International Growth Commentary

Q2 2024

SGA Sustainable Growth Advisers

Performance

SGA's International Growth portfolio returned -4.4% (Gross) and -4.6% (Net) in Q2, compared to 1.0% for MSCI ACWI ex USA Index and 0.7% for the MSCI ACWI ex USA Growth Index.

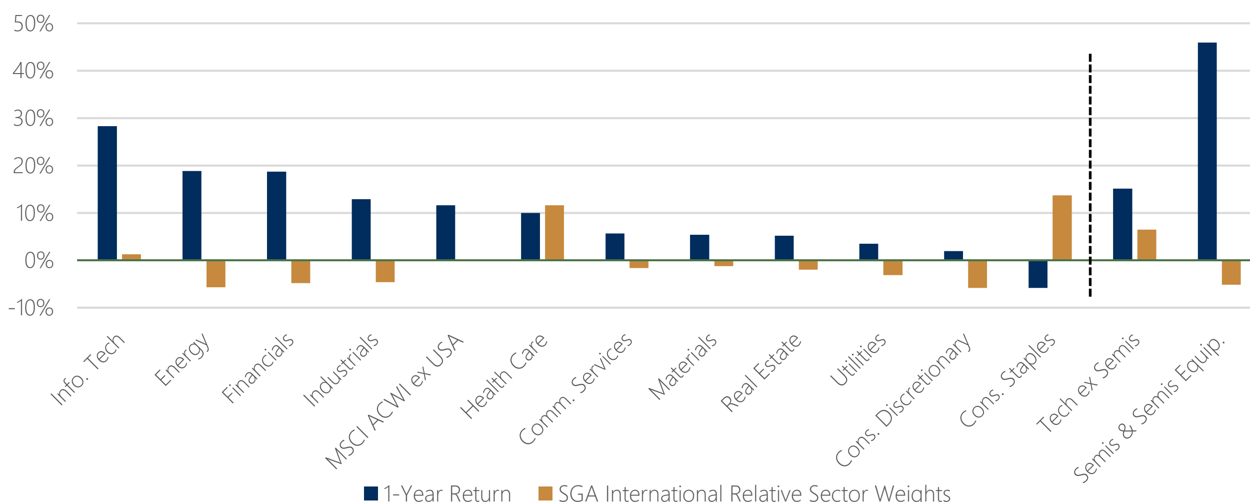
Highlights

- Portfolio declined in Q2, lagging the broader market advance due to a mix of stock specific headwinds and unfavorable market leadership.
- Market leadership was concentrated in Semis, other cyclicals, and European pharma companies, while Consumer Staples companies continued to lag.
- Positions in HDFC Bank, Novo Nordisk, and Recruit contributed most positively to performance. Positions in Sartorius, FEMSA, and XP detracted most from performance.
- A position in TSMC was initiated with several positions trimmed on strength; Lululemon and Sartorius were added to on weakness.
- Portfolio remains well-positioned to deliver attractive, above-average growth in earnings and cash flows over the next three years with greater predictability.

A Bifurcated and Narrow Market Leads International Stocks Higher in Q2

The market's modest gains in Q2 masked a highly bifurcated market backdrop where enthusiasm around AI continued to power semiconductor stocks higher, accounting for most of the market's advance. Emerging markets outperformed on the back of strength in semis and cyclicals in India and China which offset weakness in Latin America. Developed markets underperformed as European markets lagged, despite solid performance in the U.K., strength in large pharma companies, and an interest rate cut by the European Central Bank, as political uncertainty and modest growth weighed on sentiment. Weakness in Japan also weighed on developed market performance, with the poor performance driven by a slide in the Japanese Yen. In India, more economically sensitive stocks in the Industrials, Telecoms, and Materials sectors outperformed despite heightened market volatility following the Indian election results. Optimism about government stimulus efforts in China and support for the country's ailing housing sector drove a rebound in Chinese equities with more economically sensitive stocks in the Energy, Financials, and Industrials sectors outperforming. In contrast, Latin American markets were the weakest performing in Q2 as an unexpected outcome in the Mexican election raised investor anxiety about a potential leftist shift in government policy and possibility of constitutional changes. Additionally, renewed inflation concerns and uncertainty around future rate cuts in Brazil weighed on Brazilian stocks. The weakness in Latin America weighed on the portfolio's positions in FEMSA and XP which were significant detractors from performance during the quarter.

Broad market earnings expectations remained high in Q2 after having bottomed in 2023, reflecting a resilient global macro-economic backdrop, expectations for monetary easing, and hopes for improvement in the Chinese economy amid increasing stimulus efforts. This backdrop has favored generally more economically sensitive areas of the market over the past 12 months.



Source: FactSet, MSCI.

SGA Sustainable Growth Advisers

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

Our benchmark-indifferent approach to portfolio construction means that the portfolio will at times deviate meaningfully from index returns, especially over shorter-term periods when markets are driven by a narrow group stocks or certain sectors and industries where we are either not invested or where we have less exposure based on our quality growth discipline. These allocation differences have been a key source of the relative shortfall over the last year as the market has been driven by AI-related enthusiasm for semis while cyclicals, including Energy, Financials, and Industrials stocks, have benefited from a better-than-expected macro backdrop. At the same time, predictability of growth has largely gone unrewarded, highlighted by the extremely poor performance of Consumer Staples stocks, which happens to be a significant weight in the SGA portfolio. The year-to-date period and past 12 months have been very challenging for the portfolio's relative performance, however, we find comfort in the attractive valuation of the portfolio, with an enterprise yield of 3.3%, and expected earnings growth of 14% per year over the next three years. This presents an attractive setup for future returns, both absolutely and relatively, as we expect index earnings growth to slow with global economic growth.

Largest Contributors

HDFC Bank, the second largest bank in India by assets and the largest by market capitalization, was the most significant contributor in Q2. 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% from fees & commissions. HDFC Bank's shares rebounded in Q2 on solid fiscal Q4 2024 results which helped ease investor concerns around slowing growth. The Bank's deposits rose 26% year/year with retail deposits showing particular strength increasing 28% and continuing to provide HDFC Bank with access to attractive low-cost capital. Current (checking) and Savings account deposits grew 9% quarter/quarter specifically and non-performing assets remained well controlled at 1.24% of assets versus 1.26% as of December 31, 2023. Contingent provisions were increased, and the conservatism will help the bank whenever there is a downcycle. Overall, we were pleased with the results as they were confirmatory to our longer-term thesis and confidence in the bank's ability to recover from the short-term growth setback following the merger with its parent company last year. We maintained our above-average weight position in the company during the quarter.

Novo Nordisk, a global pharmaceutical company with leading positions in the large and growing diabetes and obesity markets, was the second largest contributor in Q2. We have owned Novo Nordisk for more than a decade in our portfolios given its highly predictable and attractive financial and growth profile. Its high and stable margin structure is supported by its ability to innovate and the continuous transition of its portfolio towards newer drugs, such as its higher margin GLP-1 franchise, and away from lower priced insulins which face pricing pressure. The company's scale and ability to drive manufacturing efficiencies also help the company maintain its overall level of profitability. As Novo Nordisk's drugs target chronic diseases that are treated over the lifetime of patients, its revenues are highly recurring leading to a high degree of predictability. The rising prevalence of diabetes and obesity around the world and increasing adoption of their drugs earlier in the treatment process provides a secular growth tailwind for Novo Nordisk. The company delivered strong Q1 results with sales increasing 24% year/year and operating profits up 30%. The company's GLP-1 franchise enjoyed 32% sales growth while obesity care grew 42%, including 100%+ growth for Wegovy. While Novo Nordisk remains supply constrained, the company expects to close on the Catalent acquisition by year-end, which should help alleviate current supply constraints. We continue to view the company's growth opportunity favorably given the large and unaddressed diabetes and obesity populations worldwide, but are mindful of potential pricing pressure and government negotiations in the U.S. as a result of the Inflation Reduction Act. We maintained our above-average weight position.

Recruit, an HR and media company which owns job-search engine Indeed and a variety of online media and staffing businesses, was the portfolio's third largest contributor. Recruit's dominant position in the mass-market job search segment via Indeed, where it serves over 350 million unique visitors every month, and its scale advantages in its Japanese Media and Solutions businesses, provides the company with significant pricing power while its reliability with employers leads to repeat customers and recurring revenues. The still low penetration of online tools in the hiring process supports a strong growth opportunity for Indeed while its Media and Solutions businesses are structural share gainers from traditional offline competitors. Recruit's shares overcame weakness in Japanese stocks and delivered strong returns on the back of solid

quarterly results, an improving outlook for its HR Tech business, and announced plans to return more cash to shareholders via share buybacks. Total revenues returned to growth in fiscal Q4 after a period of weakness highlighted by the decline in HR Tech revenues moderating to -10% from the -17% reported in the prior quarter. Management noted that they expected the HR Tech business to return to growth in the second half of this fiscal year despite continued headwinds from moderating job openings. Adjusted EPS grew 12% in Q4 and 21% for the year, supported by strong cost discipline. We maintained a below-average weight position in the company reflecting continued uncertainty around the near-term growth outlook and a less attractive valuation relative to other positions in the portfolio.

TSMC and **MercadoLibre** were the fourth and fifth largest contributors to performance.

Largest Detractors

Sartorius, a supplier of laboratory and bioprocessing products to the biopharmaceutical industry, was the largest detractor from performance in Q2. Its bioprocessing unit provides essential materials that are used in the production of biopharmaceutical products such as monoclonal antibodies and vaccines. We believe this is a very attractive business well positioned for long term growth given the continued growth of production in biologic products. As its products are a relatively small cost, but vital, part of the production costs for the industry, the company has developed strong pricing power. With consumables accounting for about 75% of total revenues, its revenue generation is highly recurring and predictable. Additionally, once its products are implemented into biologic production, there is a high level of stickiness to the materials used in production because of regulatory requirements. Despite the long-term attractiveness of the business, the company has been experiencing near term challenges, due to customers destocking the inventory they overbought during Covid. Because of supply chain challenges and demand from Covid vaccine manufacturers, customers hoarded Sartorius' products to ensure uninterrupted production, which continued to negatively impact Sartorius in the first quarter. Q1 results were disappointing, with sales declining 8% and EPS down 40%. Bioprocessing solutions sales, which accounts for 80% of sales, were down 5%, while sales in its Lab Products division were down 15%. On a positive note, total order intake was up 10% year/year and bioprocessing up 15% driven by solid consumables orders, offsetting weakness in demand for equipment and instruments as customers have been delaying orders. While Sartorius' business has been under significant pressure in recent years on the back of supply chain challenges, inventory destocking, and weakness from China, we continue to view the longer-term thesis for Sartorius as intact. We added to the position on weakness, however, recognizing the continued near-term uncertainty we maintained a below-average weight target.

FEMSA, one of the leading consumer companies in Latin America, was the second largest detractor in Q2. FEMSA is engaged in two primary business: non-alcoholic beverages through its stake in Coca-Cola FEMSA ("KOF"), the largest Coca-Cola bottler in the world, and convenience stores through its OXXO stores which is the largest chain of convenience stores in Latin America. KOF's advanced bottling capabilities along with OXXO's scale and operating excellence provide FEMSA with considerable pricing power. Both businesses are highly predictable as KOF's products are consumed on a regular basis and have limited sensitivity to economic fluctuations while OXXO registers over 10 million transactions per day and is the third largest retailer in terms of revenues in Mexico. Growth is supported by packaging and product innovations at KOF, consumption growth in Latin America, and continued store expansion potential for OXXO which we think can roughly double its store count from today over time. The company's drugstore initiative should add incremental growth potential over the long term. Broad-based weakness in Mexican stocks due to the unexpected outcome in the Mexican general election weighed heavily on FEMSA's shares during the quarter. Despite greater uncertainty around the political and economic backdrop, particularly as it relates to the administration's promised wage increases, we view FEMSA as well-positioned to deliver attractive growth in earnings and cash flows moving forward. The company is prepared for likely further labor reforms and can offset wage inflation through further labor efficiency improvements. We also believe that the lift to consumer spending from higher wages would offset greater employee wage pressures and ultimately be a net positive for the company. FEMSA's Q1 results were better-than-expected with operating profits up 14% year/year and strong same-store-sales growth of nearly 10% for its OXXO stores. We continue to view the growth opportunity favorably for FEMSA but had trimmed our position on strength with the capital used to fund our purchase of TSMC.

XP, a leading independent broker platform operating in Brazil, was the portfolio's third largest detractor in Q2. XP is disrupting Brazil's oligopolistic financial market structure, which has historically resulted in a lack of customer choice and poor customer experience. Through technology and a focus on better customer experiences, XP offers a higher selection of better products

and lower fees, allowing the company to gain market share and dominate the online brokerage market. Opportunities to cross-sell other financial services, such as credit cards and insurance, help offset fee pressures from the traditional compression of commissions in the brokerage industry and make its platform stickier, leading to a high degree of recurring revenues. XP's growth opportunity is supported by low market penetration and improving financial savviness of investors in Brazil, which should lead to greater demand for different types of financial products over time. XP's shares were negatively impacted by weakness in the Brazilian market and soft Q1 results, highlighted by weaker-than-expected net client inflows and modest growth in assets under custody (AUC). AUC grew just 2% quarter/quarter and 20% year/year while retail net inflows of $R13B came in lower than expected and below the $R16B generated in Q1 of 2023. Positive highlights from their report included active client growth and total advisor growth of 16% year/year along with strength in the company's new verticals (retirement, insurance, and credit offerings), which grew 35% year/year. We continue to view the longer-term growth opportunity favorably for XP but maintained a below-average weight position in the company.

Adyen and **Aon** were the fourth and fifth largest detractors from performance.

Portfolio Activity

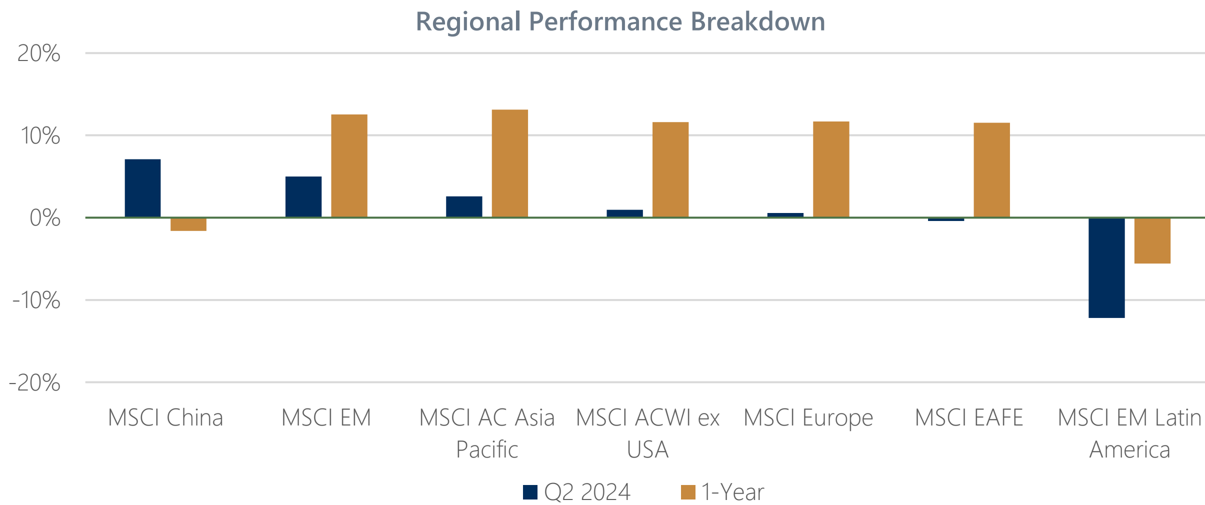
A new position in TSMC was initiated during the quarter while no positions were liquidated. Several positions were trimmed on strength while Lululemon and Sartorius were added to on weakness.

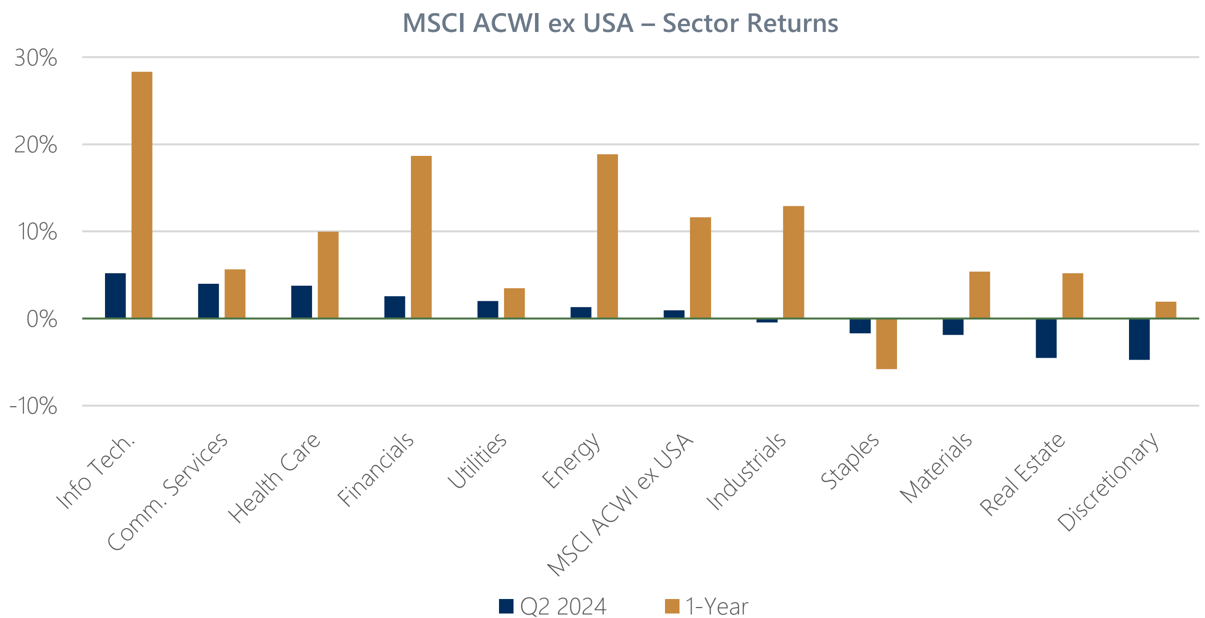
New Positions

We initiated a new position in **TSMC**, the world's preeminent semiconductor foundry. 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 provides 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 today is 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.

Outlook

The portfolio continued to lag in Q2 while the broader market advanced on the back of strength in semis, cyclicals, and pharma companies. The portfolio's underperformance thus far in 2024 and over the past year are at the most severe levels we have seen since the portfolio's inception in 2015, largely reflecting the narrowness of the market advance and unfavorable nature of market leadership. While periods of severe underperformance bring increased scrutiny and tough questions from clients, we remain confident in our approach and believe that the superior and more predictable compounding of earnings and cash flows in our portfolio combined with attractive valuations will drive strong absolute and relative returns moving forward. While we cannot predict the timing of a turn in relative performance, we can ensure that we remain true to our philosophy and disciplined in our process, which is focused on assembling a portfolio of high-quality companies that can grow earnings and cash flows consistently in the mid-teens range with low levels of variability. We believe that over time stock prices reflect the underlying growth in earnings and cash flow and we are confident that the market will eventually reward the companies that deliver superior fundamental performance.

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

Organizational Update

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 served as Head of Manager Research for Australia's largest superannuation fund and a client of SGA's.

The opinions expressed herein reflect the opinions of Sustainable Growth Advisers, LP and are subject to change without notice. Past performance is no guarantee for future results. This information is supplemental and complements a GIPS Report that can be found with composite performance. The securities referenced in the article are not a solicitation or recommendation to buy, sell or hold securities. This commentary is provided only for qualified and sophisticated institutional investors.

Results are presented gross and net of management fees and include the reinvestment of all income. For interest and capital gains, SGA does not withhold taxes. For dividends, SGA will withhold taxes as reported by the client's custodian. Returns are calculated net of withholding taxes on dividends. The Net Returns are calculated based on the deduction of a model fee of 0.85% being the highest applicable fee that may be charged to SGA clients for the International Growth strategy. Net Returns do not account for custodian and brokerage fees that clients pay to third parties. Actual fees charged to clients may vary depending on, among other things, the applicable fees schedule and portfolio size. SGA's fees are available upon request and may be found in Part 2A of its Form ADV. The largest contributors and detractors are determined using a ranking of the absolute contribution to portfolio return by each security held over the period under consideration. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Upon request, free of charge, SGA can provide a list of all portfolio holdings held in SGA's International Growth portfolio for the past year. SGA's earnings growth forecast data is based upon portfolio companies' non-GAAP operating earnings.

Performance Results	Q2 2024	YTD 2024	1-Year	3-Year	5-Year	Since Inception
SGA International Growth (Gross)	-4.4%	-4.3%	-0.4%	-1.9%	6.2%	7.4%
SGA International Growth (Net)	-4.6%	-4.7%	-1.2%	-2.7%	5.3%	6.5%
MSCI ACWI ex USA (Net TR)	1.0%	5.7%	11.6%	0.5%	5.5%	4.6%
MSCI ACWI ex USA Growth (Net TR)	0.7%	6.7%	9.9%	-2.6%	5.5%	5.3%

	Total Return						3 Year Standard Deviation					
Period	Before Fees	After Fees	MSCI ACWI ex-USA Net TR Index	MSCI ACWI Growth ex-USA Net TR Index	Number of Portfolios	Composite Dispersion	SGA Composite	MSCI ACWI ex-USA Net TR Index	MSCI ACWI Growth ex-USA Net TR Index	Total Assets in Composite at Period End (USD millions)	Total Firm Assets at Period End (USD millions)	Percentage of non-fee paying accounts
Mar. 1 - Dec. 31, 2015	-4.63%	-5.30%	-10.32%	-6.77%	Five or Fewer	N/A				0.096	5,318	100%
2016	0.65%	-0.21%	4.50%	0.12%	Five or Fewer	N/A				0.097	5,672	100%
2017	37.83%	36.69%	27.19%	32.01%	Five or Fewer	N/A				0.133	9,971	100%
2018	-12.42%	-13.17%	-14.20%	-14.43%	Five or Fewer	N/A	12.85%	11.38%	11.55%	89	9,096	0%
2019	30.96%	29.87%	21.51%	27.34%	Five or Fewer	N/A	12.01%	11.34%	11.50%	307	12,347	0%
2020	25.55%	24.50%	10.65%	22.20%	Five or Fewer	N/A	15.87%	17.93%	16.48%	310	18,780	0%
2021	9.53%	8.61%	7.82%	5.09%	Five or Fewer	N/A	15.11%	16.79%	15.01%	325	22,899	0%
2022	-17.73%	-18.44%	-16.00%	-23.05%	Five or Fewer	N/A	18.68%	19.26%	18.99%	257	18,407	0%
Since Inception (March 1, 2015)	7.14%	6.24%	2.84%	3.68%			15.48*	15.42*	15.24*			

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

3 Year Standard Deviation is not shown for 2015, 2016, and 2017 as 36 months of returns are not available.

* Since Inception Annualized Standard Deviation. SGA Composite Dispersion based on Gross Returns.

Sustainable Growth Advisers, LP ("SGA") was formed in 2003 and is a registered investment advisor under the Investment Advisers Act of 1940. SGA manages portfolios of publicly traded equity assets according to its "Large Cap Growth Equity" investment approach for pooled funds, institutions, trusts and private accounts. SGA is an operationally independent investment management firm and an affiliate of Virtus Investment Partners. The SGA International Growth Composite was created in March 2015. The firm maintains a complete list and description of all composites, which is available upon request.

Sustainable Growth Advisers, LP claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sustainable Growth Advisers, LP has been independently verified for the periods July 1, 2003 – December 31, 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 International Growth composite has had a performance examination for the periods March 1, 2015 - December 31, 2022. The verification and performance examination reports are available upon request.

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SGA International Growth Composite contains fee-paying and non-fee paying large cap international growth equity portfolios under full discretionary management of the firm. For comparison purposes the composite is measured against the MSCI ACWI ex-USA TR Index (Net) and MSCI ACWI Growth ex-USA TR Index (Net).

The composite calculation has been appropriately weighted for the size of each portfolio on a time-weighted, total return basis. Monthly portfolio returns have been used in the construction of the composite. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.

The U.S. Dollar is the currency used to express performance. Results are presented gross and net of management fees and include the reinvestment of all income. For interest and capital gains, SGA does not withhold taxes. For dividends, SGA will withhold taxes as reported by the Client's custodian. Returns are calculated net of withholding taxes on dividends. The Net Returns are calculated based upon the highest published fees. The net performance has been calculated by reducing the gross performance by the amount of the highest published fee that may be charged to SGA clients, 0.85%, employing the International Growth strategy during the period under consideration. Actual fees charged to clients may vary depending on, among other things, the applicable fees schedule and portfolio size. SGA's fees are available upon request and also may be found in Part 2A of its Form ADV. The annual dispersion presented is an asset-weighted standard deviation calculated using gross returns for the accounts in the composite the entire year. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. ***Past performance is not indicative of future results.***

The standard investment management fee schedule for the firm is 0.85% on the first $25 million and 0.65% on the next $75 million and 0.50% over $100 million. Actual investment advisory fees incurred by clients used in the composite may vary from the standard fee schedule.

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.