Q4 23 GLOBAL EQUITIES DELIVER BEST QUARTER SINCE 2020

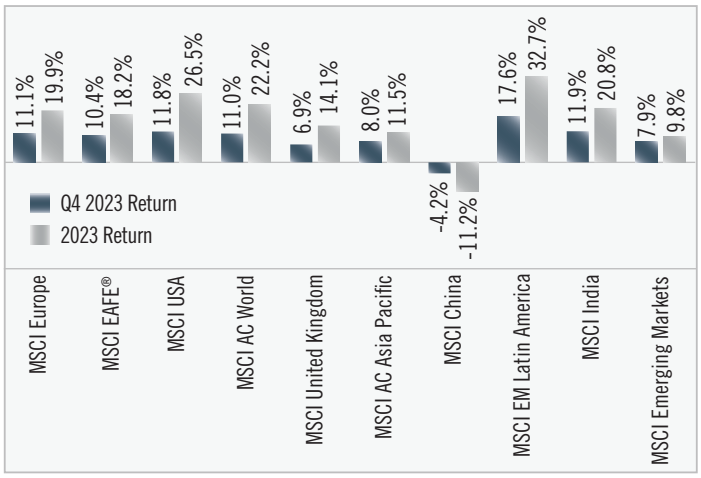
MARKET REVIEW AND OUTLOOK

SGA Sustainable Growth Advisers
A VIRTUS INVESTMENT PARTNER

MARKET REVIEW

Global markets posted their best quarter since the COVID rebound in 2020 as investors cheered an improving inflation backdrop. While U.S. and European central banks held rates steady during the quarter, given easing inflationary pressures, market expectations for rate cuts in 2024 rose, driving developed market bond yields significantly lower. Falling yields supported a strong rally in global bonds and long duration equities.

GLOBAL INDEX RETURNS



As of 12/31/2023. Source: FactSet. See MSCI Index definitions on last page.
Past performance is no guarantee of future results.

Economic growth remained resilient in the U.S. with a better than expected third-quarter GDP report showing 4.9% annualized real growth, driven by strong consumption, which raised expectations for a "soft landing." The economic backdrop was more muted in other developed markets, however, with GDP declining 0.5% and 2.9% on an annualized basis (quarter-to-quarter) in the Eurozone and Japan, respectively, as weak consumption and business spending weighed on economic activity. In contrast, growth was better than expected in Mexico and Brazil, where falling inflation also supported expectations for further rate cuts.

Growth in China also surprised to the upside with third quarter GDP increasing 4.9% year-over-year as stimulus measures appeared to take positive effect. Continuing concerns about the country's property market, policy actions, and relations with the West, however, weighed on investor sentiment; foreign investors reversed themselves and pulled nearly all the money that had flowed into China's stock market earlier in the year. For the year, Chinese stocks declined 11% and are down nearly 55% from their highs in February of 2021.

Asian markets outside of China generally performed well, led by Taiwan and Korea, which benefited from a strong rebound in semiconductor and technology hardware stocks. Indian equities also outperformed on the back of strong economic growth and optimism around future growth prospects given its favorable demographics, stable democracy, and growing middle class.

Overall, global earnings growth expectations moved higher during the quarter, reflecting a generally resilient global economic backdrop and rising expectations for a "soft landing" in the U.S. While current expectations reflect a more sanguine inflation backdrop, risks to current expectations remain. A broadening of the conflict in the Middle East could disrupt global energy markets while fragility in global shipping routes was highlighted by recent disruptions as Houthi rebels in Yemen attacked ships in the Red Sea, posing uncertainty to routes that carry about 40% of Europe's trade with Asia. While economic growth has remained resilient, headwinds from depleting excess consumer savings, tight bank lending standards, deglobalization trends, still high interest rates, and high sovereign debt levels may continue to put pressure on growth moving forward.

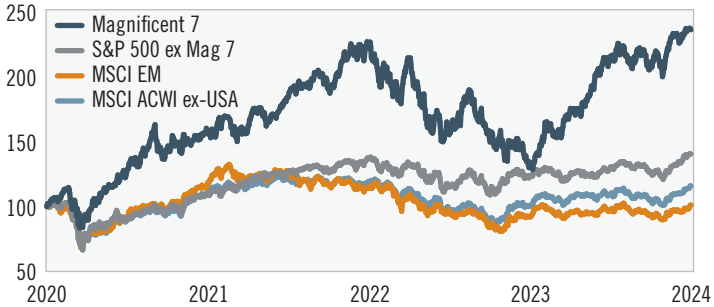
The fourth quarter market advance was broad based with only four countries out of the 47 included in the MSCI All Country World Index (ACWI) posting negative returns for the quarter, most notably China, which declined over 4% for the period. More than half of the 47 markets delivered double-digit returns. Market leadership also broadened in U.S. markets, but for 2023 as a whole, the advance was highly concentrated. The top 10 companies in the Russell 1000® Growth Index accounted for 72% of the returns in 2023, with the "Magnificent Seven" alone accounting for 65%, propelling the Index to its best annual return on record. For the S&P 500® Index, the top 10 and "Mag Seven" accounted for 67% and 62% of the returns, respectively. As a result, market concentration in the U.S. continued higher in 2023.

COMBINED WEIGHT OF S&P 500® INDEX

Year	Top 5 Stocks	Top 10 Stocks
1980	16.8%	25.5%
1985	14.5%	19.8%
1990	12.3%	20.0%
1995	10.9%	17.7%
2000	14.0%	23.5%
2005	12.5%	20.4%
2010	10.8%	18.6%
2015	11.4%	19.1%
2020	21.8%	28.6%
2023	24.3%	32.1%

As of 12/31/23. Source: Strategas

THE MAGNIFICENT SEVEN'S CONTINUED OUTPERFORMANCE



As of 12/31/23. Source: FactSet. **Past performance is no guarantee of future results.**

OUTLOOK

The fourth quarter and all of 2023 continued to perplex many strategists and market observers as equity markets defied fundamental economic headwinds to generate double-digit returns. Optimism over the likelihood of interest rate cuts in 2024 and a soft landing offset concern over the lagged impact of higher interest rates and their eventual effect on a still tight labor market. We continue to expect slowing profit growth even though the markets continue to forecast accelerated growth in 2024 and 2025. Our focus remains on achieving attractive long-term compounding for our clients with lower levels of risk by focusing on sustainable growth companies that can grow at above-average rates over the long term with greater visibility and less variability in their growth.

While long-duration assets have been handsomely rewarded over the past 15 years since the Federal Reserve first embarked on quantitative easing, much of this period's low economic volatility and easy access to capital made investing in highly predictable, resilient, and cash flow generative growth companies less attractive. The "zero interest rate policy" (ZIRP) environment also largely made valuation discipline irrelevant.

We believe the world and investment environment will look very different over the next 10-15 years as key drivers behind the market's strength change. The reversal of globalization, the limits to government stimulus with higher debt and increasing geopolitical uncertainty will limit growth. Regardless of the direction of the macroeconomic environment, we have confidence that the higher-quality and more predictable growth companies in our portfolios will be rewarded by the market over full market cycles.

Authored by:
The SGA Investment Team

Sustainable Growth Advisers (SGA) is a growth equity firm specializing in managing high-conviction U.S., global, international, and emerging market portfolios. SGA uses a team-oriented approach and a consistent investment philosophy based on fundamental research and investing in the equities of sustainable growth companies.

Index definitions: MSCI USA Index measures the performance of the large and mid cap segments of the U.S. market. **MSCI AC Asia Pacific** measures large and mid-cap equity performance of developed and emerging markets countries in the Asia Pacific region. **MSCI All Country World (ACWI)** measures equity performance of developed and emerging markets. **MSCI EAFE®** measures developed foreign market equity performance, excluding the U.S. and Canada. **MSCI AC World ex U.S.** measures equity performance of developed and emerging markets, excluding the U.S. **MSCI Emerging Markets** measures equity market performance in global emerging markets. **MSCI Europe** measures equity market performance of Europe's developed markets. **MSCI Emerging Markets Latin America** measures equity performance of Latin America's emerging market countries. Indexes are free float-adjusted market cap-weighted and calculated on a total return basis with dividends reinvested. The **MSCI United Kingdom Index** is designed to measure the performance of the large and mid-cap segments of the U.K. market. The **MSCI China Index** captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The **MSCI India Index** is designed to measure the performance of the large and mid-cap segments of the Indian market. The **Russell 1000® Growth Index** is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The indexes are unmanaged, returns do not reflect any fees, expenses, or sales charges, and are not available for direct investment.