Q3 21

POSITIONED FOR GLOBAL VOLATILITY AMID INFLATION, REGULATORY, AND COVID-19 CONCERNS

MARKET REVIEW AND OUTLOOK

SGA Sustainable Growth Advisers
A VIRTUS INVESTMENT PARTNER

MARKET REVIEW

Global market leadership varied widely over the quarter, facing headwinds from rising COVID-19 cases and stubborn inflationary pressures. Given the ongoing impact of COVID-19 on production, consumption, and trade, economic projections fell short of expectations in the U.S., China, and elsewhere, with forecasts for future economic growth and corporate profits moderating. Interest rates rose globally in response to rising inflationary pressures driven by COVID-related production and transportation bottlenecks, as well as widespread labor shortages.

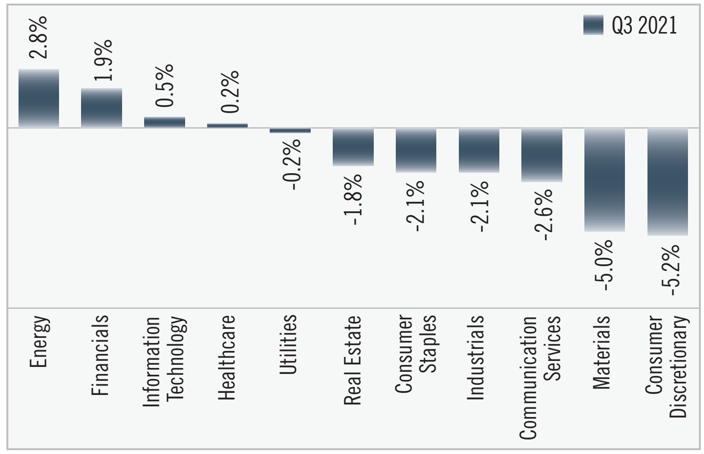
In the U.S., economic growth slowed from the unsustainable levels of the pandemic rebound. Higher prices for consumer products, rising gasoline prices, and continued uncertainty over the course of the COVID-19 Delta variant, weighed on consumer confidence and led to an increase in caution. A reopening boom in the EU and U.K. sent inflation readings to multi-year highs.

China's Purchasing Managers Index (PMI) unexpectedly contracted in August, while its manufacturing PMI came in weaker than expected. The government's increasingly hostile regulatory efforts with a desire to achieve "common prosperity" also gave investors pause, weighing on internet, technology, finance, gaming, and private education industries. Risks in the property sector, including debt-laden Evergrande on the brink of default, new regulations, and increasingly difficult demographic trends, pose a threat to the future rate of economic growth and the profit potential of companies operating in China.

Leadership in the global market varied significantly over the quarter. Investors preferred larger growth companies for much of the quarter but turned to smaller, more economically sensitive companies later in the period amid waning COVID-19 cases. Companies with high returns on equity and earnings outperformed, but so did companies with higher levels of debt.

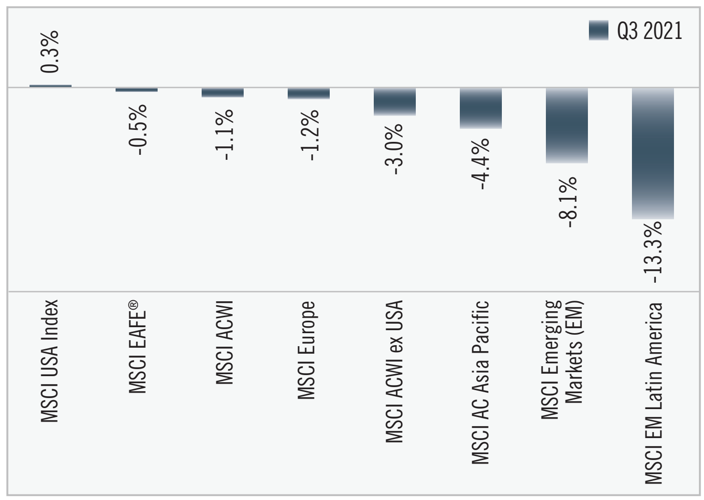
In this environment, the MSCI All Country World Index (ACWI) declined modestly in the quarter, with the consumer discretionary and materials sectors performing the worst, followed by communication services and industrials. Energy and financials performed the best, with information technology and healthcare also outperforming. While India was among the best performing markets in the index, developed markets outperformed emerging markets, the latter of which was weighed down by sharp declines in Brazil and China. Regionally, emerging Europe performed the best, as declining COVID-19 infection rates and the resulting reopening of countries benefited returns.

MSCI ALL COUNTRY WORLD INDEX – SECTOR RETURNS



As of 9/30/2021. Source: MSCI.

GLOBAL INDEX RETURNS



As of 9/30/2021. Source: FactSet. See MSCI Index definitions on last page.
Past performance is no guarantee of future results.

OUTLOOK

We expect ongoing regulatory risks and economic weakening in China, inflationary pressures in the U.S., and COVID-19 case trends globally to continue to fuel volatility in equity markets. However, we believe the recurring revenue streams and strong pricing power of our holdings will continue to serve as a solid foundation in our portfolios. In our view, the companies we hold have the ability to pass on higher input costs and wages increases, which reduces the portfolio's inflation risk while mitigating the effects of fluctuations in the business cycle.

We remain confident in our ongoing focus on valuation and the critical role it plays in successful growth investing, which should help position our portfolio well if long-term discount rates rise. The tendency of our approach to benefit during times of rising volatility and protect capital in periods of market weakness should position us well if expectations for growth in 2022 and beyond prove optimistic. With superior growth, a valuation similar to the market (based on our cash flow-based enterprise yield calculation), and better business quality in terms of margins, debt, and earnings variability, our portfolios should be positioned well for a more volatile environment. Thank you for your continued trust in our investment team and approach.

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 commentary is the opinion of SGA. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

Past performance is no guarantee of future results.

All investments carry a certain degree of risk, including possible loss of principal.

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