

April 9, 2014

1st Quarter 2014 Portfolio Commentary

Both the market indices and our Portfolio showed slight appreciation in the first quarter, although there was quite a bit of volatility over the interim. The S&P 500, as a proxy for the market, saw an approximate 800 basis point swing within the quarter and volatility has continued as we begin the second quarter as well.

Summary

- *For the first quarter of 2014, our Large Cap Growth Model Portfolio (the “Portfolio”) returned 0.64% versus 1.12% for the Russell 1000 Growth Index and 1.81% for the S&P 500 Index.*
- *Our slight underperformance during the quarter was concentrated in our consumer-oriented holdings. Several of our technology and healthcare positions performed well, offsetting most of this weak performance.*
- *Portfolio activity was minimal during the quarter. We initiated a position in Regeneron Pharmaceuticals as we believe it has an advantaged method of drug discovery for the treatment of a variety of diseases.*
- *We eliminated our position in Facebook after realizing a 100% gain over the past seven months. The rich valuation of Facebook coupled with concerns over their capital allocation led to our decision to sell the stock.*

Commentary

Our slight underperformance was concentrated in our consumer-oriented holdings. Nike, Starbucks, TJX, and MasterCard each declined more than 4% in the quarter. The declines in these holdings were mostly offset by strength in our technology and healthcare positions, including Facebook, Allergan, Oracle and Qualcomm. Our outlook on the consumer companies listed above remains unchanged. As these companies’ stocks have continued to fall of late, our expectation of their future returns has only improved. The secular growth trends and competitive advantages for each of these companies remain exceptional. Nike in particular is seeing accelerating volume growth which is quite impressive for a company of its size. While the company is encountering headwinds from emerging market currency translation, we believe the underlying business continues to get stronger and currency issues will prove transitory.

We had little portfolio activity this quarter. We initiated a new position in Regeneron Pharmaceuticals and eliminated our position in Facebook. We also added to our positions in Fastenal, ADP and TJX.

Regeneron is a biopharmaceutical company that we believe has an advantaged method of drug discovery for the treatment of a wide variety of diseases. The company has spent decades proving out its technology. One aspect of this technology is the ability to replace a portion of a mouse's DNA with human DNA, giving Regeneron the capability of provoking a *human* immune response to disease within a mouse. This proprietary technology allows Regeneron the potential to develop fully human antibodies more quickly, effectively and with fewer side effects than other therapies. Today the company markets Eylea, a biologic used for many serious eye diseases that we believe can reach up to approximately \$4 billion in revenue from approximately \$1.5 billion in today. Regeneron also has several products in its clinical pipeline that could be very large, including new treatments for high cholesterol, asthma, and rheumatoid arthritis.

We sold our position in Facebook after realizing nearly a 100% gain in just seven months. We believe the company's competitive advantages and growth prospects remain intact, but the combination of a high valuation and questionable capital allocation have pushed us to the sidelines. Facebook deserves to trade at a premium valuation. However, at our sale price of nearly \$70 per share (roughly a \$200 billion market capitalization including shares to be issued in connection with recently announced acquisitions), our analysis suggested that the company would have needed to grow earnings at a 35% annualized rate over the next five years and still maintain at least a 30x P/E multiple to earn a 15% annualized investment return. While this is certainly possible, we didn't have the level of conviction required to maintain a position. When Google was a similar size to today's Facebook, it grew earnings at a robust 25% annualized pace during the next five years, but its P/E multiple contracted significantly from 35x to 20x. Consequently, the stock only yielded a 4% annualized return during that five-year period. These valuation concerns, combined with the company's decision to acquire WhatsApp (a mobile messaging service with an active user base of approximately 500 million people, but likely little actual revenue today), for \$19 billion concerned us enough to sell our position. While we understand the strategic rationale for the deal and could even come up with potential monetization schemes that could justify the price tag, we felt that at best Facebook's management was paying a steep price for the property. The \$2 billion deal after our sale for Oculus VR, a virtual reality technology company, while smaller in price is even harder to understand from both a strategy and valuation perspective. We continue to follow Facebook closely and believe there are strong competitive advantages around the core business. For now though, prudence required a sale.

We have brought ADP and TJX, two of our newer holdings, up to full weightings. We have also increased the size of our Fastenal position as we believe that the valuation is improving and revenue growth is poised to reaccelerate.

The top three contributors (portfolio weight multiplied by return) for the first quarter of 2014 were Allergan (0.77%), Facebook (0.73%) and Oracle (0.45%). The bottom three contributors were Starbucks (-0.35%), Nike (-0.34%) and MasterCard (-0.25%).

After hiring and training two new investment team members last year, our research group is now firing on all cylinders. Our team is deeper and better than at any time in our history and over time we expect that to become obvious to the outside world through our investment performance.

Thank you for your interest in Polen Capital and please feel free to contact us with any questions or comments.

Sincerely,

Polen Capital Investment Team

Historical Returns

Polen Capital 1Q2014 Performance Update				
	PCM (Gross)	PCM (Net)	R1000G	S&P 500
1Q2014	0.64%	0.50%	1.12%	1.81%
1 Year	17.12%	16.44%	23.22%	21.86%
3 Years	13.93%	13.22%	14.62%	14.66%
5 Years	19.59%	18.74%	21.68%	21.16%
7 Years	10.38%	9.55%	8.23%	6.31%
10 Years	9.22%	8.36%	7.86%	7.42%
15 Years	7.29%	6.39%	2.98%	4.46%
20 Years	13.28%	12.25%	8.82%	9.53%
Since Inception (1/1/89)	14.30%	13.21%	9.85%	10.24%

*Returns are trailing through 3/31/14. Annualized returns are presented for periods greater than 1 year.

GIPS Disclosure

Polen Capital Management Large Capitalization Equity Composite-Annual Disclosure Presentation

Year End	Total (millions)	UMA	Firm	Composite Assets		Annual Performance Results					3 Year Standard Deviation**		
		Assets	Assets	U.S. Dollars	Number of	Composite		S&P	Russell 1000	Composite	PCM	S&P	Russell 1000
		(millions)	(millions)	(millions)	Accounts	Gross	Net	500	Growth	Dispersion	Gross	500	Growth
2014*	4,975	1,175	3,800	1,917	267	0.64%	0.50%	1.81%	1.12%	0.0%	15.00	15.16	15.49
2013	5,015	1,197	3,818	1,962	264	23.68%	22.95%	32.39%	33.48%	0.3%	14.90	15.16	15.44
2012	4,525	891	3,634	1,584	359	12.36%	11.68%	16.00%	15.26%	0.1%	15.77	15.09	15.66
2011	2,374	563	1,812	596	185	9.17%	8.38%	2.11%	2.64%	0.2%	15.74	18.71	17.76
2010	1,182	322	860	332	127	15.56%	14.73%	15.06%	16.71%	0.2%	19.88	21.85	22.11
2009	624	131	493	235	127	39.73%	38.49%	26.46%	37.21%	0.3%	16.75	19.63	19.73
2008	266	10	256	152	121	-27.84%	-28.44%	-37.00%	-38.44%	0.3%	15.05	15.08	16.40
2007	682	-	682	504	152	10.73%	9.82%	5.49%	11.81%	0.2%	8.24	7.68	8.54
2006	730	-	730	533	224	15.07%	14.12%	15.80%	9.07%	0.1%	7.17	6.82	8.31
2005	1,849	-	1,849	986	430	-0.51%	-1.42%	4.91%	5.26%	0.2%	7.98	9.04	9.53
2004	2,017	-	2,017	1,160	693	8.76%	7.78%	10.88%	6.30%	0.2%	9.95	14.86	15.45
2003	1,617	-	1,617	969	570	17.72%	16.67%	28.68%	29.75%	0.6%	12.80	18.07	22.66
2002	970	-	970	544	420	-6.69%	-7.54%	-22.06%	-27.88%	0.4%	12.96	18.55	25.22
2001	703	-	703	417	305	-4.61%	-5.50%	-11.93%	-20.42%	0.6%	13.39	16.71	25.21
2000	622	-	622	363	239	-3.50%	-4.45%	-9.10%	-22.42%	0.5%	16.29	17.42	22.79
1999	640	-	640	385	233	23.89%	22.63%	21.04%	33.16%	0.6%	18.02	16.52	19.00
1998	418	-	418	266	205	31.61%	30.20%	28.58%	38.71%	0.7%	17.70	16.01	17.90
1997	252	-	252	147	160	37.14%	35.64%	33.36%	30.49%	0.9%	12.99	11.14	12.62
1996	140	-	140	94	125	31.95%	30.43%	22.96%	23.12%	0.7%	10.46	9.58	10.34
1995	70	-	70	46	63	48.08%	46.34%	37.58%	37.18%	1.1%	9.58	8.22	9.13
1994	32	-	32	18	28	10.11%	8.94%	1.32%	2.62%	1.6%			

Performance Disclosure

*Performance represents partial period (January 1, 2014 through March 31, 2014), assets and accounts are as of 3/31/14. ** 2014 3 Year Standard Deviation is as of 3/31/14.

The Large Capitalization Equity Composite created on January 1, 2006 contains fully discretionary large cap equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against the S&P 500 and the Russell 1000 Growth indices. Polen Capital invests exclusively in a portfolio of high quality large cap and liquid companies.

Polen Capital Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Polen Capital Management has been independently verified by Ashland Partners & Company LLP for the periods April 1, 1992 through December 31, 2012.

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. The Large Capitalization Equity Composite has been examined for the periods April 1, 1992 through December 31, 2012. The verification and performance examination reports are available upon request.

Polen Capital Management is an independent registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request. In July 2007, the firm was reorganized from an S-corporation into an LLC and changed names from Polen Capital Management, Inc. to Polen Capital Management, LLC.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. As of July 1, 2002, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash outflow of 10% or greater of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the first full month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. The annual composite 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.

The management fee schedule is as follows:

Institutional: Per annum fees for managing accounts are 75 basis points (.75%) on the first \$50 Million and 55 basis points (.55%) on all assets above \$50 Million of assets under management. HNW: Per annum fees for managing accounts are 150 basis points (1.5%) of the first \$500,000 of assets under management and 100 basis points (1.0%) of amounts above \$500,000 of assets under management. Actual investment advisory fees incurred by clients may vary.

Past performance is not necessarily indicative of future results and future accuracy and profitable results cannot be guaranteed. Performance figures are presented gross of management fees and have been calculated after the deduction of all transaction costs and commissions. Polen Capital is a SEC registered investment advisor and its investment advisory fees are described in its Form ADV Part 2A. The advisory fees will reduce client's returns. The chart below depicts the effect of a 1% management fee on the growth of one dollar over a 10 year period at 10% (9% after fees) and 20% (19% after fees) assumed rates of return.

	Year									
Return	1	2	3	4	5	6	7	8	9	10
10%	1.1	1.21	1.33	1.46	1.61	1.71	1.95	2.14	2.36	2.59
9%	1.09	1.19	1.3	1.41	1.54	1.68	1.83	1.99	2.17	2.39
20%	1.2	1.44	1.73	2.07	2.49	2.99	3.58	4.3	5.16	6.19
19%	1.19	1.42	1.69	2.01	2.39	2.84	3.38	4.02	4.79	5.69