Highlights

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

- *Relative portfolio performance in Q3 was positively impacted by stock selection and residual sector allocations*

- *Stock selection in the Financials, Consumer Discretionary and Health Care sectors was strongest; selection in the Consumer Staples and Industrials sectors detracted*

- *MercadoLibre was sold due to valuation and the portfolio's position in Sanlam was liquidated to fund other higher confidence growth opportunities*

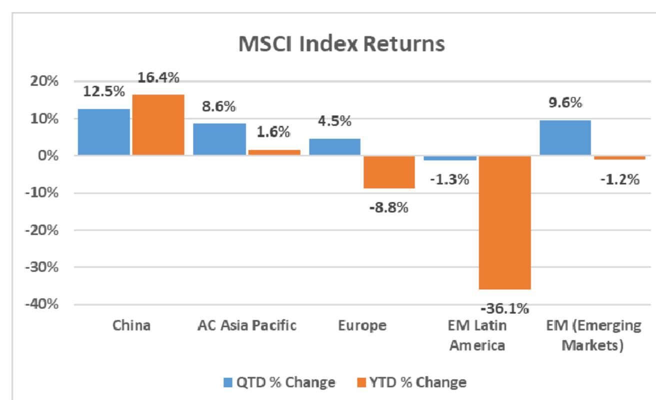
Performance

World equity markets posted strong absolute returns for the quarter. SGA's portfolio returned 8.7% (gross) and 7.9% (net) in Q3 versus 6.3% for the ACWI ex-USA as equities continued to rebound on improving economic growth and corporate profitability. Year-to-date thru 9/30/20, the portfolio returned 10.1% (gross) and 7.7% (net) versus -5.4% for the ACWI ex-USA.

More Optimism for Recovery

While dismal Q2 GDP figures resulting from government imposed lockdowns to stem the COVID-19 pandemic were widely reported in Q3, global equity markets continued their rebound benefiting from massive economic stimulus, improving economic data, a lull in the growth in infection rates during the summer and progress on therapeutics and vaccines. Absolute returns continued to be attractive, although not at the level seen in the initial global market rebound experienced in Q2.

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.



Source: FactSet, MSCI.

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.

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 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 investor optimism over the potential for recovery, the Consumer Discretionary sector, led by e-commerce, Information Technology, and more economically sensitive sectors heavily levered to improving global economic growth performed the best during the quarter. The Energy,

Financials, Utilities, Real Estate, and Health Care sectors performed the worst. Emerging market stocks outperformed developed market stocks given their greater leverage to improving economic data and rising chances for global recovery.

The portfolio's strong relative performance was driven primarily by stock selection as well as by residual sector allocations. Stock selection was strongest in the Financials, Consumer Discretionary and Health Care sectors, driven largely by the portfolio's positions in HDFC Bank, Alibaba, Adidas, and Sysmex. In contrast, selection detracted from relative performance in only two sectors, Consumer Staples and Industrials, where positions in FEMSA, Heineken, and IHS Markit detracted most. The portfolio's overweight in the strongly performing Information Technology sector benefited relative performance while overweights in the weakly performing Health Care and Consumer Staples sectors detracted from returns. An underweight to the more economically sensitive Industrials sector which was in favor during the quarter also detracted, while the portfolio's lack of exposure to Energy contributed to returns. From a regional perspective, stock selection in developed markets drove returns, and the portfolio's overweight in emerging markets also contributed.

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 maintained the portfolio's above-average weight position.

Indian consulting firm **Infosys** was the second 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 a below-average weight.

Global payment services company **Adyen** was the third largest contributor to performance after it posted a solid quarter, benefitting from the acceleration of global ecommerce and its strong competitive positioning. Revenues were up 27% year-over-year due to strong growth in processed volumes and a small increase in the company's take rate. Earnings only grew about 10% for the period due to increased headcount, but we support management's decision to invest aggressively to support long term growth. We were pleased to see the company's total processed volume level (which included airlines) recover back to pre-COVID-19 levels. Likewise, physical retail has also recovered to pre-pandemic levels while online retail growth continued to grow very quickly in the 50-60% range, suggesting that Adyen is seeing solid market share gains. We trimmed the position on strength, maintaining an average weight due to valuation.

The fourth and fifth largest contributors to portfolio performance were **Adidas** and **Linde**.

Largest Detractors

Chinese medical device company **Shandong Weigao** was the largest detractor from performance. It reported mixed 1H results with Q1 sales down 12%, but 2Q sales growing 16%. The company's results were negatively impacted early in the year due to the COVID-19 pandemic and price cuts from government purchasing. Hospital visits and procedures were delayed, impacting their medical consumables business, however hospital activity had returned to 70-80% of pre-COVID levels by the time of their report in August. While they are negatively impacted by government price cuts, centralized buying is enabling them to take market share from smaller less efficient producers. We expect 2H growth to improve from current levels and see the company as well positioned to benefit from increased medical spending in China as well as market share gains resulting from value-based purchasing where they are having success and expanding their penetration to smaller hospitals as well. We maintained an above-average weight

position in the company during the quarter, adding on recent weakness.

South African financial services conglomerate **Sanlam** was the second largest detractor from portfolio performance during the period. A continued weak economic environment in South Africa and other African markets weighed on its shares over the period. In addition to a weak backdrop, recent management changes added to the uncertainty and execution risk for the company moving forward. While our research continues to indicate an attractive growth opportunity for Sanlam given its dominant position, scale advantages, and a highly repeatable business model, a worsening environment coupled with recent management changes, has reduced our conviction in their ability to capitalize on their growth opportunity. We liquidated the position given the added uncertainties and increased execution risk.

Leading Latin American consumer company **Fomento Economico Mexicano (FEMSA)** was the third largest detractor from portfolio performance for the quarter, as the company faces several headwinds at the moment from COVID-related pressures on convenience store traffic, a deteriorating Mexican economy, significant depreciation in the Mexican Peso and a string of small acquisitions outside of its core bottling and convenience store businesses. The company reported Q2 results that were weak, but generally in line with our expectations, with revenues down 14% and earnings off 40%. OXXO stores had about 35% of their stores operating under restrictions, down from 50% earlier in the quarter. COVID-19 has raised questions regarding the trajectory of unit growth moving forward, with peak growth now possibly behind them should consumer behavior brought on by the pandemic persist longer-term. The company's Coca-Cola bottling operations also faced difficulty but showed improving volumes as the quarter progressed. We see most of these issues gradually receding as COVID-related issues abate and new growth initiatives in Latin America offset decelerating growth in its core OXXO business in Mexico. We continue to view FEMSA's business position as fundamentally strong, but are in conversation with management regarding its capital allocation strategy. Given continued conviction in the growth thesis for the business over the coming 3-5 years and the stock's attractive valuation, we purchased additional shares and maintained an average weight during the quarter.

The fourth and fifth largest detractors from portfolio performance were **Temenos** and **Heineken**.

Portfolio Changes

Turnover in the portfolio was average during the quarter as we continued to take advantage of significant market movements to actively reallocate capital from positions which were becoming less attractively valued to growth businesses where valuation continued to appear attractive. As detailed below, we sold the portfolio's positions in MercadoLibre and Sanlam. In addition, positions in Adyen, Infosys, Sysmex, and SAP among others were trimmed with their proceeds flowing to more attractively valued stocks including AIA Group, FEMSA, Nestle, Diageo and others.

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 company remains on our Qualified Company List.

As detailed above, the portfolio's position in **Sanlam** was liquidated following recent management changes which we felt added uncertainty and increased execution risk at the company. We reallocated the capital to existing positions which offered higher confidence long-term growth opportunities.

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 global economies serves as a positive 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 as well as uncertain progress against COVID 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 moderate 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 be highly valued by the market 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 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 International 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 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.

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. **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.

4095