U.S. Large Cap Growth Commentary

Q2 2024

SGA Sustainable Growth Advisers

Performance

The U.S. Large Cap Growth portfolio returned 0.1% (Gross) and -0.1% (Net) while the Russell 1000 Growth Index returned 8.3% and the S&P 500 Index returned 4.3%.

Strong returns from Apple and NVIDIA which comprised 10.8% and 10.3%, respectively, of the Russell 1000 Growth Index detracted -2.7% in relative returns for the quarter. Weakness in the Financials sector accounted for about -2.3% of the underperformance as solid companies we continue to have confidence in faced short-term relative price weakness. Disappointing quarterly reports from some software companies led to concern over the group's prospects moving forward should economic growth slow and stock selection in the industry detracted -1.7%.

Highlights

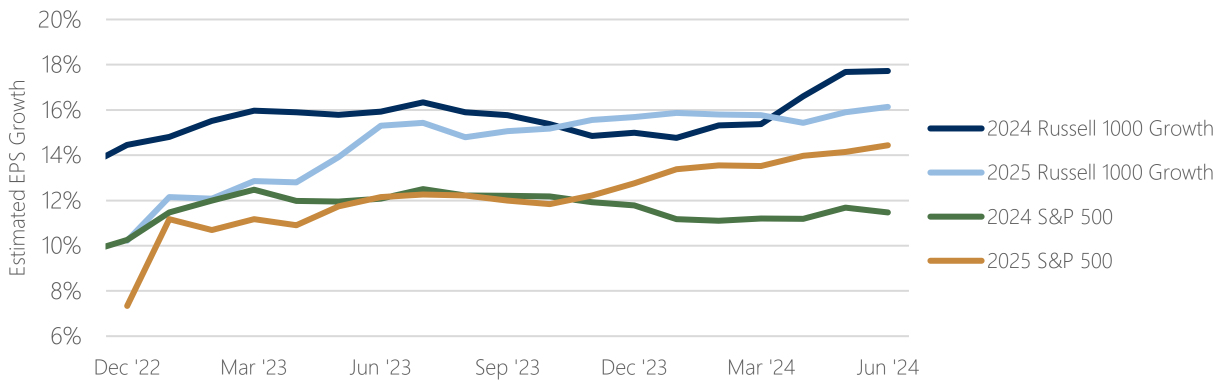
- The portfolio returned 0.1% (Gross) and -0.1% (Net) in Q2 versus 8.3% for the Russell 1000 Growth amid very narrow Index leadership; positions in NVIDIA and Apple accounted for about -2.7% of the shortfall in performance relative to the Russell 1000 Growth.
- While market valuations approach 2021 peaks, we continued to manage quality, growth, and valuation to what is now a significant discount in valuation to the market.
- Portfolio performance was negatively impacted by selection in the Financials sector and the underperformance of select software stocks which were severely penalized over short-term backlog concerns.
- Sales stability, a proxy for companies with highly recurring revenues, continued to be out of favor as semiconductors and technology hardware companies outperformed.
- The largest contributors to performance were NVIDIA, Alphabet, and Amazon; the largest detractors were Workday, MSCI, and Starbucks.
- We upgraded the business quality and expected growth of the portfolio initiating new positions in Meta, Synopsys, Apple, and Gartner while selling positions in Equinix, Ball Corporation, Sherwin-Williams and IQVIA where the valuations had become less attractive or we moved to higher confidence or higher growth opportunities.
- We also trimmed several positions including Alphabet, Autodesk, Netflix, and NVIDIA on strength and added to positions including Workday, ServiceNow, and Salesforce on the weakness in software stocks among others where we continue to see attractive business quality and 3–5-year growth.

Optimism for AI Stocks

The market's advance was highly concentrated and driven largely by AI-related stocks. The Russell 1000 Growth Index's top 10 companies returned 16.3% in Q2, while the Index ex-top 10 returned just -1.2%. The Index's top 3 companies, Microsoft, Apple, and NVIDIA accounted for 33% of the Index and the top 10 accounted for nearly 59%, presenting an unprecedented concentration level. Meanwhile the portfolio's positions in Microsoft, Apple, and NVIDIA were significantly lower comprising less than 14% given our conviction that position-sizing should be driven by absolute risk controls and a wealth preservation mindset.

Led by AI-related companies, U.S. growth stocks delivered strong returns in Q2 despite weakening economic data and continued uncertainty around the path to interest rate cuts. Q1 GDP growth of just 1.4%, was the slowest quarterly growth rate in nearly two years. Other signs of slowing included the unemployment rate ticking up to 4% as the rate of hiring slowed and the ratio of job openings to unemployed job seekers continued to normalize. With growth appearing to moderate, inflation slowed with core PCE moderating to 2.6% on a 12-month basis in May driving renewed hopes for interest rate cuts. Bond yields also softened during the quarter with the 10-year Treasury yield declining from a high of 4.7% in April to a low of 4.2% in June before finishing the quarter at 4.3%. Growth stocks rallied significantly as bond yields declined with the Russell 1000 Growth up 13% over May and June. While overall market volatility was low in Q2, underneath the surface there was significant dispersion in results and companies missing short-term expectations saw large dislocations in their stock prices. The portfolio felt the impact of such moves within its financial sector and software holdings, the latter of which we discuss in more detail further along in the letter.

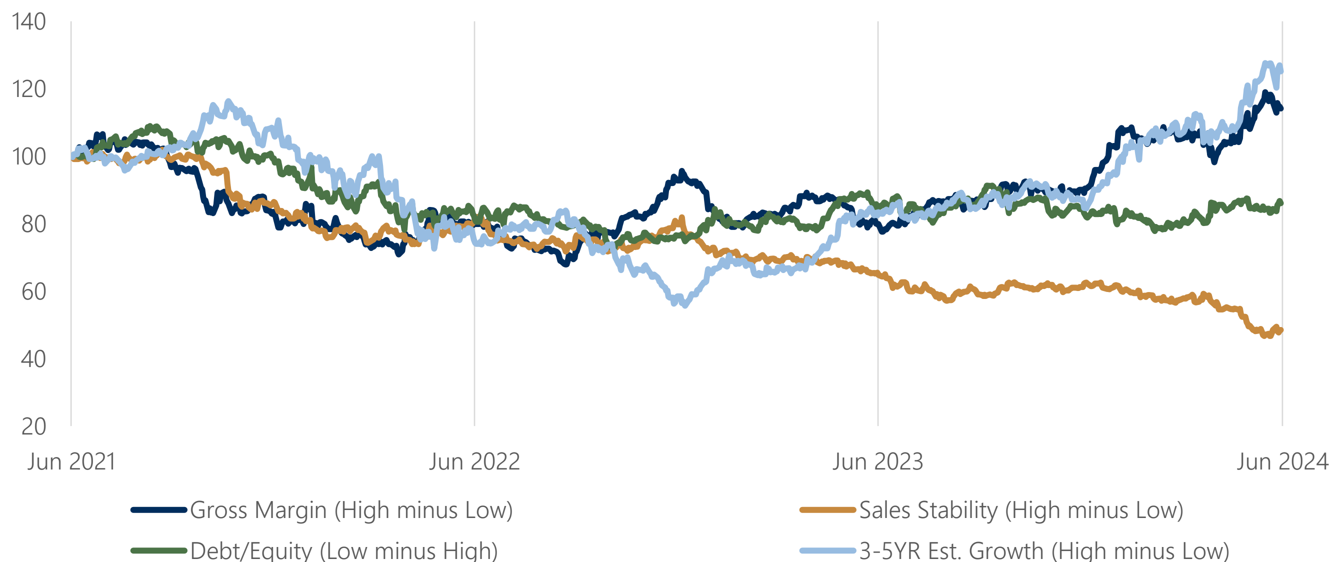
Despite signs of slowing economic growth, 2024 and 2025 earnings expectations for the Russell 1000 Growth Index and the S&P 500, both remained resilient and even rose slightly during the quarter.



Source: FactSet, Russell

Current expectations are significantly above long-term trends reflecting current enthusiasm around AI and expectations for a soft landing or no landing scenario. In contrast, the SGA portfolio is expected to generate earnings growth of 17% over the next three years which is in line with the growth it has delivered since inception, and likely to be less susceptible to swings in market sentiment.

The last three years have been challenging for the portfolio's relative returns due in part to an unfavorable market backdrop. As the world emerged from the Covid pandemic awash in stimulus, an unexpectedly strong and reflationary economic recovery drove nominal growth to levels not seen since the years leading up to the Great Financial Crisis, which was also a difficult time for relative performance. The more predictable and durable growth companies that meet SGA's definitions of quality through high levels of recurring revenue generation, have not been rewarded. This is evident in the below chart where we have shown the performance of various market factors we view as proxies for our key qualitative criteria, over the past three years. The performance of the 'sales stability' factor, a proxy for our focus on recurring revenues has underperformed significantly while areas of the market benefitting from continued economic momentum have been strong. As a result, valuation of the Indexes is approaching 2021 peaks, and based on our preferred methodology are at an enterprise yield of 2.6%, while we have managed our portfolios to an attractive level of 3.0%. As economic and profit growth moderates from the strong post COVID levels, if history is any precedent, we expect higher quality companies with recurring revenue streams and sustainable growth opportunities to be rewarded.



Source: FactSet, Russell

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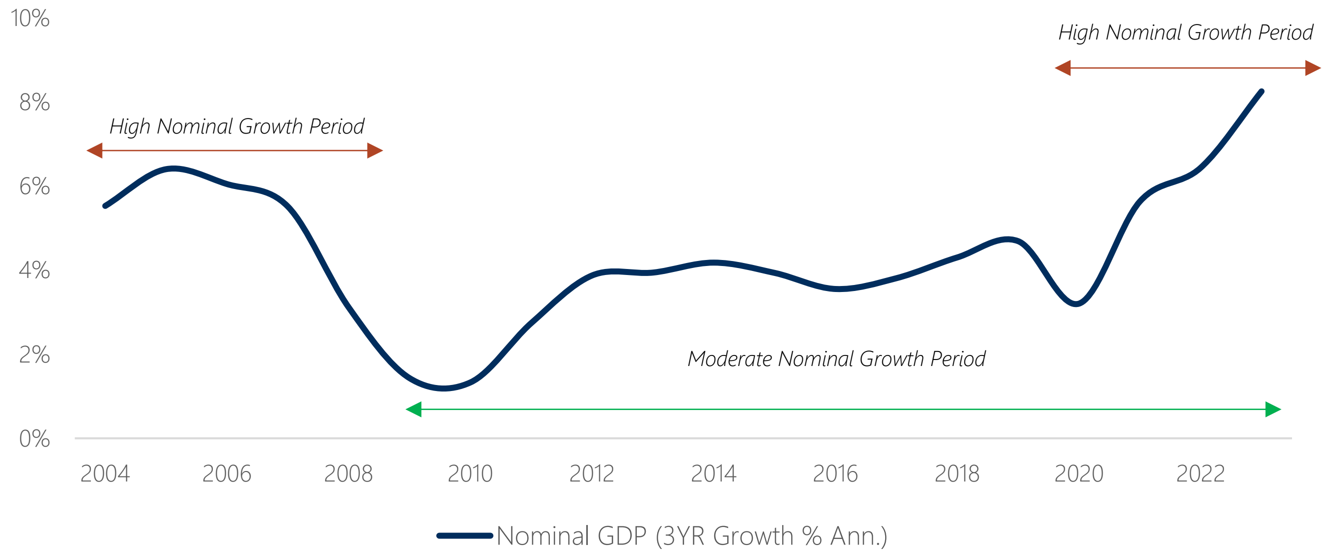


	2005 – 2007	2008 – 2019	2020 - 2024
Avg. Nominal GDP Growth	6.0%	3.4%	5.9%
Avg. Annual Sales Stability Ret.	-3.4%	+0.6%	-15.5%
SGA U.S. LCG (Net)	2.9%	11.0%	12.3%
Russell 1000 Growth	8.7%	11.0%	17.6%
S&P 500	8.6%	9.1%	14.0%
SGA Peer Rank	99th	13th	77th

Source: FactSet, Russell, FRED. Sales stability and performance data as of 3/31/2024. GDP data as of Q4 2023. ***Please see performance slide included in these materials for the full performance presentation. SGA paid a standard fee to eVestment for access to rankings and other services. Peer rank based on gross returns.*** *Universe is eVestment U.S. Large Cap Growth Equity. Peer size ranges from 263 to 435 depending on the period under review. Nominal GDP is the annualized three-year GDP growth rate.*

The chart above shows the nominal growth of U.S. GDP over the long-term, varying between periods of high and moderate growth. The table below it illustrates the performance of the portfolio during the periods of high nominal growth, when repeatable revenues weren't rewarded by investors, as well as performance in a period of more moderate GDP growth from 2008-2019 where companies with more repeatable revenues were rewarded by investors.

Largest Contributors

NVIDIA was the largest contributor to performance in Q2 as it reported revenues for Q1 that beat the average analyst's estimate as well as ours. Revenues grew from $7.2 billion to $26 billion on a year-over-year basis with data center related revenues totaling $22.6 billion and growing to 87% of revenues. The company generated almost $15 billion in free cash flow on a year-over-year basis, up from $2.6 billion, and adjusted gross margins rose to 78.9% from 66.8%. The growth of the data center business is expected to continue as AI is integrated into more applications. Recent launch announcements and the expectation that such launches will be on an annual cadence have increased the visibility into the company's technological lead. Overall, NVIDIA continues to provide an attractive growth story over our 3–5-year investment horizon. However, given the stock's continued strength, and consistent with our valuation discipline, we trimmed the position back to target.

Alphabet was the second largest contributor to portfolio performance in Q2 after it reported 15% revenue growth (16% constant currency) beating consensus expectations and ours. The strength was broad based with results in Advertising, YouTube, Services, and Cloud all exceeding consensus expectations. Likewise, operating profits beat estimates with strength across Services and Cloud, while the company reported operating margins of 32% versus 28.6% expected. We were also

pleased to see the company initiate a dividend given its strong free cash flow. However, we remain cognizant that an imminent ruling in the Department of Justice (DOJ) Apple iOS search default lawsuit entails some near-term downside risk despite the likelihood that the remedy and appeal phases may take a couple of years. Longer-term, GenAI poses incremental opportunities but also significant competitive risks for the core Search business. The company asserts that GenAI is leading to more searches and higher click through rates indicative of incrementally higher monetization. However, GenAI may also lead to new direct and indirect competitors including the likes of OpenAI among others. With the stock's valuation less attractive and the risks associated with DOJ and other legal proceedings, we trimmed the position consistent with our valuation discipline.

Amazon was the third largest contributor to performance as the company reported sales and earnings which were generally in line with expectations. AWS posted 17% sales growth (ex-currency impacts) while online store sales grew 7% year-over-year and third-party services were up 16% year-over-year. North American sales grew 12% while its international business grew 9.7% year-over-year. Operating margins in both North America and International exceeded expectations. Second quarter top-line guidance came in slightly lower than expected given macro softness noted in Europe, but profitability is expected to continue to improve across Amazon's businesses. We continue to see attractive growth opportunities for the company, particularly as its cloud business continues to expand with more businesses seeking to benefit from increasing AI opportunities. We also expect it to be able to continue to deliver margin expansion for a longer duration. Accordingly, we maintained an above-average weight in the company.

The fourth and fifth largest contributors to performance were **Microsoft** and **Meta**.

Largest Detractors

Workday was the largest detractor from portfolio returns in Q2 after the company posted generally in line results but provided disappointing guidance looking forward, citing slower than expected increases in customer headcounts and softness in large deals in the EMEA region. The company's 12-month backlog grew 18% which was in line with prior guidance, however many investors expected the company to beat its guidance as it has consistently done in the past under their prior CFO. Adding to this, Q2 backlog guidance was also reduced to mid-teens growth versus the high-teens growth targets provided six months ago. On the positive side, margin improvement and free cash flow guidance was moved higher, and the company maintained its high client retention rate of 95%. While disappointed with management's more cautious short-term guidance, we see key business metrics continuing to move in the right direction. For example, the total backlog growth of 24% is indicative of customer contract duration lengthening consistent with our thesis. AI opportunities for Workday remain attractive with many new use cases already in production and several said to be in development to assist clients in making more efficient, faster, and profitable decisions. We added to the position on weakness.

MSCI was the second largest detractor from performance in Q2 despite posting solid first quarter results including double digit revenue, profit, and EPS growth. The underperformance of the stock during the period was the result of the market's disappointment regarding elevated sales cancellations due to industry consolidation, fund closures and reorganizations, and client cost pressures. Importantly, we expect these factors to moderate going forward, as most of the industry consolidation impact was the result of one merger (Credit Suisse/UBS) as well as volatility in the hedge fund market and the lagged effect of conservative client budgets set at the end of last year in a more challenging environment. In addition, we have confidence in management's ability to offset any near-term revenue challenges via disciplined expense management and still deliver attractive earnings and cash flow growth this year. Lastly, and most importantly, the company's secular growth drivers remain intact, including portfolio customization and indexation, growth in private asset markets, and global demand for ESG & Climate data and analysis, creating an even more attractive opportunity for the business. We maintained our average weight in the company.

Starbucks was the third largest detractor from performance after the company posted its first sales drop since 2000 amid global weakness in its business. Same-store sales declined 4% including a dip in store traffic in North America, due to recent controversies, the loss of a cohort of occasional visitors, and a more cautious consumer globally. Results in China continued to disappoint as the economy has been slow to recover and the market has become more competitive. The disappointing results raised questions about the new management's ability to return the business to growth in average unit volumes or execute on recent store optimization efforts that were expected to generate improved operating leverage. Based on the additional uncertainty, we lowered our earnings growth expectations though we still expect it to return to growth in the

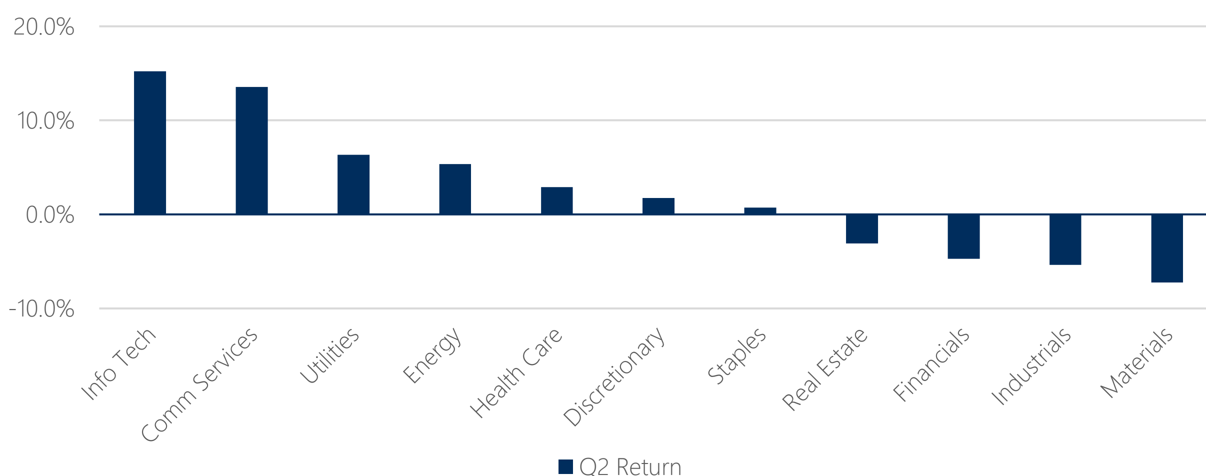
coming year, while the company continues to generate attractive cash flow on its repeat revenues. While attractive from a valuation standpoint, given expected slower growth and uncertainty about execution, we maintained our position in the company.

The fourth and fifth largest detractors were **Aon** and **Salesforce**.

Portfolio Attribution

Market leadership in Q2 was quite narrow with only the Information Technology and Communication Services sectors of the Russell 1000 Growth Index outperforming led by semiconductor, technology hardware, and interactive media stocks where expected AI beneficiaries NVIDIA, Apple, and Alphabet drove the results. The portfolio's emphasis on select software providers which have recently been highly penalized by the market, but that have the pricing power and more predictable recurring revenues we seek, negatively impacted relative performance for the period. As discussed earlier in this commentary, we saw the short-term underperformance of these software companies as an opportunity and took advantage of the more attractive valuations to add to positions. We fully expect that the portfolio's exposure to companies like Workday, Autodesk, Salesforce, and others will provide attractive relative returns over our investment horizon.

Russell 1000 Growth – Q2 Sector Returns



Source: FactSet, Russell

Portfolio Activity

Several changes to the portfolio were made during the quarter as we sold stocks due to valuation or forced attrition, which is when a current holding becomes less attractive relative to another company on our qualified company list. Positions were initiated in high quality compounders Meta, Synopsys, Apple, and Gartner. To fund those positions, Equinix, Ball Corporation, Sherwin-Williams, and IQVIA were sold. We also trimmed several positions on strength including Alphabet, Autodesk, Netflix, and NVIDIA among others. Given weakness in many software related companies during the quarter we added to existing positions in Workday, ServiceNow, and Salesforce among others where we continued to see attractive business quality and 3–5-year growth.

Purchases

We initiated a new position in **Meta** when the stock appeared attractively valued on our cash flow-based valuation measures after reporting disappointing Q1 results. Meta is a global social technology company that operates through its Family of Apps which includes Facebook, Instagram, Messenger, and WhatsApp, and its Reality Labs which offers augmented and virtual reality related consumer hardware, software, and content. The company's leading position among social media networks, and the strength this provides to creators and users has continued to boost its advertising opportunities thereby enhancing its pricing power. With billions of users visiting their platforms daily and high retention, millions of advertisers rely on Meta

for ad views and the performance of their ad campaigns. We expect this value to only increase with AI further augmenting the company's competitive position, pricing power, and recurring revenues. The company's growth opportunity is based on this strong position in the growing social media market with its associated advertising benefits. The company's ability to productize AI for consumers is a further significant growth opportunity which we believe to be in its early stages.

We owned what was then Facebook in this portfolio in the past, having sold it in early 2022 due to concerns over their capital allocation practices and the expected high levels of investment in the Metaverse. We were skeptical about this given their lack of traction in that area. We also were concerned by a possible adverse impact on advertising effectiveness as Apple limited user tracking on iOS, as well as the increasingly successful competition from Chinese owned Tik Tok which was beginning to encroach upon Meta's commercial success at Instagram. However, in the period since we sold the stock, Meta implemented their "year of efficiency" which led to dramatically higher margins, free cash flow generation, and capital return. Meta also made significant research and product development investments to AI and became a leader, capitalizing on their wealth of user insights, in using it to improve user engagement as well as advertising creation automation, both of which have improved their monetization. We have also seen the company successfully respond to Tik Tok's offering with its own short format video product Reels which is gaining share of user time spent globally. In addition, the company has successfully leveraged AI, first-party data from advertisers, and on-platform signals to maintain its advantage in advertising performance. Accordingly, we now believe Meta is poised for its next leg of growth given that it has addressed our chief concerns by quickly pivoting its strategy toward areas where we think it can be highly successful.

Among the key risks we are monitoring are potential regulations concerning the online safety of children and privacy in the U.S. and EU which may limit Meta's ability to engage users and provide as relevant advertising effectively. We are also monitoring the degree of impact on margins that the company's heavy AI investments may have, and cognizant of the European Data Protection Board's recent opinion that Meta's pay or ok consent model for targeted advertising does not meet its standards. We expect there to be further debate in the EU around this issue before final implementation rules are decided.

We initiated a new position in leading software company **Synopsys** following weakness in the stock due to a second FTC request regarding their pending acquisition of Ansys. Synopsys is the leader in digital electronic chip design as well as the second largest provider of intellectual property in the semiconductor industry. Electronic digital design automation comprises about two thirds of its sales, while semiconductor intellectual property comprises about a quarter of its sales. The company gains pricing power from the fact that customers prioritize technical strength, comfort of use, ecosystem advantages, and compatibility, all of which are more important than price. With very few competitors and deep, long-term customer relationships, the company has built a unique niche that would be tough to compete with in the foreseeable future. Given the importance of R&D in the space as well as steady and strong customer demand, there is a high degree of repeatability in the company's revenues, with about 75% coming from repeatable sources. Over the past few years, there has been an increase in system and auto companies developing their own semiconductor capabilities, and this phenomenon is poised to accelerate going forward.

Among the key risks we are monitoring are the potential for a ban on support of Chinese R&D Development. About 15% of revenues come from Chinese and non-Chinese clients in China. If such a ban is implemented, we would expect R&D efforts to be moved to other countries in the region such as India or Vietnam. We are also aware of the high level of customer concentration. There are, however, literally hundreds of decision-making teams at its big customers making it less likely that wholesale change would take place. Likewise, the fact that there are very few competitors in the market reduces such a risk. With respect to the Ansys acquisition, we do expect it to take some time as the review process will be thorough. However, we view the acquisition as likely providing upside opportunity to Synopsys over the long-term.

We initiated a new position in **Apple** during Q2 on the expectation that continuing integration of AI into iPhones and other devices will drive an increase in need for computing ability and spur multi-year upgrade cycles for Apple products. Apple's ecosystem continues to gradually expand driven by product extensions and the last upgrade cycle for the iPhone has been extended to the point where new AI capabilities will tax older model phones and, we expect, lead to more consumers willing to pay for Apple's premium price products to enjoy the utilities offered by new AI related attributes. From a pricing power perspective, Apple has commanded high margins by positioning its products in the premium category and maintaining a massive scale of production. This combined with increasing service-related revenues should help the company maintain high margins. With customers essentially locked into the Apple ecosystem and software experience through phones, tablets,

wearables, and services, there is a high cost to change which promotes higher levels of recurring revenues for the company. We expect the company to grow its revenues in the mid-to-high single digits range over the next three years with double-digit earnings growth. We see Apple benefiting from three growth drivers with each contributing low-single digit growth to the top line: 1.) continued expansion of the IOS ecosystem in emerging markets which remain very early in their penetration, 2.) continued shifts toward the iOS ecosystem in developed markets, and 3.) new products and services. Additionally, in the short-intermediate term, upgrades driven by AI related demands due to greater compute needs will contribute as well. We see the company's growth opportunity over the next few years as benefiting from these key drivers, which combined with its attractive 3.4% Enterprise Yield at the time of purchase led us to introduce it to the portfolio.

Among the key risks we are focused on is the company's exposure to China, which comprises about 19% of sales. We have been conservative in our expectations for sales in the country, acknowledging concerns over the impact of slower growth there, but most recently, sales in China were better than feared. Increased competition from Android and vendors who can design products with similar capabilities to Apple are another watchpoint. While we expect Android to continue to be a solid competitor, we do not see vendors being able to recreate the broad ecosystem and capabilities iOS users have come to expect. Such capabilities would require vast investments in R&D and marketing which would likely be met by Apple.

We initiated a new position in **Gartner**, the leading research and advisory company for IT decision makers globally. We saw an attractive valuation opportunity after weaker than expected subscription contract values, which were temporarily impacted by delayed renewals by some smaller non-AI tech vendors where slower VC funding was an issue, weighed on the stock. The company provides its services to over 15k enterprises today who leverage its 3000+ research analysts and consultants to determine their strategic priorities and how to best execute them. The business is split into three major categories: Research (84%), Consulting (9%), and Conferences (7%). The Gartner Research platform operates through a subscription model that provides access to its proprietary research and analysts. Executives use Gartner's research to track emerging trends, understand the strategies and approaches available, and select vendors that are best suited for their needs. The consulting business leverages Gartner's experienced consultants for those customers seeking more in-depth engagement and project-based advisory services. Gartner's conferences are considered among the most important events for executive leaders and are generally heavily oversubscribed by enterprises and tech vendors.

Gartner possesses the key business quality characteristics we believe to be important for long-term success. It has strong pricing power as evidenced by its ability to grow pricing 3-4% per year and pass-on larger price increases during inflationary periods as seen in the last few years. About 70% of Gartner's research subscriptions are multi-year in nature, with total subscriptions representing about 76% of revenues. Client retention for the Research business is around 85%, but net wallet retention is higher as larger contracts tend to be stickier, and it can upsell higher-fee subscriptions, drive seat growth, and take price over time. Gartner has a long-term growth runway with secular tailwinds due to the growing role of technology in a company's operations and strategy, and it is uniquely positioned to benefit from those tailwinds due to its strong competitive differentiation.

Among the key risks we are monitoring with Gartner are its performance in budget constrained environments, competition from lower end firms, and any issues which could negatively impact the strength of its brand. Gartner has a demonstrated ability to carefully manage these risks, but they remain areas we will continue to monitor.

Sales

We liquidated the position in **Equinix** due to forced attrition and its high valuation. Its business continued to generate solid results, but its valuation looked less attractive, and the company's growth was expected to be limited by the amount of capex it would spend on expansion. It is also likely to face a more difficult pricing environment after having taken significant price increases in 2023. Accordingly, with other opportunities offering higher growth with relatively more attractive valuations, we sold the position.

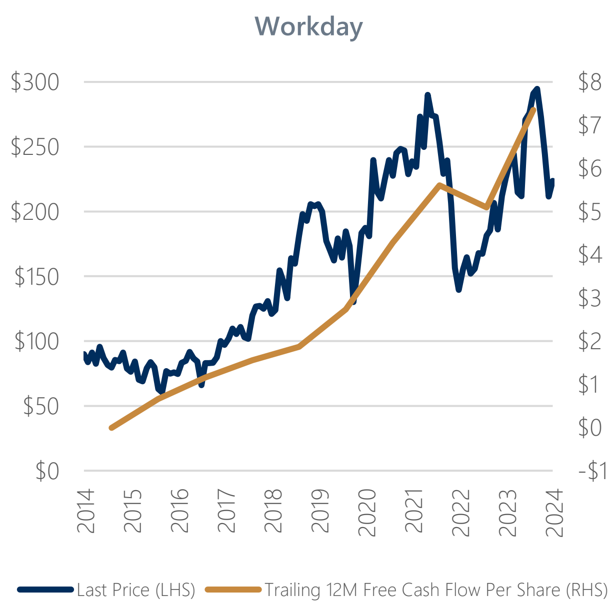
We liquidated the position in **Ball Corporation** due to forced attrition. The company had a solid Q1 report showing sales volumes improving across all regions and continued strong margins. The company also completed the sale of its aerospace unit which allowed it to reduce the debt on its balance sheet and implement a share buyback, returning cash to investors. Given a fair valuation and our expectation for relatively moderate growth looking forward compared to other opportunities on our Qualified Company List, we sold the stock to fund the purchase of Meta.

We liquidated the position in **Sherwin-Williams** due to forced attrition as we identified other opportunities on our Qualified Company List that are expected to provide more attractive investment returns over our 3–5-year investment horizon. Sherwin-Williams reported Q1 results slightly below our expectations due to weaker volumes at its Paint Store Group (PSG) resulting from bad weather in some key areas of the country as well as delayed activities which were likely pushed into Q2 or Q3. Management noted share gains in PSG, with "material pickup" in national account wins as peers retreated and reiterated their full year guidance. With increased macro uncertainty, the majority of post-Covid margin recovery now achieved, and higher expected returns from Gartner and Apple given their valuations, we sold the shares.

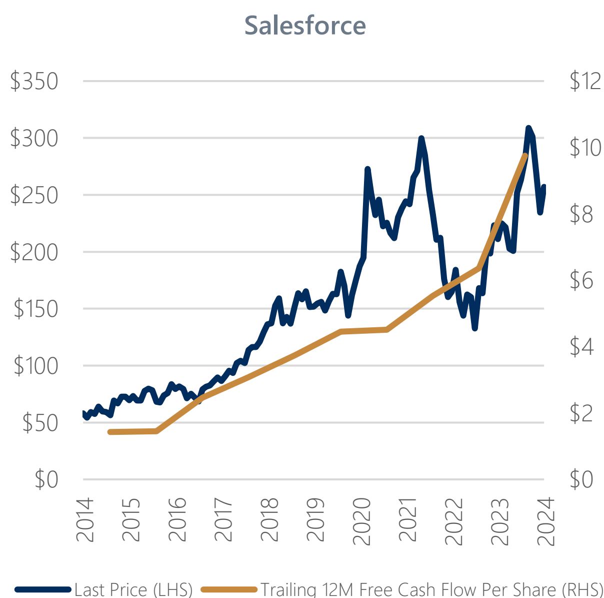
IQVIA was sold during the quarter due to forced attrition. The company reported solid revenue and earnings growth, while full year guidance was reiterated by management. Slight upside in its clinical business offset slight downside in its commercial business relative to forecasts. Business trends in the clinical business remained solid while the Technology & Analytic Solutions business is expected to improve in the second half of the year. Given concern that budgetary issues and economic moderation could continue to impact decision making by clients in the Technology & Analytic solutions segment, we chose to reallocate the capital to other higher confidence opportunities offering better long-term growth.

Outlook and Summary

Q2 was a difficult period for our approach given the continued outperformance of semiconductor and communication services companies, where we are underweight. Additionally, the disappointing performance of highly profitable software stocks that generate attractive recurring revenues and cash flow compounding weighed on performance. While the market was concerned with slower than expected short-term backlog growth at some of these companies, we believe these are temporary issues and saw this as an opportunity for us to leverage our longer time horizon and add to our holdings in these shares. Our research and modeling indicate at least double-digit earnings and cash flow growth over the next 3-5 years for most of these companies. Accordingly, we are comforted by Benjamin Graham's belief that in the short-term, the market is a "voting machine" reflecting myriad different emotions and beliefs whereas in the long run it is a "weighing machine" that ultimately reflects the cash flow created by businesses. In this case, as we have with other companies which have faced short-term disappointments, we rely on our modeling and perspective around these businesses to make our decisions versus being influenced by the short-term noise. The charts below illustrate the short-term "noise" and the highly variable stock price action in blue, along with the steady compounding of cash flows from these businesses that we are attracted to in orange. They also show the rebound which occurred in some of the stocks at the end of Q2 as investors looked at the longer-term underlying fundamentals.



Data as of 6/30/2024. Source: Bloomberg



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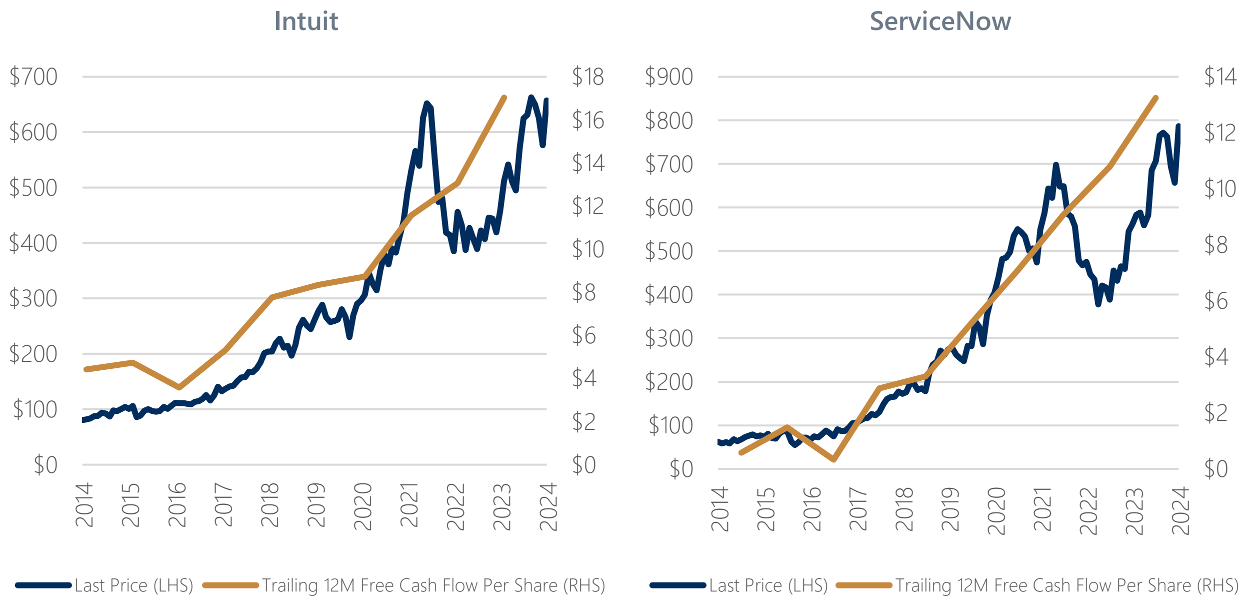

Data as of 6/30/2024. Source: Bloomberg *Data as of 6/30/2024. Source: Bloomberg*

A more detailed discussion of some of these application software companies is provided in a recently published paper called "The Search for Linear Cash Flow Compounders: Enterprise Application Software Stocks on Sale". We are confident that compounding cash flows and the long-term predictable earnings growth from these and other owned businesses will become more attractive to investors as the massive $7 trillion in stimulus applied to the U.S. economy over the past three years gives way to slower growth. Whether this leads to a recession or not is unknowable. However, we believe it is likely that corporate profit growth slows from the unsustainably high levels of the post pandemic period, and market volatility increases with greater uncertainty. Over the next three years, this portfolio is forecast to generate 13% revenue growth and 17% earnings growth with less variability than the market. Earnings variability has not meant much to investors while growth was high. We remain confident in the superiority and predictability of our portfolio's earnings and cash flow growth and expect that it will begin to be noticed again amid greater uncertainty and moderating economic growth.

Our approach to growth investing has seen difficult periods before (2005-2007, 2013-2014) and subsequently generated attractive relative returns as the predictable growth businesses we own began to be recognized and rewarded again. We can't control the Indexes or investor emotions, but we can ensure discipline to our approach which over time has generated superior earnings growth with lower earnings variability. We remain confident that this superior growth together with an attractive valuation especially as index valuations approach their 2021 peaks will be handsomely rewarded both absolutely and relatively over time. Your portfolio now trades at a significant discount to the Russell 1000 Growth Index valuation based on our free cash flow work, with superior sustainable growth prospects.

We thank you for your continued confidence. Please let us know if you have any questions.

Organizational Updates

As communicated to you over the past year, co-founder George Fraise retired from SGA effective July 1st after a long and distinguished career and HK Gupta replaced him on SGA's Executive Committee. George will continue to serve on SGA's Advisory Board.

We are also pleased to announce that Joseph Wahba recently joined SGA as a Client Portfolio Manager serving our Australian and Asian clienteles together with Deana Leong. Joseph joins us from AustralianSuper where he had served as Head of Manager Research for Australia's largest superannuation fund and been a client of SGA's.

U.S. Large Cap Growth Commentary

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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 U.S. Large Cap Growth portfolio for the past year. SGA's earnings growth forecast data is based upon portfolio companies' non-GAAP operating earnings.

Performance Results	Q2 2024	YTD 2024	1-Year	3-Year	5-Year	10-Year	15-Year	Since Incep.*
SGA U.S. LCG (Gross)	0.1%	10.8%	21.5%	3.0%	13.0%	13.7%	15.3%	10.9%
SGA U.S. LCG (Net)	-0.1%	10.4%	20.6%	2.3%	12.2%	12.9%	14.5%	10.1%
Russell 1000 Growth	8.3%	20.7%	33.5%	11.3%	19.3%	16.3%	17.3%	12.5%
S&P 500	4.3%	15.3%	24.6%	10.0%	15.0%	12.9%	14.8%	10.7%

**SGA U.S. Large Cap Growth Composite inception revised to 7/1/2003 from 4/1/2000 due to SEC New Marketing Rule change relating to use of predecessor performance record.*

	Total Return						3 Year Standard Deviation				
Period	Before Fees	After Fees	Russell 1000 Growth Index	S&P 500 Index	Number of Portfolios	Composite Dispersion	SGA Composite	Russell 1000 Growth Index	S&P 500 Index	Total Assets in Composite at Period End (USD millions)	Total Firm Assets at Period End (USD millions)
July 1 - Dec. 31, 2003	11.16%	10.75%	14.73%	15.14%	Five or Fewer	N/A				747	777
2004	9.29%	8.48%	6.30%	10.88%	6	0.1%				1,408	1,460
2005	3.42%	2.65%	5.26%	4.91%	13	0.1%				2,661	2,711
2006	2.74%	1.97%	9.07%	15.79%	15	0.1%	8.19%	8.31%	6.82%	3,467	3,512
2007	4.88%	4.10%	11.81%	5.49%	17	0.2%	8.48%	8.54%	7.68%	2,883	2,920
2008	-34.21%	-34.72%	-38.44%	-37.00%	16	0.3%	14.51%	16.40%	15.08%	1,324	1,360
2009	46.25%	45.19%	37.21%	26.46%	16	0.4%	18.19%	19.73%	19.63%	1,589	1,711
2010	13.20%	12.36%	16.71%	15.06%	19	0.3%	21.30%	22.11%	21.85%	1,508	1,600
2011	4.85%	4.07%	2.64%	2.11%	25	0.3%	17.85%	17.76%	18.71%	1,637	2,686
2012	21.09%	20.20%	15.26%	16.00%	41	0.3%	16.06%	15.66%	15.09%	2,819	4,278
2013	27.97%	27.03%	33.48%	32.39%	49	0.4%	11.91%	12.18%	11.94%	3,852	5,611
2014	9.45%	8.63%	13.05%	13.69%	49	0.3%	9.67%	9.59%	8.97%	3,627	5,332
2015	9.38%	8.57%	5.67%	1.38%	49	0.3%	11.42%	10.70%	10.47%	4,033	5,318
2016	1.80%	1.04%	7.08%	11.96%	45	0.2%	12.24%	11.15%	10.59%	3,969	5,672
2017	26.51%	25.59%	30.21%	21.83%	49	0.3%	11.47%	10.54%	9.92%	5,804	9,971
2018	4.71%	3.93%	-1.51%	-4.38%	41	0.2%	11.28%	12.13%	10.80%	4,725	9,096
2019	34.59%	33.61%	36.39%	31.49%	40	0.8%	11.37%	13.07%	11.93%	6,179	12,347
2020	36.97%	35.97%	38.49%	18.40%	39	0.3%	17.50%	19.64%	18.53%	8,929	18,780
2021	20.35%	19.46%	27.60%	28.71%	41	0.2%	17.00%	18.17%	17.17%	11,070	22,899
2022	-28.91%	-29.45%	-29.14%	-18.11%	40	0.2%	22.29%	23.47%	20.87%	10,048	18,407
Since Inception (July 1, 2003)	9.72%	8.90%	10.35%	9.44%			15.11%*	15.74%*	14.76%*		

N/A- Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

* Since Inception Annualized Standard Deviation. SGA Composite Standard Deviation 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 US Large Cap Growth Composite was created in July 2003. 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.

U.S. Large Cap Growth Commentary

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The SGA US Large Cap Growth composite has had a performance examination for the periods July 1, 2003 - December 31, 2022. The verification and performance examination reports are available upon request.

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SGA US Large Cap Growth Composite contains fee-paying large cap growth equity portfolios under full discretionary management of the firm. No alteration of the composite as presented here has occurred because of changes in firm personnel. For comparison purposes the composite is measured against the S&P 500 and Russell 1000 Growth indices.

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. Gross returns for certain accounts have not been reduced by transaction costs. As of 12/31/22, the value of these accounts is less than 1% of the composite value. Composite gross returns for the relevant periods are presented as supplemental information to the net returns. 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, 0.75%, employing the U.S. Large Cap Growth strategy during the period under consideration. Actual fees charged to clients may vary depending on, among other things, the applicable fees schedule and portfolio size. SGA's fees are available upon request and also may be found in Part 2A of its Form ADV. For interest and capital gains, SGA does not withhold taxes. However, 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. Past performance is not indicative of future results.

The standard investment management fee schedule for the firm is 0.75% on the first $25 million and 0.50% on the next $75 million and 0.35% over $100 million. Actual investment advisory fees incurred by clients used in the composite may vary from the standard fee schedule.

Q2 2024 Sustainability Report

SGA
Sustainable Growth Advisers

CDP's 2024 Non-Disclosure Campaign

This quarter we were pleased to join 275 financial institutions in supporting CDP's 2024 Non-Disclosure Campaign. Last year marked our first year supporting the CDP's annual Non-Disclosure Campaign, and we were encouraged by its outcomes. In 2023, the campaign engaged with over 1,500 companies resulting in nearly 20% of targeted companies ultimately disclosing across an array of ESG-related metrics. Companies targeted in 2023's campaign were over two times more likely to disclose to CDP and 90% of companies that disclosed following the 2022 campaign resubmitted disclosures in 2023. Given this strong success rate, the 2024 Non-Disclosure Campaign has increased the number of targeted companies to nearly 2,000. While the majority of our ESG engagement efforts are focused on direct interaction with companies on our Qualified Company List (QCL), we are pleased to collaborate with other organizations on important ESG issues.

Yum Brands!

During 2023, a new European Union (EU) law entered into force requiring companies with material operations in the EU to report on risks and opportunities related to environmental and social issues, as well as the impact of the companies' activities on the environment and society ("Double Materiality"). Starting in 2025, companies must disclose this information annually in a Corporate Sustainability Reporting Directive (CSRD). As part of the process, companies must conduct a Double Materiality assessment, which includes receiving input from an array of stakeholders in the company.

Over the quarter, we participated in a "Double Materiality Assessment Review" conducted by consulting firm Point B on behalf of Yum! Brands. Point B is interviewing various YUM stakeholders to hear their perspective on what ESG factors they think are most material from both the inside-out and outside-in. As one of the largest shareholders in the company, SGA was invited to participate in the review as a material stakeholder. It was a valuable opportunity for us to express our opinion on the most material ESG factors pertaining to risks and opportunities for the company, as well as an opportunity to gain an inside look at the process behind the reporting requirements under the CSRD.

Key highlights from our interview included the following:

1. When asked to identify the ESG factors from a list of 30 that are most important to Yum! Brand's ability to generate value, we cited food safety, safety & human rights in the value chain, franchisee relations, GHG emissions, nutrition, and talent attraction/engagement/retention as the most material.
2. When asked to review the list of risks and opportunities related to DEI considerations that are potentially most impactful, we noticed employee retention (a real challenge in the QSR industry) was not explicitly included on the list of risks and suggested it be added.
3. When asked to review similar lists for Cybersecurity & Data Privacy, Responsible Marketing, and Tax Strategy, we found the lists to be sufficiently thorough with no significant items missed.

ServiceNow

We recently met with ServiceNow management including the General Counsel, Russ Elmer, to continue our discussion on compensation concerns. As a reminder, we have long considered ServiceNow to be among the leaders in the practice of capping share dilution and have frequently referenced their practices as 'best-in-class' in our engagements with other QCL companies. We began the discussion by expressing our support for recent changes to the company's compensation plan, including the addition of relative Total Shareholder Return (TSR) in Performance-based Restricted Stock Unit (PRSU) award calculation, the extension of PRSU vesting to a 3-year cliff, a commitment to make no further one-time equity awards, and a reduction of annual dilution commitment from 2% to 1.5% and gradually to <1% per annum.

We urged management to avoid mid-year modifications to the compensation plan, which Russ Elmer agreed with barring truly exceptional circumstances. We also suggested that management revert the PRSU mix to 80% of the Long-Term Incentive (LTI) plan after the current transition period in the vesting terms; it had been lowered to 60% this year to smooth cash flows to management as a result of the extension of the vesting cliff from 1 year to 3 years. Next, we suggested management consider using Free Cash Flow (FCF) margins as opposed to operating margins in LTI metrics. Russ Elmer asserted that FCF margin and operating margin are similar, however we noted there could be many scenarios under which this is not the

case. Furthermore, given the CEO's continued emphasis on the company's growth in revenue and FCF margins, we would expect FCF margins to naturally be included in Key Performance Indicators (KPIs).

Finally, we inquired whether CEO Bill McDermott's 2024 contract expiration and his promotion to Chairman last year would be the basis for another one-time equity grant. Russ Elmer confirmed that there would not be a one-time grant for such reasons and stated that McDermott's contract allowed for annual extensions.

Universal Music Group

During the quarter, we engaged with Universal Music Group on ESG matters including board independence and share-based compensation ahead of the annual meeting. We discussed the qualifications of the independent board directors and the value they bring to the board. Universal Music Group went public in 2021 and currently only 5 of the 14 directors are independent. The company is working towards increasing the number of independent board members by adding new seats for the independent members while retaining the existing board members. However, we indicated at some point we would like to see some of the non-independent directors replaced by independent directors so that the board does not grow unmanageably large. Separately, we also expressed a desire to see cash-flow based measures implemented in the compensation plan as a part of the incentive compensation as opposed to revenue and EBITDA growth. We will continue to engage with management in future meetings to monitor their progress on board independence and advocate for cash-flow based compensation measures.

Proxy Voting Summary Q2 2024

	Number of Resolutions	For	%	Against	%	Abstain	%
U.S. Large Cap Growth	355	309	87%	46	13%	0	0%
Global Growth	345	300	87%	45	13%	0	0%
International Growth	355	326	92%	29	8%	0	0%
Emerging Markets Growth	211	202	96%	9	4%	0	0%

Source: SGA, ISS.

Carbon Risks Q2 2024

	Carbon Emissions*	Carbon Intensity	Weighted Average Carbon Intensity
SGA Global Growth	5.8	31.8	27.9
MSCI ACWI	75.9	166.7	119.6
SGA Relative Exposure	-92%	-81%	-77%
SGA U.S. Large Cap Growth	7.8	47.4	45.7
Russell 1000 Growth	7.6	42.4	27.5
SGA Relative Exposure	+2%	+12%	+66%
SGA Emerging Markets Growth	23.4	54.5	40.2
MSCI EM	253.6	370.0	344.3
SGA Relative Exposure	-91%	-85%	-88%
SGA International Growth	17.2	65.1	83.8
MSCI ACWI ex-USA	142.5	204.6	170.9
SGA Relative Exposure	-88%	-68%	-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.