SGA
Sustainable Growth Advisers

Q3 2020 Global Growth Commentary

Highlights

- *The portfolio generated strong absolute returns and outperformed the MSCI All Country World Index (ACWI) as markets continued their rebound led by e-commerce, technology and more economically sensitive companies*

- *Relative portfolio performance in Q3 was negatively impacted by stock selection, but positively impacted by residual sector allocations; an overweight in the Consumer Discretionary sector contributed most*

- *Stock selection in the Information Technology sector and the more defensive Consumer Staples sector detracted most from performance; selection across most other sectors contributed positively*

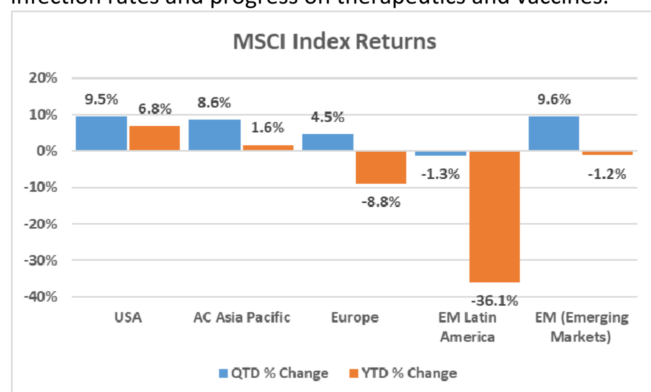
- *A new position in Alcon was initiated while the portfolio's position in MercadoLibre was sold due to valuation*

Performance

Equity markets posted strong absolute returns for the quarter. SGA's portfolio returned 9.8% (gross) and 9.0% (net) in Q3 versus 8.1% for the MSCI All Country World Index (ACWI) as equities continued to rebound on improving economic growth and corporate profitability. Year-to-date thru 9/30/20, the portfolio returned 18.5% (gross) and 15.9% (net) versus 1.4% for the ACWI.

More Optimism for Recovery

While dismal Q2 GDP figures resulting from government imposed lockdowns to stem the COVID-19 pandemic were reported in Q3, global equity markets continued their rebounds benefiting from massive economic stimulus, improving economic data, recovering employment, gradually declining infection rates and progress on therapeutics and vaccines.



Source: Factset, MSCI.

Asian markets performed best while European markets generally performed the worst. Emerging markets, led by Taiwan, India, Korea, and China outperformed developed markets as investors reacted positively to recovering economic growth in China and the Pacific region. China's economy grew 3.2% year-over-year in Q2, benefitting from a recovery in manufacturing and consumption driven by significant government stimulus and continued containment of the virus. In contrast, Japan's GDP contracted -7.8% in Q2 on a quarter-over-quarter basis as its economy was already in recession prior to the pandemic which caused consumption to plunge and exports to weaken further.

Indian GDP shrank -23.9% in Q2 due to strict government imposed lockdowns to control the spread of the virus. Despite government debt approaching a 40 year high and the economy already experiencing difficulty prior to the pandemic, highlighted by GDP growth falling from 9% in 2016 to 4.9% in 2019, India's equity markets benefited from the wave of optimism that drove the quarter and led their market to be the second best performing in the ACWI for the period.

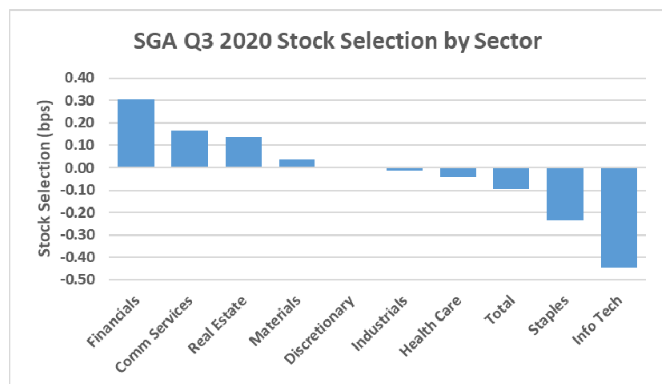
Eurozone growth declined -11.8% in Q2, slightly better than expected, boosted by a better than expected recovery in Germany which helped offset further weakness in the UK, Spain and France. Scandinavian markets posted strong returns, but fears over a developing second wave of COVID-19 infections swept markets in Spain, France the UK and other parts of the continent as the quarter progressed.

Despite U.S. GDP shrinking by -31.7% (annualized) during Q2, the U.S. equity market continued its rally in July and August, before concerns over additional government stimulus and rising COVID-19 infections put downward pressure on the market in September. The OECD (Organization for Economic Co-operation and Development) updated its forecast for 2020 U.S. economic growth from -7.3% at the end of June to -3.8%, as rising durable goods orders and employment gains buoyed market optimism even as the service side of the U.S. economy remained weak.

Brazil's GDP contracted by -9.7% quarter over quarter in Q2 with the country being amongst the hardest hit by the COVID-19 pandemic (with recorded deaths 2nd only to the U.S.). With unemployment still above 13% and Brazilian consumers still wary, the country's equity markets were among the worst performers during the quarter.

Market and Portfolio Attribution

Given the continued rise in investor optimism, Consumer Discretionary, led by e-commerce, Technology and more economically sensitive sectors heavily levered to improving global economic growth performed the best during the quarter. Energy, Financials, Real Estate and Utilities were the weakest. A surge in options trading centered on large technology and related stocks by big and small global investors led to greater volatility as stock movements were magnified.



Source: Factset

The portfolio's strong relative returns were driven by sector allocations during the period due to overweights in the strongly performing Consumer Discretionary and Information Technology sectors and the absence of exposure to Energy which was the weakest sector. Stock selection contributed positively to relative returns in most sectors, but weakness in Information Technology and Consumer Staples more than offset the strength elsewhere. Selection in the Information Technology sector detracted due to our decision to not own Apple which cost approximately -0.6% in relative return during the quarter. While we have owned Apple in the past, we have not owned it since 2017 due to concerns over the iPhone's secular growth. Additionally, Apple's services segment and wearables business, still do not have the scale or profitability to effectively move the earnings needle at the company. Positions in FleetCor and Autodesk, also negatively impacted results in the Information Technology sector however this was offset by the benefit received from owning Infosys. Stock selection in Financials contributed most positively to results due to the portfolio's position in HDFC Bank in India, and not having exposure to large global banks.

Largest Contributors

Chinese e-commerce leader **Alibaba** was the largest contributor to returns in Q3 after delivering a reassuring quarter with revenues, free cash flow and profits up by 30% or more during the quarter. New retail, cloud computing, Cainiao Logistics (a platform similar to Amazon's fulfillment arm used mostly by third party logistic assets), and e-commerce advertising led the gains. While Alibaba posted strong results, we remain cognizant of the competition the firm faces across its core e-commerce, cloud, digital payment, merchant services and delivery businesses as well as difficulty in reaping the full benefits of its acquisitions historically. Given the company's still dominant position in the critical e-commerce and cloud businesses, confidence in management's ability to compete effectively versus peers and the stock's still attractive valuation which falls roughly within the top quartile of businesses on our Qualified Company List, we increased the portfolio's positon to an above-average weight.

Salesforce.com was the second largest contributor to portfolio performance during the quarter. The company posted a strong Q2 and subsequently addressed key shorter-term and longer-term controversies having to do with revenue and backlog outperformance, and evidence of acquisition synergy in the form of Tableau growth acceleration. They also reported record margins and raised their guidance for both their top and bottom lines while reiterating that they are committed to integrating the company's recent acquisitions rather than initiating new M&A. This was well received by the market. Salesforce.com continues to be well positioned with a broad suite of market leading "front office" software-as-a-service applications which generate attractive recurring revenue streams and have ample room to grow in the global salesforce management, customer service and marketing automation areas. In addition, we continue to expect further revenue synergies from the Tableau acquisition. We trimmed the position on strength during the period due to valuation, but maintained an average weight in the portfolio given our positive long-term growth expectations.

Infosys was the third largest contributor to portfolio performance this quarter after reporting solid operational as well as financial results with good cash flows and collections. We were pleased to see the company signing $1.7 billion in new deals during the quarter as well as a new $700 million arrangement with Vanguard which will be included in Q4 reports. We were also pleased to see their manufacturing and retail segments, which had been under pressure earlier in the pandemic showing no further material decline. The company also seems to be managing immigration headwinds successfully

with 60% of its employees now visa independent, and a staff of 30,000 U.S. nationals now, up considerably from levels three years ago. While we continue to see Infosys benefiting from its scale and reputational advantages in the quickly growing IT outsourcing space, we trimmed the position to fund other more attractively growing opportunities, maintaining an average weight.

The fourth and fifth largest contributors to portfolio returns were **Nike** and **Amazon**.

Largest Detractors

Next generation sequencing and genomic analysis leader **Illumina** was the largest detractor from returns this quarter after announcing an $8 billion acquisition of GRAIL, a company focused on detecting cancer earlier through blood testing. The stock declined in excess of 20% on the deal's announcement given that Illumina agreed to a price that will lead to near term share dilution for existing shareholders in the area of 7% and EPS dilution in the area of 50% the first 12 months post-closing. The aggressive nature of the deal structure also further raised concerns over whether the company's core sequencing business is reaching maturity. Given the announcement, we initiated a Man Overboard Drill as we typically do in situations where there has been an event that potentially impacts our thesis for a company held in client portfolios. In this case, we first reviewed our original thesis for Illumina to determine whether the acquisition had negatively impacted our growth expectations for the business over our investment horizon. Based on our analysis, we continued to see Illumina dominating the growing DNA sequencing space, and saw no reason to believe that the number of applications including academic research, prenatal testing, and the diagnosis and treatment of cancer and other diseases had changed. Next, we determined that the new information would not impact our willingness to place Illumina on SGA's Qualified Company List. While not pleased with the near-term dilution resulting from the deal, the company expects it to be revenue growth accretive three years post the closing date. We concur with the advantages the combination will likely provide going forward as the company benefits from exposure to the large downstream market opportunity, and the enhanced scale of data of the merged business, which will help advance GRAIL's early-stage cancer-screening product and accelerate its commercialization. We also expect the deal to enable Illumina to accelerate the pace of its innovations to reduce the cost of sequencing and extend sequencing to other therapeutic areas. However, given the near term dilution expected and the longer-term nature of the ultimate benefit of the acquisition, we maintained a below-average weight position, purchasing additional shares on the weakness, after having trimmed the position on strength earlier in the quarter.

Regeneron was the second largest detractor from performance despite reporting solid revenue and earnings growth of 24%+ and 19%+ respectively. Sales held up better than expected in spite of the COVID-19 pandemic and its affects, with the firm's atopic dermatitis drug Dupixent and its immuno-oncology drug Libtayo posting strong growth of 70% and 85% respectively. Eylea sales, which still generate the vast majority of the company's overall sales, were down about 6% which was in line with our expectations. The company continues to work toward an effective COVID-19 therapeutic cocktail, but we do not include that in our forecasts given the high degree of uncertainty. We continue to think that Regeneron's pipeline is promising, however maintain a below-average weight position in the company given uncertainties related to the election and potential changes to drug pricing policies in the U.S.

Payments solutions provider **FleetCor** was the third largest detractor from results during the quarter as the company reported earnings results which disappointed some shorter-term focused investors. Revenues were in-line with our expectations with -17% organic revenue growth, however the recovery in their Fuel Card is a little slower than our expectations. Retention levels remained steady at 91%, which should bode well for future growth as volumes recover. FleetCor's Corporate Payments segment declined 17% organically, but showed positive recovery trends through the quarter, although within this segment a recovery in T&E products remains challenged. Its Brazilian Toll business surprised positively, growing 3% organically with an increase of 5% in average monthly tags. The announcement of CFO Eric Dey's retirement was a surprise and may have weighed on the stock as well. We came away impressed with Charles Freund, his successor, following a subsequent conversation with him during the month. Our longer-term thesis remains intact and we continue to have high conviction in FleetCor's growth opportunity moving forward.

The fourth and fifth largest detractors from portfolio returns were **Alcon** and **Sanlam**.

Portfolio Activity

We continued to take advantage of significant market movements to actively reallocate capital from positions which were becoming less attractively valued to those growth businesses where valuation continued to appear attractive. We sold the portfolio's position in MercadoLibre to initiate a new position in Alcon. Positions in Tencent, Kansas City Southern,

Sanlam, Salesforce.com, New Oriental Education, Linde and Nike were trimmed with their proceeds flowing to more attractively valued stocks including Alibaba, FleetCor, Yum! Brands, Abbott, and Autodesk.

New Positions

We initiated a position in global medical devices provider and leader in ophthalmology **Alcon**. The stock had been negatively impacted by the company's Q2 results which were affected by the COVID-19 pandemic, with sales down 36% as surgeries were postponed and optometrist offices closed. Approximately 60% of the company's sales are in its Surgical division where it sells equipment, consumables and implants used in eye surgeries including cataract, vitreoretinal and refractive procedures. Much of this is driven by aging trends worldwide making its sales relatively steady and predictable. Approximately 90% of the company's revenues (outside of equipment sales) are tied to recurring consumable sales. The company operates in businesses which have high barriers to entry in the form of advanced technologies, regulation and capital which limit the number of competitors globally. Growth for the underlying markets are driven by demographics, increasing penetration of healthcare services in emerging markets for eye surgeries and greater demand for contact lenses. For Alcon, we see an opportunity for the company to enhance its execution after its spinoff from Novartis early in 2019, with a more engaged salesforce, improved new product launches and a generally more motivated team. Recent launches of improved intraocular lenses for implants and contact lenses are an example and should lead to improved margins.

Among the key risks which could impair our thesis for Alcon would be significant technological advancements that could replace current methods of treating various eye diseases including cataracts and retinal disease. With cataracts a key market for Alcon, we are monitoring developments related to new treatment methods. We also continue to monitor the company's competitive landscape and pipeline developments. While the COVID-19 pandemic is proving to be a near term challenge for the company, we believe that the market will return to growth in the next couple of quarters, putting the company on track for enhanced execution. We initiated a position in the company using COVID-19 related weakness as an opportunity to build the position.

Sold Positions

We sold the balance of our position in Latin American e-commerce leader **MercadoLibre** after the stock appreciated significantly for the year through the date of our sale and its valuation became less attractive relative to other long-term growth opportunities on our Qualified Company List. We continue to find MercadoLibre's growth thesis to be highly attractive and the stock remains on our Qualified Company List.

Summary

As noted in previous letters, we expect the progress of the global recovery from the pandemic to be a gradual and non-linear process with alternating periods of optimism and fear driven by economic hardships, changing data, virus resurgences and successes in developing therapeutics and vaccines. The massive global stimulus aimed at buoying the U.S. and global economies serves as a backstop during this process, but is not likely to eliminate these swings in investor emotions or the ensuing market volatility. Increased geopolitical conflicts, slow growth around the globe, ongoing trade tensions, rising debt levels and the U.S. elections are likely to continue to enhance this volatility. In periods when optimism reigns and those stocks most levered to an improvement in economic activity outperform, the consistent and predictable revenue and earnings growth generated by our portfolio isn't likely to be fully rewarded relative to the market. As we have seen in previous periods, we should generate strong absolute returns during these times and protect capital and generate strong relative returns when cyclical rebounds are replaced by steady single digit growth or economic weakness. Given the opportunities we see today in a wide array of truly unique and attractively valued growth businesses (based on our proprietary cash flow based valuation metrics), we are confident in the ability of our portfolio to compound mid-teens earnings growth over the next 3-5 years, and believe that this will continue to attract investor attention and benefit our clients over the long term.

Separately, we want to take this opportunity to say **thank you** to our clients who have partnered with us over the years as well as to our newer clients who have joined us over the course of 2020. We have experienced strong growth through the pandemic, and our team has remained healthy, stable and productive. We continue to focus on providing our clients superior returns and the best service and support possible, and to that end we are in the process of hiring another member of our client service team. We truly appreciate the confidence our clients are placing in SGA and we will continue to do our utmost to continue to earn your trust. We will manage our firm responsibly, factoring in our regular liquidity analysis to ascertain firm capacity which remains at about $30 billion. Thank you again for your continued support and we wish you all the best for the upcoming holiday season.

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 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, 3.00%, employing the Global Growth WRAP 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 Global Growth portfolio for the year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. SGA's earnings growth forecast data is based upon portfolio companies' Non-GAAP operating earnings.

Period	Total Return				Number of Portfolios	Composite Dispersion	3 Year Standard Deviation			Total Assets in Composite at Period End (USD millions)	Total Firm Assets at Period End (USD millions)	Percentage of WRAP accounts
	Before Fees	After Fees	MSCI ACWI Net TR Index	MSCI ACWI Growth Net TR Index			SGA Composite	MSCI ACWI Net TR Index	MSCI ACWI Growth Net TR Index			
Feb. 1 - Dec. 31, 2011	**4.91%**	**2.07%**	**-8.78%**	**-7.85%**	Five or Fewer	N/A				1	2,680	0%
2012	**17.61%**	**14.18%**	**16.13%**	**16.69%**	8	N/A				1,204	4,278	0%
2013	**21.77%**	**18.22%**	**22.80%**	**23.17%**	10	0.3%				1,482	5,611	0%
2014	**2.40%**	**-0.63%**	**4.16%**	**5.43%**	12	0.3%	11.26%	10.50%	10.53%	1,368	5,332	0%
2015	**9.82%**	**6.59%**	**-2.36%**	**1.55%**	13	0.2%	11.99%	10.79%	10.73%	949	5,318	0%
2016	**4.47%**	**1.39%**	**7.86%**	**3.27%**	14	1.0%	12.92%	11.06%	11.28%	1,234	5,672	0%
2017	**34.27%**	**30.40%**	**23.97%**	**30.00%**	15	0.5%	12.36%	10.36%	10.72%	2,309	9,971	0%
2018	**-0.87%**	**-3.81%**	**-9.41%**	**-8.13%**	21	0.3%	12.00%	10.48%	11.47%	2,935	9,096	0%
2019	**33.42%**	**29.56%**	**26.60%**	**32.72%**	24	0.4%	11.58%	11.22%	12.09%	3,727	12,347	0%
2020 (September)	**18.49%**	**15.90%**	**1.37%**	**18.13%**	25	0.8%	16.03%	16.65%	17.17%	5,388	16,764	0%
Since Inception (Feb. 1, 2011)	**14.54%**	**11.18%**	**7.74%**	**11.00%**			**13.96%***	**13.66%***	**14.07%***			

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

The 3 Year Annualized Standard Deviation for years 2011, 2012, and 2013 is not shown as 36 months or returns not available

* Since Inception Annualized Standard Deviation

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 that and is an affiliate of Virtus Investment Partners. The SGA Global 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.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

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

The composite includes non-wrap accounts only, from 2/1/11 to 9/30/20.

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. 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 Global 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 for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations 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.

Indices are unmanaged, hypothetical portfolios of securities that are often used as a benchmark in evaluating the relative performance of a particular investment. An index should only be compared with a mandate that has a similar investment objective. An index is not available for direct investment, and does not reflect any of the costs associated with buying and selling individual securities or management fees.

Past performance is no guarantee of future results.

IMPORTANT RISK CONSIDERATIONS

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. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the fund to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Geographic Concentration:** A fund that focuses its investments in a particular geographic location will be sensitive to financial, economic, political, and other events negatively affecting of that location. **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. 4097