Emerging Markets Commentary

1Q 2021

SGA
Sustainable Growth Advisers

Performance

SGA's Emerging Markets Growth portfolio returned 1.5% (gross) and 0.8% (net) in Q1, compared to 2.3% and 0.6% for the MSCI EM Index and the MSCI EM Growth Index respectively.

3/31/2021	*SGA - Gross*	*SGA - Net*	*MSCI EM*	*MSCI EM Growth*
QTD	1.5%	0.8%	2.3%	0.6%
1-Year	62.9%	58.3%	58.4%	63.8%
3-Year	14.6%	11.3%	6.5%	10.1%
5-Year	16.6%	13.2%	12.1%	15.5%
Inception	11.5%	8.2%	5.6%	8.8%

Source: Factset, MSCI, SGA

Highlights

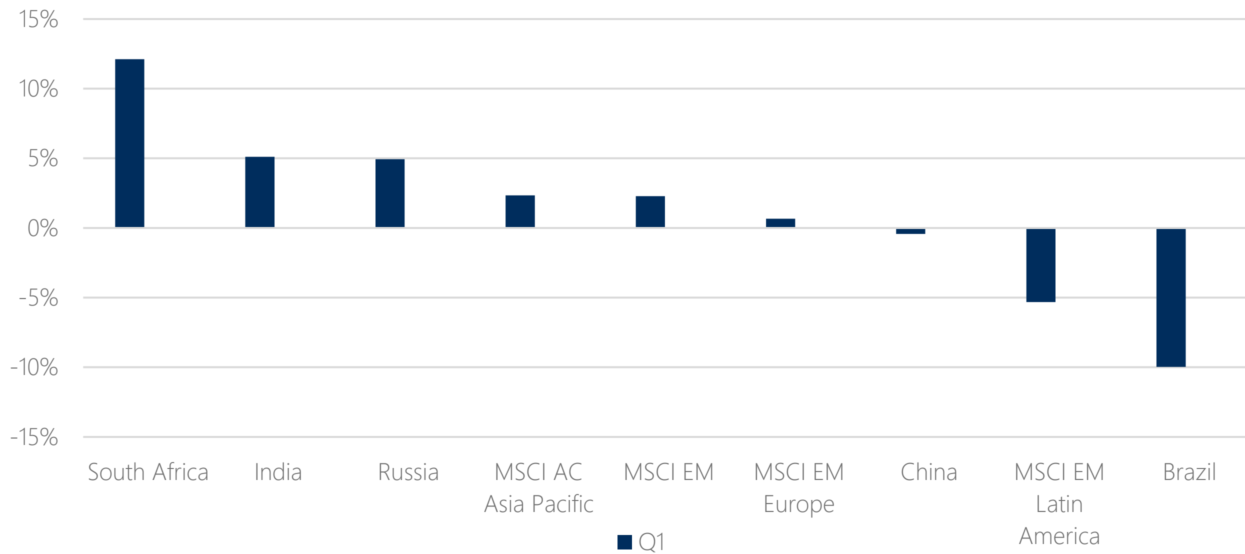
- SGA's Emerging Markets Growth portfolio returned 1.5% (gross) and 0.8% (net), outperforming the 0.6% generated by MSCI EM Growth Index but trailing the broader MSCI EM Index which returned 2.3% in Q1
- The portfolio's relative return pattern over the course of the quarter followed expectations, with the portfolio trailing initially as markets surged on continued optimism around the economic recovery, but outperforming later in the quarter as volatility and uncertainty led to weakness in the broader market
- A new position in Bank of Central Asia was initiated during the quarter. Several other positions were trimmed on strength and others added to on weakness
- The portfolio remains well-positioned to generate higher revenue and earnings growth than the MSCI EM Index over the coming three years with greater predictability and sustainability

An Improving Global Economy Lifts Economically-Sensitive Stocks While Rising Rates Weigh on Growth Stocks

Emerging markets finished the quarter higher despite significant intra-quarter volatility. Markets continued their breakneck pace from Q4 through the quarter's opening three weeks, driven by strength in media, internet, and e-commerce companies along with a rebound in more cyclical auto and semiconductor companies on the back of rising expectations for a global economic recovery. Following the initial period of strength, the market declined as concerns about higher interest rates in the U.S. and uncertainty around policy tightening in China weighed on sentiment. A confluence of other factors exacerbated the weakness; among them a global chip shortage, which derailed the rebound in auto companies, worrisome COVID-19 developments in Europe and Brazil, rising geopolitical tensions between China and Western countries, and further regulatory scrutiny around technology and internet companies in China.

While optimism around the economic recovery has lifted the stock prices of more economically sensitive companies, the pace of the recovery and the path forward is likely to depend on the successful deployment of COVID-19 vaccines and continued accommodative fiscal and monetary policies. We expect market volatility to persist as investors grapple with the dispersion in vaccine rollouts, uncertainty around the impact of new COVID variants, and uncertainty over the level of fiscal and monetary accommodation moving forward. As always, we continue to focus on the most predictable, high quality, cash flow compounders which benefit from long runways of growth, while only investing in those that are attractively valued on the basis of cash flows. We have great confidence in the ability of the portfolio companies to deliver attractive earnings and cash flow growth over the long-term with less volatility than the broader market.

MSCI Emerging Markets Index Returns

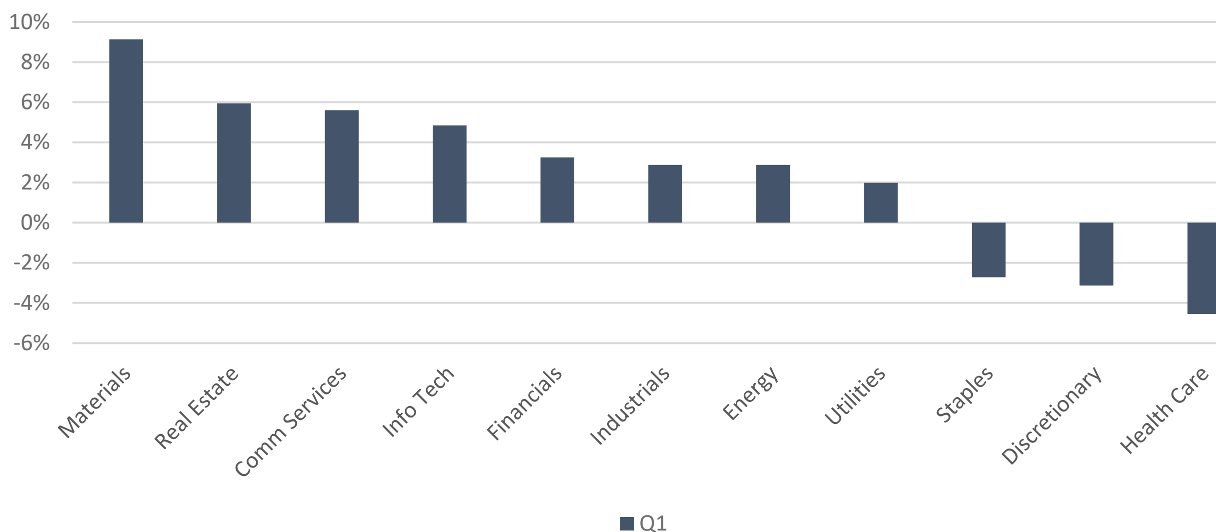


Source: FactSet, MSCI

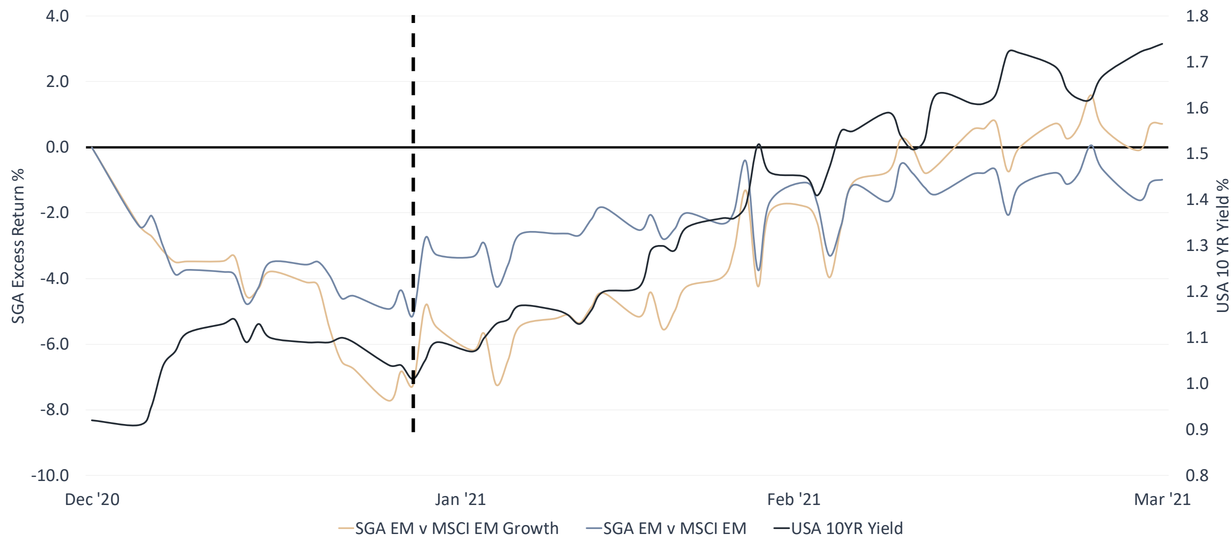
Market Attribution

Index returns for the quarter were muted, however this masked periods of significant strength and weakness throughout the quarter. Initial strength in media, internet, and e-commerce companies along with strong performance in autos and semiconductors drove the MSCI EM Index up by more than 9% through January 25th, before higher interest rates and weakness in Chinese equities derailed the rally. From January 25th and through the end of the quarter, the MSCI EM Index declined by more than 6%. However, the weakness was most pronounced for faster growing companies as evidenced by the more than 10% decline in the MSCI EM Growth Index over the same period. The portfolio's performance pattern over the course of the quarter followed historical precedence as the portfolio trailed during the initial period, which was fueled by significant optimism and risk-taking, while outperforming during the subsequent period of market weakness.

MSCI Emerging Markets Index – Sector Returns



Source: FactSet, MSCI



The performance figures shown are for the institutional share class of the Virtus SGA Emerging Markets Growth Fund, VESRX, relative to the MSCI EM Growth Index and MSCI EM Index.

Source: FactSet, MSCI

Portfolio Attribution

Stock selection effects contributed positively to relative returns in Q1, with selection strongest in Industrials and Consumer Staples driven by strong performance in Kansas City Southern, CP All, and Wal-Mart de Mexico. Stock selection in Information Technology, Health Care, and Consumer Discretionary detracted given weakness in XP, Shandong Weigao, New Oriental Education, and TAL Education. Sector allocations, which are purely a bi-product of our bottom-up approach, detracted from relative returns during the quarter with the portfolio's overweights to the Consumer Staples and Consumer Discretionary sectors and underweights to the Materials and Information Technology sectors detracting the most.

Largest Contributors

North American railroad **Kansas City Southern** was the largest contributor to portfolio performance as the company received a $25 billion merger offer from Canadian Pacific Railroad which would create a company that would create the first freight railway network linking the U.S., Canada and Mexico. The deal faces scrutiny from U.S. regulators but with little geographic overlap between the respective rail networks of the two companies, both parties committed to it, and the ability for the new entity to help expedite and actually enhance service for customers, we consider the chances of approval to be good. This is further supported by the fact that a similar deal was approved in the late 1990's on a similar basis where it was determined that there was little negative impact on competition. Along with the chance to enhance service for shippers and thereby strengthen the new company's value proposition, we see the potential for meaningful synergies on both the top and bottom line for the company over our 3-5 year investment horizon. Given the increase in KSU's share price with the announcement of the deal, and the potential risk that it may not be approved, we took profits in the position but maintained an above-average weight at quarter-end.

Chinese hotel group **Hauzhu Group** (HTHT) was the second largest contributor to returns during the period given optimism around a recovery in travel and mobility. HTHT delivered better-than-expected revenue growth of 6% in its fiscal Q4 results and the company expects a strong recovery for the coming fiscal year guiding for 50-54% top-line growth. Travel restrictions and further lockdowns in January and February impacted results but the hotel group saw operating trends improving in March. HTHT's German subsidiary, Deutsche Hospitality (DH), continued to be pressured given lockdowns in Germany and travel restrictions across Europe. A new JV with property development firm Sunac for high-end hotel development was announced by HTHT, which is likely to add to its long-term growth potential. We continue to view HTHT as well-positioned

to benefit from its scale, and superior brand and management capabilities in a fragmented industry with significant long-term growth potential. HTHT's hotels have maintained a 21% better overall occupancy rate than the China average, reflecting its competitive dominance. We trimmed the position back to our above-average weight target on strength during the quarter.

Thai Convenience store operator **CP All** was the third largest contributor to performance. The company posted an in-line Q4 report with comparable store sales impacted by more transient issues including lockdowns due to COVID-19, poor weather, and temporary government provided subsidies which could only be redeemed in traditional stores. Looking forward, the company expects to be able to grow comparable store sales in-line with GDP which should be in the 3-4% range. They also plan to open 700 more stores in 2021 as space becomes available while focusing on controlling staffing costs. Additionally, we see benefits from the company's continued expansion of 7-Eleven and Makro stores as well as O2O delivery initiatives and synergies from their acquisition of Tesco assets which closed in December of 2020. We maintained an above-average weight position in the company.

Trip.com and **Wal-Mart de Mexico** were the fourth and fifth largest contributors to performance.

Largest Detractors

Chinese after-school tutoring provider **New Oriental Education** was the largest detractor from portfolio performance in Q1 after announcements by government regulators led to increased concerns about how EDU and other private education companies may be impacted by new regulations. Following a review of the issue, we determined that the main tenets of our original thesis for EDU remained intact and that we expect the company to potentially benefit from the change in regulations which may lead to a further consolidated industry. We continue to see EDU as being well positioned to benefit from demand for higher quality education in China and purchased additional shares of the stock on weakness through the quarter.

Chinese after-school tutoring provider **TAL Education** was the second-largest detractor from performance during the period. TAL was negatively impacted by the same issues mentioned above for EDU, however in the case of TAL their exposure to the faster-growing online channel, where they have invested heavily and seen rapid growth added more concern around their outlook. We find it likely that new regulations will impact education companies' ability to advertise their online services as aggressively as has been the case, which could negatively impact TAL's future growth rate. However, given the heightened competition for online tutoring from emerging players and the significant capital expended on advertising to capture share, limitations on advertising would have a positive impact on margins and profitability. Ultimately, given TAL's strong brand and well-recognized service offerings we view the company as well-positioned to withstand potential regulations, which are likely to benefit scaled companies such as TAL and EDU. As with EDU, after extensive review and discussion we determined the main tenets of our thesis for TAL Education remained intact and purchased additional shares on weakness.

Chinese medical device **Shandong Weigao** was the third largest detractor from performance in Q1. Weakness in China's equity markets pressured the company's shares, but there were also concerns early in the quarter on whether the Chinese government's central procurement of medical consumables would negatively impact the company, as pricing on tendered products would be pressured. When the company reported their 2H20 results, Weigao reported that while there were some pricing pressures, they were able to take significant market share as a scaled player, overcoming the pricing pressure from the central procurement process. The company also returned to growth in the 2H20, as medical visits and procedures started returning, rebounding significantly from 1H20. Not all of the higher margin categories returned to growth, as biopsies and elective procedures remain below pre-COVID-19 levels. We expect demand for these procedures will return, and see significant potential opportunity for the company as it continues to build its portfolio of higher margin products, participates in the growth of health care services within China and begins to grow its business outside of China. We purchased shares on weakness during the quarter and maintained an above-average position.

Budweiser APAC and **Asian Paints** were the fourth and fifth largest detractors from performance.

Portfolio Activity

Turnover during the quarter was in line with our long-term average. A new position was initiated in Bank of Central Asia. We trimmed several positions on strength during the quarter, including Fast Retailing, HDFC Bank, Huazhu Group, Tencent, Trip.com, WuXi Biologics, and Kansas City Southern. We added to other positions on weakness, including Shandong Weigao, New Oriental Education, and TAL Education.

New Positions

A new position in **Bank of Central Asia** (BBCA), the largest private bank in Indonesia, was initiated during the quarter. BBCA is a unique and high quality bank benefiting from secular growth drivers such as an underbanked population in Indonesia and favorable demographics. The bank has delivered attractive returns on equity over time despite low leverage and high capital ratios, given a persistently high net interest margin of ~6%. BBCA is the clear leader in transaction-based banking, including mobile and internet banking providing it with a significant competitive advantage. The strength of the bank's relationships and high CASA (current account savings account) ratio of around 75% drives its pricing power given the low cost of funding through these deposits. We see an attractive long-term growth opportunity for BBCA given a low penetration rate for traditional banking in Indonesia, and low household usage of banking and leverage, which we expect will rise over time as the economy develops further. We initiated a below-average weight position in the company during the quarter and will continue to build the position opportunistically moving forward.

Summary

The portfolio's return pattern over the course of the quarter was consistent with our expectations and history. As markets delivered exceptionally strong returns through the first three weeks of the quarter the portfolio delivered solid absolute returns but lagged on a relative basis. As higher interest rates and a shifting market backdrop subsequently drove a rotation out of higher-valued companies and markets declined, the portfolio protected capital and outperformed broader markets. While we continue to find attractively valued growth opportunities in select emerging markets companies and believe the global economic recovery provides a favorable backdrop for emerging markets, we expect the path forward to be volatile. Global vaccine supplies are steadily increasing, however wide dispersion pertaining to the progress of vaccination programs within countries and regions persist, which will lead to variations in the pace of economic recovery and normalization. In addition, continued uncertainty around the impact of variant virus strains, rising geopolitical tensions, and the potential for premature fiscal and monetary tightening might temper the recovery and lead to further volatility.

We continue to have high conviction in the portfolio's holdings as the businesses we look to invest in are less economically-sensitive and benefit from longer-term secular growth drivers leading to more consistent and predictable growth in revenues, earnings, and cash flows over time. As we witnessed during this quarter's selloff, our cash-flow based valuation discipline is a driver of the portfolio's lower risk profile and helps mitigate downside participation. Over the next three years we expect the portfolio to deliver 17% and 25% growth in revenues and earnings respectively, outpacing the expected growth in the broader market, while providing stronger quality characteristics and an attractive cash-flow based valuation.

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 full disclosure presentation that can be found with composite performance. 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. 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. The Net Returns are calculated based upon the highest published fees. The net performance has been reduced by the amount of the highest published fee that may be charged to SGA clients, 1.1%, employing the Emerging Markets Growth equity 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. Upon request, free of charge, SGA can provide a list of all portfolio holdings held in SGA's Emerging Markets portfolio for the past year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. SGA earnings growth forecasts are based upon portfolio companies' non GAAP operating earnings. SGA Emerging Markets Growth Composite inception is 8/1/2014. Past performance is not indicative of future results.

	Total Return							3 Year Standard Deviation							
Period	Before Fees	After Fees	MSCI EM Net TR Index	MSCI EM Growth Net TR Index	MSCI ACWI with EM Exposure Net TR Index	Number of Portfolios	Composite Dispersion	SGA Composite	MSCI EM Net TR Index	MSCI EM Growth Net TR Index	MSCI ACWI with EM Exposure 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	Percentage of WRAP accounts
Aug. 1 - Dec. 31, 2014	-1.38%	-2.61%	-9.59%	-7.09%	-8.27%	Five or Fewer	N/A					0.193	5,332	100%	0%
2015	-3.00%	-5.88%	-14.92%	-11.34%	-13.45%	Five or Fewer	N/A					0.094	5,318	100%	0%
2016	2.10%	-0.92%	11.19%	7.59%	11.73%	Five or Fewer	N/A					0.096	5,672	100%	0%
2017	36.31%	32.38%	37.28%	46.80%	35.10%	Five or Fewer	N/A	12.64%	15.35%	14.69%	14.10%	0.130	9,971	100%	0%
2018	-11.00%	-13.66%	-14.57%	-18.26%	-14.97%	Five or Fewer	N/A	12.87%	14.60%	14.98%	13.30%	0.116	9,096	100%	0%
2019	30.97%**	27.17%**	18.42%	25.10%	21.30%	Five or Fewer	N/A	13.38%	14.17%	15.41%	13.95%	5	12,347	0%	0%
2020	31.22%	27.42%	18.31%	31.33%	12.21%	Five or Fewer	N/A	18.45%	19.60%	19.96%	18.62%	6	18,780	0%	0%
2021 (Mar)	1.53%	0.77%	2.29%	0.59%	0.61%	Five or Fewer	N/A	17.91%	18.89%	19.58%	17.99%	96	19,071	0%	0%
Since Inception (August 1, 2014)	11.51%	8.24%	5.59%	8.83%	5.12%			15.32%*	17.19%*	17.19%*	16.07%*				

N/A- Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
3 Year Standard Deviation is not shown for 2014, 2015, and 2016 as 36 months of returns are not available
* Since Inception Annualized Standard Deviation. SGA Composite Dispersion based on Gross Returns.
** Performance figures restated for 2019. 2019 performance previously stated as 33.14% (gross) and 29.29% (net), restated as above.

Sustainable Growth Advisers, LP ("SGA") was formed in 2003 and is a registered investment advisor under the Investment Advisers Act of 1940. SGA manages portfolios of publicly traded equity assets according to its "Large Cap Growth Equity" investment approach for pooled funds, institutions, trusts and private accounts. SGA is an operationally independent investment management firm and is an affiliate of Virtus Investment Partners. The SGA Emerging Markets Growth WRAP Composite was created in September 2019. 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, 2019. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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. Verification does not ensure the accuracy of any specific composite presentation.

The SGA Emerging Markets Growth WRAP Composite contains fee paying and non-fee paying discretionary global large cap emerging growth equities that invests in companies around the world that are direct beneficiaries of the rapid emergence of the middle class across many developing economies and its related wealth creation. For comparison purposes the composite is measured against the MSCI ACWI with EM Exposure Net; MSCI Emerging Markets Growth Net and MSCI Emerging Markets Net Total Return Indices. The benchmarks are the most widely followed indices to track emerging market performance. The indices reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The net total return indices are most representative of what a passive investor in the index could expect to achieve taking into account the price level movements, dividends and taxes that are withheld on those dividends

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 composite includes non-wrap accounts only, from 8/1/14 to 3/31/21.

The U.S. Dollar is the currency used to express performance. Returns are shown Gross and Net of management fees and include 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. Wrap fees include management, transaction, custody and other administrative fees. 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 wrap fee that may be charged to SGA clients, 3.00%, employing the Emerging Markets Growth WRAP 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 wrap fee schedule in effect is 3.00% on total assets. Actual investment advisory fees incurred by clients used in the composite may vary from the standard fee schedule.

Risks:

Risks: Equity Securities: The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. Geographic Concentration: A portfolio that focuses its investments in a particular geographic location will be sensitive to financial, economic, political, and other events negatively affecting of that location. Foreign & Emerging Markets: Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. Market Volatility: Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended.