealth and limited penetration in many of its key markets. While AIA reported strong growth in the value of new business and annualized new premiums for 2023, up 30% and 41% respectively, weak after-tax operating profit growth of -4%, driven largely by higher medical claims and greater demand for lower margin savings products weighed on its shares in Q1. Given that medical policies are re-priced annually, we view those pressures as short-term in nature. Greater demand for long-term savings products in Hong Kong and China, while lower margin, is attracting new customers and we expect the company to be successful in cross selling higher value protection policies over time. Additionally, as AIA is focused on the wealthier segment of the population in China, they are more resilient to ongoing macro headwinds while also having the opportunity to expand their geographic footprint in the country. In ASEAN markets, the company delivered strong double-digit growth outside of Vietnam, where there are ongoing industrywide issues. We continue to view the company as being well-positioned to deliver attractive growth over our investment horizon but acknowledge ongoing questions and concerns about risks in China with regards to overall macroeconomic environment as well as geopolitical tensions with the USA. We maintained our above-average weight position in the company.

HDFC Bank, the second largest bank in India by assets and the largest by market capitalization, was the second largest detractor in Q1. HDFC is a unique franchise that benefits from high ROA/ROE relative to international and domestic peers, which is supported by interest revenues and lower borrowing costs on retail deposits. India, as a country, has low leverage in the retail sector and an underbanked population which forms the basis for an attractive secular growth opportunity for HDFC. The pricing power of the company is based on its low-cost funding, which is supported by retail deposits at a countrywide network of branches that is not easily replicated by competitors. HDFC's business is recurring and very predictable with 75% of its interest income derived from multi-year loans and 15% is from fees & commissions. A mixed fiscal Q3 earnings report put pressure on HDFC's stock in Q1. While HDFC reported better-than-expected operating profit, deposit and loan growth of 3% and 4.9% respectively were lower than historical trends and its net interest margin of 3.4% was flat quarter-over-quarter. Post acquisition of its parent company, the proportion of deposits to liabilities has fallen and in a tighter liquidity environment, investors are questioning whether they can continue to deliver on deposit growth expectations. A combination of factors led to last quarter's short-term disappointment, including a seasonally weak quarter from a deposit growth perspective which was exacerbated by the tightening of liquidity by the central bank. Looking forward the bank is committed to growing deposits and will prioritize margins and ROE over loan growth. We remain confident in the opportunity ahead for HDFC Bank and view it as being well-positioned to continue to benefit from growing demand for banking services in India. We maintained an above-average weight position and bought more shares on weakness during the quarter.

Naver, a South Korean platform company was the third largest detractor from performance in Q1. Naver has leading positions in the Korean search, e-commerce, mobile payment, and domestic 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 high usage frequency 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 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 growth potential in newer businesses such as e-commerce, digital pay, cloud and AI services combined with a global expansion opportunity within global paid content and e-commerce. Naver's shares underperformed in Q1 given concerns around slowing growth in its ad business and rising competition in the Korean e-commerce market from new Chinese entrants. However, improvements in ad targeting and the use of AI recommendations should help the company deliver better-than-market ad growth while their status as an e-commerce aggregator means the impact overall from Chinese entrants is likely to be limited given benefits from increased ad spend. Q4 results were solid overall with organic revenue and operating profits growth of 9% and 12% respectively while margin expansion is expected to continue into 2024. We added to our position on weakness during the quarter given conviction in the growth opportunity and a more attractive valuation.

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

Portfolio Activity

New positions in Tata Consulting Services (TCS) and TSMC were initiated during the quarter. Positions in Yum China, XP, Infosys, Fast Retailing, and JD.com were trimmed on strength while our position in Shandong Weigao was lowered given fundamental concerns amid continued pricing pressure due to the Chinese government's implementation of volume-based-procurement policies. Positions in HDFC Bank, MercadoLibre, and Naver were added to on weakness.

New Positions

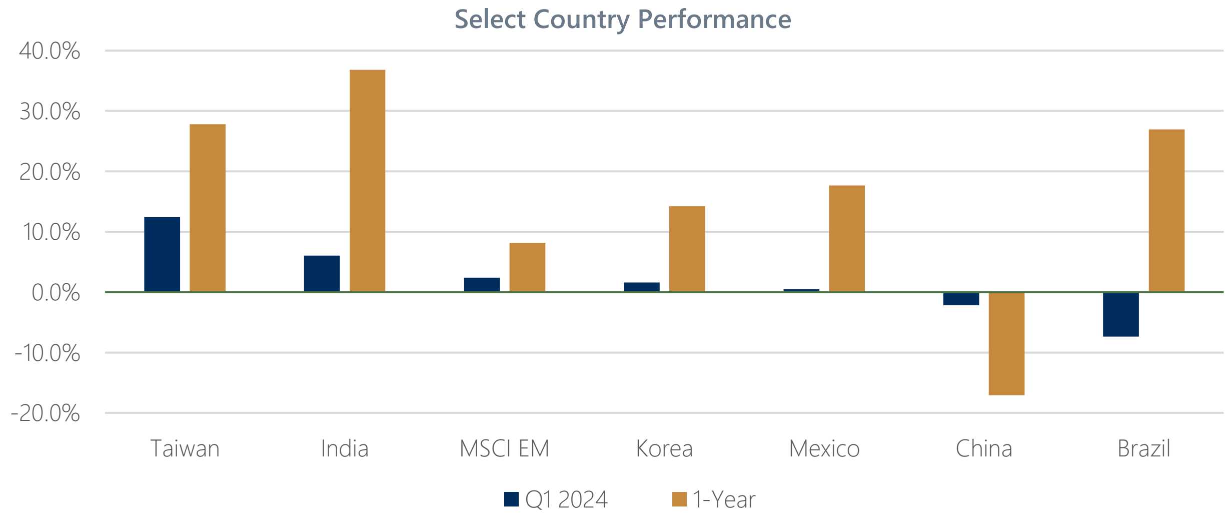
A new position in **Tata Consulting Services (TCS)** was initiated during the quarter. TCS is the second largest IT Services company in the world and the largest based in India. The company offers a comprehensive suite of solutions in Technology Consulting, which accounts for roughly 70% of revenues and includes services related to app development and maintenance, system integration, and cloud migration. The remaining 30% of revenues are tied to outsourcing, including services related to infrastructure services and business-processing-outsourcing. The biggest industry verticals for TCS are financial services (32% of revenues), consumer/retail (16% of revenues), and health care (10% of revenues). TCS has delivered 2x the growth of the industry over the past decade and remains well-positioned for attractive future growth given its pivot towards supporting cloud migrations and digital services as well as its investments into solutions driving up productivity in managed services. Their capabilities in these areas are evidenced by their strong book to bill ratio of 1.4x in calendar year 2023. TCS' client retention rate is +95% as they benefit from high switching costs due to their deep knowledge of their clients' needs and trust that has been built up over the years. The company has also built an impressive internal culture through its strong and stable management team which has led to the lowest employee attrition rates in the industry and the highest offshore utilization which helps drive industry-leading margins. We estimate about 75% of TCS's revenues generated from multi-year, fixed price contracts, and visibility into future revenue generation is high leading to a highly predictable business model.

The key risks to our thesis include potential adverse impacts from AI, which could lead to price reductions for both development and maintenance projects. While the ultimate impacts of AI remain uncertain today, new technologies and productivity drivers have historically led to a rise in investment and demand, with greater volumes offsetting price deterioration. If similar dynamics unfold with the rise of AI, we view TCS as being well-positioned to withstand pressures, and potentially benefit. Other risks include the ability of the company to continue to scale and grow without compromising on the quality of service and culture within the organization. Governance risks arising from Tata Sons 70% ownership in the company is also something we are monitoring. The company's proven track record of execution, excellent management team, and shareholder friendly capital allocation policies mitigate these risks in our view.

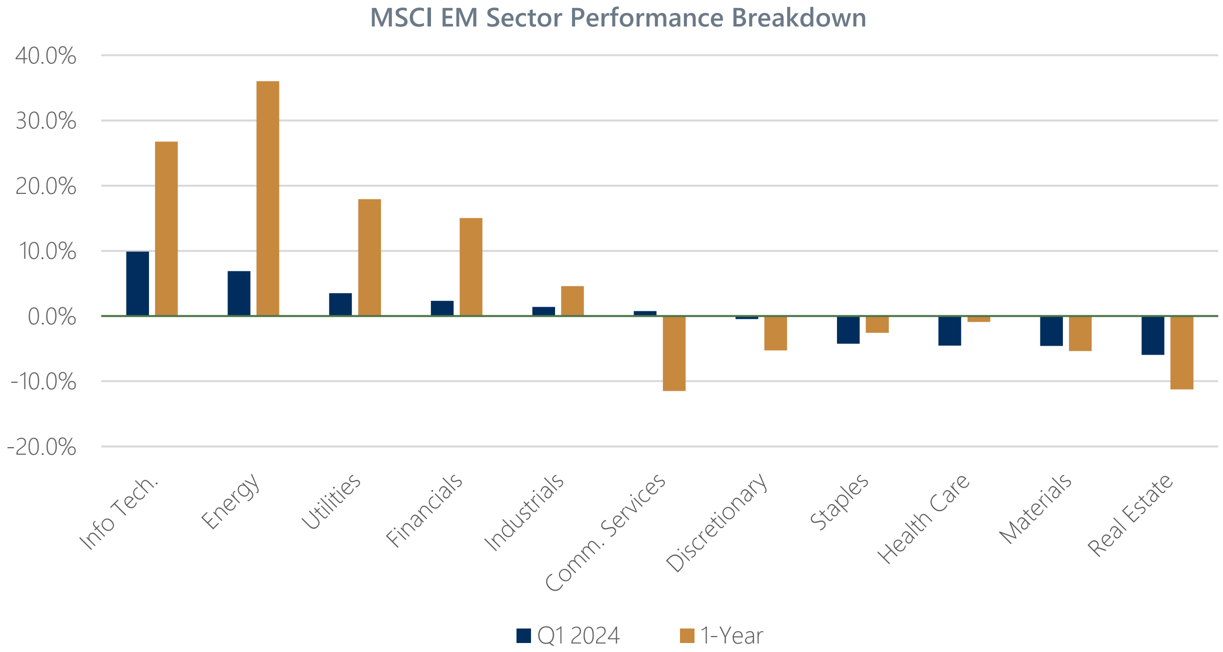
A new position in **TSMC**, the world's preeminent semiconductor foundry, was initiated towards the end of the quarter. Commanding over 50% market share and a dominant position in leading nodes (newest and most advanced semiconductor technology) the company has established an unparalleled position in the semiconductor ecosystem, enabling the fabless chip design industry to flourish. TSMC's technological advantage provide the company with significant pricing power as evidenced by its 50%+ gross margin, 15%+ free cash flow margin, and consistently high returns on capital. It is the only foundry that has delivered consistently strong financial results over time and with its business mix having changed dramatically to more recurring categories such as smartphones and high-performance-computing its revenue generation is today highly recurring and predictable. Secular growth drivers including growth in 5G, AI, and growing datacenter compute demands, provide a long duration growth opportunity ahead for TSMC. While the business has relatively high capital intensity given high capex needs, we are comforted by the fact that the company has been free cash flow positive every year over the past 20+ years. Additionally, the company has a highly tenured, internally developed executive team, a strong culture, and a history of industry leadership.

One of the key risks that we have struggled with in recent years is the company's Taiwanese base and the geopolitical risks associated with a possible Chinese invasion. However, with the company dependent on Western suppliers for key machinery, in the event of escalating tensions the West would have the ability to disrupt TSMC's operations, which would conceivably lead to some balance of control. More importantly, the company's announcement in February 2024 that the company was planning to expand its chip manufacturing facilities in Japan, including leading edge nodes, gives us more comfort in the ongoing focus on geographic diversification to minimize the geopolitical risk. Expansion plans also include the U.S. while Germany is under consideration. Other risks we are monitoring include technological risks and competition as well as customer concentration. We initiated a below-average weight and will continue to build the position opportunistically moving forward.

Market Performance



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



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

Outlook

The market environment in Q1 reflected a continuation of trends which began in 2023 when optimism around a more resilient global economy gained steam and earnings estimates started to inflect higher. Prior periods of rising investor optimism and growth estimates, such as those experienced in the 2016 and 2021 time periods, were also difficult for the portfolio's relative performance as investors gravitated towards areas of the market more exposed to an improving macro-economic backdrop while more predictable and reliable growth companies went unrewarded. Like in the past, we remain committed to our bottom-up benchmark-indifferent process and focus on highly predictable growth companies despite variations in short-term performance. We have confidence in the ability of the companies in our portfolio to deliver better fundamental results over time, which should ultimately be rewarded by the market and lead to superior risk-adjusted outcomes. Over the next three years we expect the portfolio to generate 15% annual earnings growth, in line with its long-term average, while the MSCI EM Index is expected to generate 15% annual growth, well ahead of its long-term average. Despite an uncertain future, our portfolio of high-quality companies offers more predictable and reliable growth compared to broad markets while trading at a historically attractive 3.8% enterprise yield.

As always, we thank you for your continued support and welcome any questions or comments.

Organizational Update

Following the retirement of George Fraise on June 30, 2024, we are pleased to announce that HK Gupta will join Rob Rohn and Kishore Rao as a member of SGA's Executive Committee which is responsible for overseeing the business affairs of SGA.

We are also pleased to communicate that several associates from across our investment, client service, and trading teams were offered the opportunity to purchase additional equity in SGA this year and have now completed their respective transactions. SGA equity partners now own 28% of the firm's equity, however as previously communicated, we expect the split between SGA and Virtus to be closer to the 25/75 split over the longer term and this will range a few percentage points either side as we manage for retirements and issuance to new and existing partners over time.

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

	Q1 2024	1-Year	3-Year	5-Year	Since Inception
SGA Emerging Markets Growth (Gross)	-5.2%	-3.2%	-9.1%	2.4%	4.7%
SGA Emerging Markets Growth (Net)	-5.4%	-4.0%	-9.9%	1.6%	3.8%
MSCI EM (Net TR)	2.4%	8.2%	-5.1%	2.2%	2.2%
MSCI EM Growth (Net TR)	3.4%	5.2%	-8.9%	2.2%	3.0%

	Total Return						3 Year Standard Deviation					
Period	Before Fees	After Fees	MSCI EM Net TR Index	MSCI EM Growth Net TR Index	Number of Portfolios	Composite Dispersion	SGA Composite	MSCI EM Net TR Index	MSCI EM Growth 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%	Five or Fewer	N/A				0.193	5,332	100%
2015	-3.00%	-3.82%	-14.92%	-11.34%	Five or Fewer	N/A				0.094	5,318	100%
2016	2.10%	1.24%	11.19%	7.59%	Five or Fewer	N/A				0.096	5,672	100%
2017	36.31%	35.19%	37.28%	46.80%	Five or Fewer	N/A	12.64%	15.35%	14.69%	0.130	9,971	100%
2018	-11.00%	-11.76%	-14.57%	-18.26%	Five or Fewer	N/A	12.87%	14.60%	14.98%	0.116	9,096	100%
2019	30.97%	29.88%	18.42%	25.10%	Five or Fewer	N/A	13.38%	14.17%	15.41%	5	12,347	0%
2020	31.22%	30.13%	18.31%	31.33%	Five or Fewer	N/A	18.45%	19.60%	19.96%	6	18,780	0%
2021	-14.37%	-15.10%	-2.54%	-8.41%	Five or Fewer	N/A	18.56%	18.33%	18.96%	86	22,899	0%
2022	-12.35%	-13.10%	-20.09%	-23.96%	Five or Fewer	N/A	20.53%	20.26%	21.36%	94	18,407	0%
Since Inception (August 1, 2014)	5.17%	4.28%	1.08%	2.36%			16.40*	17.42*	17.97*			

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, 2022.

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, 2022. 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 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. Effective December 31, 2022, the MSCI ACWI with EM Exposure Net is no longer presented because it is not considered representative of the strategy as the portfolio invests primarily in companies domiciled in emerging markets.

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 Emerging Markets 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; 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.

Engagement Summaries

Salesforce

We recently met with senior members of Salesforce, a long-time portfolio holding, for an update on governance matters.

A core component of Salesforce's growth algorithm has been growth via M&A of software and technology companies. The size and pace of the acquisitions had increased over time with the $28bn acquisition of Slack in 2020 being the largest to date. These deals have been championed by Marc Benioff, Founder, CEO & Chairman, and as they become increasingly large and complex, have drawn more scrutiny from investors. The acquisitions, while generally accretive to date, have highlighted the need for improvements in governance as it relates to Board diversity and independency, executive compensation packages, management committees, and expenses management. We are not alone in this position, and a number of high-profile activist hedge funds have joined the Salesforce shareholder registry over recent years. While some of these hedge funds have since left the registry following near-term financial improvements, we believe there is still more work to be done.

In our conversation with management, we advocated for:

- The appointment of an independent Chairman as a matter of best practice and to reduce the risk of undisciplined M&A;
- A greater use of performance-based, as opposed to time-based, vesting of Restricted Stock Units (RSUs);
- The introduction of a cap on the gross annual dilution rate as it relates to Stock-Based Compensation (SBC), akin to the 1.5% p.a. cap imposed by ServiceNow (another SGA portfolio company); and
- In the absence of government regulation, the need for policies to ensure the responsible use of Salesforce's products, including generative AI.

We do see Salesforce moving in the direction of positive change with the recent appointment of new Board members, return of capital to shareholders as the company has matured, and the disbandment of the M&A Committee which ensures the Board now reviews all M&A activity. However, as noted above, there is more work to be done, and we will continue our engagement program.

Atlassian

Since listing in 2015, Atlassian has operated under a dual-class shareholder structure with founders, Mike Cannon-Brookes and Scott Farquhar, collectively controlling 88% of voting rights despite only holding ~ 40% of the total shares outstanding. While we do believe there are benefits of this structure, namely, enabling the founders to focus on the long-term strategy of a fast-growing company, these do come at a cost to the rights of minority shareholders. During a recent meeting with the management of Atlassian, we recommended the company adopt a sunset provision which allows for the conversion of the dual-class structure into a single class of shares pending some passage of time or corporate event. At present, given the strong alignment of the founders with shareholders due to their high equity ownership and low compensation packages, we do not believe this dual-class structure poses a material risk to minority investors.

However, what does present a risk to Atlassian shareholders, as with many other technology companies, is shareholder dilution due to the issuance of stock to employees under Stock-Based Compensation (SBC) packages. SBC is a common feature of remuneration packages across technology and software companies, particularly those that are fast-growing and in the earlier-stages of the corporate lifecycle. Atlassian has been targeting less than 2% dilution from SBC each year and they are seeking to lower SBC as a percentage of revenue by making internal P&L owners more accountable for hiring and expenses. The compensation structure is unlikely to change in the interim, and we will be closely monitoring the effects of dilution on shareholder return.

Lastly, Atlassian is making strong efforts on the ESG front including incorporating ESG targets into its goal-setting framework to drive alignment and accountability, staying ahead of regulatory and customer requirements, and setting interim (FY30) and long-term (FY40) goals for Science-Based Targets.

FEMSA

During the quarter we engaged with the management of Mexican retailer and Coca-Cola bottler FEMSA regarding our concerns about certain governance developments. Specifically, in conjunction with its earnings call in February, the company unexpectedly announced the departure of their Chief Corporate Officer and Chief Financial Officer, both effective April 30th, 2024. The announcement follows the appointment late last year of Jose Antonio Fernández Garza-Lagüera, the son of the Executive Chairman and Interim-CEO José Antonio Fernández Carbajal, to the role of CEO of the company's Retail business. Having previously served in leadership roles for the company's digital strategy and OXXO convenience store business, Jose Garza-Lagüera is following a career path very similar to the prior two CEOs of the company, suggesting he is most likely next in line for the role. We speculate that the Chief Corporate Officer arrived at a similar conclusion to us and chose to leave the company believing he would be passed up for the CEO role. Jose Garza- Lagüera's relation to the Executive Chairman, as well as the fact that he is a member of one of the five families behind FEMSA that collectively control 70% of the voting capital of the company, caused us concerns about nepotism. However, given very positive feedback on Jose from our independent contacts in the market, as well as Jose's track record in his previous leadership roles at FEMSA, we are hopeful that he is up to the task, should he be named CEO. We did urge the company, however, to make Jose available for meetings with shareholders, and we expect to have a face-to-face meeting with him soon. Separately, regarding the departure of the company's well-regarded CFO, Eugenio Garza, we are comfortable with the narrative that Eugenio's decision is based on his desire to find his next professional challenge after successfully guiding the company through "FEMSA Forward", the strategic and capital plan executed over the last two years. Fortunately, we are confident that Eugenio's replacement Martin Yaniz, a 25-year veteran of the company's finance department, is a solid choice for the role.

Starbucks

During the quarter we continued our engagement with Starbucks on the issue of hostile relations with unions leading to bad publicity and the risk of labor unrest. Since our last engagement, the company announced it would negotiate with union members in targeted stores (400 now), a development we previously encouraged them to pursue. Based on our recent discussions, we are confident the company has in fact treated partners well, and we remain hopeful that a détente with union members can be reached. We also discussed with the company the SOC (representing union interests) proposal for three Board candidates. Generally speaking, we are pleased with the actions the company has taken recently to further strengthen the Board with the addition of several good new members. In this context, we found that the SOC proposed candidates did not provide additional "breadth of experience", and we were pleased to see the SOC remove their proposal from the voting proxy before the shareholder election.

Proxy Voting Summary Q1 2024

	Number of Resolutions	For	%	Against	%	Abstain	%
U.S. Large Cap Growth	52	47	90%	5	10%	0	0%
Global Growth	54	53	98%	1	2%	0	0%
International Growth	50	49	98%	1	2%	0	0%
Emerging Markets Growth	0	0	0%	0	0%	0	0%

Source: SGA, ISS.

Carbon Risks Q1 2024

	Carbon Emissions*	Carbon Intensity	Weighted Average Carbon Intensity
SGA Global Growth	12.7	57.5	62.6
MSCI ACWI	77.1	162.2	117.8
SGA Relative Exposure	-84%	-65%	-47%
SGA U.S. Large Cap Growth	10.3	53.2	58.5
Russell 1000 Growth	8.5	41.9	29.3
SGA Relative Exposure	+22%	+27%	+100%
SGA Emerging Markets Growth	27.3	50.7	38.8
MSCI EM	259.2	357.8	320.2
SGA Relative Exposure	-90%	-86%	-88%
SGA International Growth	16.4	62.8	81.1
MSCI ACWI ex-USA	142.6	201.9	164.2
SGA Relative Exposure	-89%	-69%	-51%
	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. *Carbon Emissions are based on portfolio investment of $1,000,000,000 and benchmark investment of $1,000,000,000.*

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.