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Sustainable Growth Advisers: A Natural Emphasis on ESG

Since 2014, Sustainable Growth Advisers (SGA) is a proud signatory to the United Nations Principles for Responsible Investment (UN PRI), which supports the integration of environmental, social, and governance (ESG) factors into investment decisions in order to generate better risk-adjusted returns over time.

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SGA recognizes that ESG factors can impact a company's financial performance, competitive positioning, brand equity, and other determinants of a company's long-term growth potential. ESG factors are naturally taken into account as part of SGA's investment analysis, which seeks companies with key business qualities that enable more predictable and sustainable long-term revenue and profit growth.

Three-Step ESG Approach

1. Proprietary Research and Management Engagement

All SGA portfolios invest in companies on SGA's highly selective qualified company list. These are 100 or so high-quality, sustainable growth companies that, first and foremost, meet SGA's rigorous, fundamental research criteria. These differentiated global businesses share the same strong growth attributes: superior pricing power, predictable revenue generation, strong cash flow generation and less levered balance sheets, and long runways for growth opportunities. In addition, their managements have proven to be good stewards of shareholder capital, and thus viewed as likely able to responsibly execute on their business plans. As a result, these businesses tend to be highly regarded in terms of their ESG standing.

Each company on SGA's qualified list is covered by two SGA analysts. They are responsible for researching the business—including engaging with management on ESG issues—and forming an objective opinion based on SGA's established high quality standards. SGA's proprietary research encompasses deep analysis of the company's operating environment, peers, culture, management, governance, unique growth drivers, and financial strength. It is essential to assess all these influencers to determine the ability of the business to grow in a sustainable manner.

2. Third-Party ESG Analysis for Outside Perspective

Since 2014, SGA has engaged Sustainalytics, a global leader in ESG and corporate governance research and ratings, to enhance the SGA investment team's perspective on sustainability issues and business quality. Every company on SGA's qualified list receives an ESG quality score, which is calculated based on an equal weight of SGA's and Sustainalytics' respective scores. The company's ESG issues are monitored and reevaluated on an ongoing basis, regardless of whether the stock is currently owned in an SGA portfolio or not. In the case of differing opinions, SGA will reexamine and reconsider the data, adjusting their views if necessary or choosing to disagree, making no change to their initial investment thesis.

SGA's ESG scoring process ensures key issues are vetted and seeks to arrive at the best understanding of a business and the sustainable growth it offers. We believe this leads to more robust decisions when factored alongside SGA's analyses of the company's pricing power, recurring revenues, runways of growth, cash flow generation, financial quality, and management quality. A company's ESG scores do not, in themselves, determine whether its stock will be purchased or sold. SGA does not rank businesses for the purposes of building portfolios.

3. Proxy Voting in Support Long-Term Shareholder Interests

SGA seeks to represent their clients' interests, including decisions related to ESG issues, through a responsible proxy voting policy. SGA's proxy voting policy and procedures are updated as appropriate, factoring in new developments in the law, best practices in the industry, corporate governance studies, and other refinements as SGA deems appropriate.

SGA considers the litmus test of any shareholder proposal to be whether its adoption will allow the company to carry on its business in such a way that SGA's clients' best interests are served. This means voting against management should SGA determine shareholder interests may be better served by doing so—even in the case of companies that SGA views favorably.

Summary

SGA strives to integrate ESG issues into their investment analysis and decision-making process while fulfilling their fiduciary duty to all clients. SGA's investment team recognizes that ESG factors can impact a company's financial performance, competitive positioning, brand equity, and other determinants of long-term shareholder value creation. SGA's investment process naturally leads to companies that tend to be highly regarded in terms of their ESG practices, while steering away from companies that are managed irresponsibly or that offer products considered harmful. SGA's time-tested sustainable growth approach offers the opportunity to invest in ESG-oriented businesses with the potential for historically attractive risk-adjusted returns.

- VIRTUS SGA EMERGING MARKETS GROWTH FUND
  A: VAEGX, C: VCEGX, I: VIEGX, R6: VESRX
- VIRTUS SGA GLOBAL GROWTH FUND
  A: SGAAX, C: SGACX, I: SGAPX, R6: SGARX
- VIRTUS SGA INTERNATIONAL GROWTH FUND
  A: SCIIX, I: STITX, R6: SCIZX
- SGA GLOBAL GROWTH MANAGED ACCOUNT
- SGA INTERNATIONAL GROWTH MANAGED ACCOUNT
- SGA U.S. LARGE CAP GROWTH MANAGED ACCOUNT

About Sustainable Growth Advisers

Sustainable Growth Advisers is a growth equity manager specializing in high-conviction U.S., global, and international portfolios focused on businesses with strong, predictable, and sustainable growth potential.

About Virtus Investment Partners

Virtus Investment Partners (NASDAQ: VRTS) is a distinctive partnership of boutique investment managers singularly committed to the long-term success of individual and institutional investors. The company provides investment management products and services through its affiliated managers and select subadvisers, each with a distinct investment style, autonomous investment process, and individual brand.

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To learn more about SGA mutual funds and managed accounts, visit virtus.com or call us at 800-243-4361.

Please carefully consider a Fund's investment objectives, risks, charges, and expenses before investing. For this and other information about any Virtus mutual fund, contact your financial representative, call 800-243-4361, or visit virtus.com for a prospectus or summary prospectus. Read it carefully before investing.

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