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1825 NW Corporate Blvd., Suite 300 • Boca Raton, FL 33431 • Tel:561-241-2425 • www.polencapital.com

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Polen Global Growth
3rd Quarter 2015 Portfolio Commentary

Summary

- *In the quarter ended September 30, 2015, the Polen Global Growth Portfolio (the "Portfolio") returned -3.10% before fees compared to -9.34% for the MSCI All Country World Index (the "MSCI ACWI"), a difference of 624 basis points. Since inception on December 31, 2014, the Portfolio has returned +1.65% before fees compared to -6.65% for the MSCI ACWI, an outperformance of 830 basis points.*

- *Portfolio holdings remain concentrated with investments focused on fewer, higher quality businesses. Portfolio turnover remains low.*

- *Our holdings are currently biased towards companies reporting earnings in stronger currencies. As a result, currency translation will likely remain a drag on reported earnings, but we believe this headwind will prove temporary in nature.*

- *We expect investment performance to follow earnings growth over time. The Portfolio's holdings are on track to report low double-digit average earnings growth in 2015, and low- to mid-teens earnings growth over the next few years, as currency headwinds likely recede.*

Performance Commentary

During the quarter ended September 30, 2015, the Polen Global Growth Portfolio returned -3.10% before fees compared to -9.34% for the MSCI ACWI. Since inception on December 31, 2014, the Portfolio has returned +1.65% before fees compared to -6.65% for the MSCI ACWI, a difference of 830 basis points.

Stock markets were weak across the board last quarter with every region and sector finishing in negative territory, including traditionally defensive sectors such as consumer staples, healthcare, telecoms and utilities. While the Portfolio performed well in light of the challenging environment, we believe there is always room for improvement. We continue to work on opportunities to strengthen execution.

Stock markets were also more volatile in the recent quarter than they have been in some time, although the Portfolio has remained resilient since inception due to the high-quality nature of our holdings and their continued strong earnings growth.

Although global stocks would have performed a little better last quarter, about 1.25% better based on our calculations, (if we measured performance in local currencies instead of U.S. Dollars), stock markets across the globe were weak overall. In fact, the quarter provided a reminder of the very limited benefits of diversification as economies and stock markets become more connected and intertwined. In fact, geographic diversification in some emerging markets like Russia and Brazil introduced severe risks to those willing to allocate capital there (we have not).

There are some winners and losers every quarter and a summary of these is included below. Yet quarterly differences often seem to iron out over time and do not necessarily tell the whole story. Looking back, our focus on fewer, higher quality businesses and our way of building and concentrating portfolios has benefited performance. For example, we have allocated little or no research to energy, financial or materials companies in 2015. We also have very limited appetite for researching businesses based in emerging markets. Since we limit the Portfolio's holdings to businesses we know well, research independently and expect to hold for many years, it's a simple equation: the Portfolio is less exposed to sectors and regions with less sustainable earnings and cash flows, where compound earnings growth is harder to find. Instead, each holding is a higher-conviction and longer-term commitment of our clients' capital to a real business. As a firm, we are convinced that businesses with higher-quality earnings prevail through a cycle and the Portfolio is built on this principle.

Overview of the Portfolio

The challenge in writing a quarterly letter is that relatively little changes over just a few months and one of our main activities (or more precisely, non-activities) involves the art of patience, allowing individual holdings time to compound earnings and cash flows. While there is temptation to be more active, we resist because of the power of compounding, so it shouldn't be surprising that the Portfolio today is very much the same as it was at inception. The Portfolio continues to include investments in 29 leading and larger capitalization businesses with competitive advantages, earnings and cash flows that span several countries.

Each holding is a best-of-breed growth business we expect to retain in the Portfolio for 5-10 years. Since the investment criteria we apply are rather stringent, focused on quality and durability of earnings, we pass on most of the investment candidates we review. Overall, we have made two changes (outside of sizing changes) to Portfolio holdings this year: one holding has been added, and one holding has been eliminated - both in the last quarter. We have also made some adjustments to sizes of existing positions. We have both increased the weight of high-conviction investments and trimmed those that present a higher degree of macroeconomic risk. That is, those whose business results are more exposed to some sort of economic cyclicality. These changes are summarized below. Meanwhile, the Portfolio continues to hold a larger cash position than normal. As of September 30th, cash was 10.0% of assets, compared to the 1% - 5% range we expect. The main reason for this is the Portfolio's mandate to preserve capital first and grow capital second. In a more fragile and volatile environment, where higher-quality businesses are trading at above-average valuations, we believe it has been prudent to take more time than usual to put clients' capital to work. We continue to evaluate investment candidates carefully and we will commit capital as opportunities arise to invest in great franchises at prices that allow for strong returns.

Environment

We are seeing a deterioration in the outlook for growth in corporate earnings at a relatively late stage of the stock market cycle. The backdrop includes uneven and slower growth in gross domestic product (GDP), slowing rates of inflation, pockets of deflation, a decline in the value of world trade and high and increasing levels of debt. The next five years may well be very different from the past five years. We are not assuming a rosy macroeconomic picture, and we would not be surprised to see long-term interest rates remain low. That said, the Portfolio remains in a strong position not because of any set of economic assumptions, but because of the competitive advantages, durable earnings and balance sheet strength of each business owned. Growth in earnings and cash flows remain the key measures of business performance and are far more relevant than any decision by the Federal Reserve to slightly raise or not raise short-term interest rates. Overall, the Portfolio's holdings are on track to generate low double-digit earnings growth in 2015. This compares to an expected decline in earnings for the MSCI ACWI and almost flat earnings for the S&P 500 according to consensus estimates. Nonetheless, the Portfolio's earnings growth has been less than we expected at the beginning of the year, but this is mainly due to the impact of currency. Almost 55% of the Portfolio's earnings are currently reported in U.S. Dollars, a portion of which are being translated from weaker currencies. Overall, we estimate currency is reducing the Portfolio's weighted average reported earnings by 3% - 5%. Excluding currency, the Portfolio's earnings continue to grow in the low-to-mid teens.

Performance Attribution

Some of the strongest short-term stock performance came from two of the Portfolio's largest holdings, Google Inc. and Nike, Inc. Both Google (now Alphabet, Inc.) and Nike are truly global businesses earning most of their revenues outside the United States. They are also typical holdings in that the growth rates for both are driven mostly by innovation, competitive advantage and share gain. Both are discussed in more detail in the **3rd Quarter 2015 Polen Focus Growth Commentary**.

The weakest stock performance came from Alibaba Group Holding Ltd. and Baidu, Inc. It is fair to say that neither company has lived up to consensus expectations in the short-term. On the other hand, we continue to hold both at below average weights and, despite some short-term disappointments. We continue to view both companies as real businesses that are far too good not to own. Business performance has been far better than stock performance, and the core operations of both companies are demonstrating strong and profitable growth roughly in-line with our expectations. In fact, the biggest surprise of the year so far has been the way stock market sentiment has swung wildly against investing in China, and especially Alibaba, despite some strong business fundamentals. Below is a more detailed discussion of our current views on Alibaba and Baidu.

Alibaba Group Holding Limited: Alibaba is the largest and most cash generative e-commerce business in the world, with an estimated 80% - 85% of all online retail shopping in China. While the company earns almost all of its revenues in China, its primary stock listing is in the United States and the company submits financial reports in US Dollars to the Securities and Exchange Commission according to US Generally Accepted Accounting Principles. Merchandise worth $400 billion was sold through Alibaba's

Chinese retail marketplaces last year. To flesh this out a little further, Alibaba's distribution partners provided next-day delivery in 40 cities, handling 50 million orders and 30 million deliveries every day last year. An average order was $21, generating 50 cents of revenue and 23 cents of operating profit to Alibaba based on our calculations. This seems very real to us, as does the $5.5 billion Alibaba generated in free cash flow. As a comparison, Amazon Inc. generated less free cash flow in the last three years than Alibaba generated just last year. Given Alibaba's dominant competitive position and the fact that online shopping is a core internet use case, the main driver of Alibaba's growth is the rate at which Chinese consumers are moving online. Most Chinese consumers use smartphones for internet access and much of Alibaba's growth and more than half of its volumes already come from mobile devices. China is likely to add another 150 – 180 million mobile broadband subscribers this year, many or most of whom will become active users of Alibaba's marketplaces. As a result, Alibaba is on track to grow customer numbers, volumes and revenues in the range of 25% - 30% in its current fiscal year. Lower profit margins are likely to slow earnings growth as a result of reinvestment in the business. Yet this seems to us like a very high quality problem. We did not anticipate the speed and ferocity with which market sentiment has turned against Alibaba and most things China in 2015. With Alibaba, we believe the Portfolio has owned the right business at the wrong time. It is certainly the case that our initial investment could have been better timed. This is something we will learn from. Going forward, we will at least maintain the Portfolio's existing position and allow the business an opportunity to compound.

Baidu, Inc.: Baidu is likely the one holding in the Portfolio that will fail to report robust earnings growth this year. With almost 600 million monthly active users, Baidu is by far the dominant Chinese-language search engine, with less scale but a number of similarities to Google, Inc. While Baidu continues to attract new users, and marketing revenues continue to grow more than 30%, we expect to see a sharp fall in Baidu's operating margins and an earnings decline this year. This presents a dilemma because the Portfolio's holdings are typically limited to businesses reporting stable to improving margins. What has surprised us is the timing and magnitude of the investments the company is making in combining online search with a range of offline services such as restaurant delivery, video content and taxi and car services, among others. We are in no doubt that Baidu is in a strong position to gain share in online to offline (O2O) services, and there are many opportunities within China's thriving services economy. We also appreciate the way management is investing for the long-haul in and around Baidu's competitive advantage. Meanwhile, the core search business remains robust and highly profitable, and a reduction or leveling off in marketing expenditures could dramatically improve margins and earnings. All of that said, we believe the timing of our initial purchase should have been better. At this juncture, and given the minimal position size, we are retaining the Portfolio's holding in Baidu.

Changes to the Portfolio

Novo Nordisk A/S was added to the Portfolio during the third quarter and is the first addition since inception. Novo based in Denmark, is the leading supplier of diabetes care product, with an estimated 27% share of a $50 billion global market. Diabetes is considered both a pandemic, affecting almost 400 million people, and a chronic disease which can lead to increased risk of heart attack, stroke, kidney failure and blindness, among other complications. The disease can be controlled relatively easily and safely with insulin and other hormone analogs which are core product offerings for Novo, amounting to almost 80% of revenues. Looking ahead, we expect a growing patient population will rely on frequent doses of insulin and expect this to provide a degree of predictability to the business. We also expect

Novo to build on its 90-year history of leadership and innovation with long-acting and other new-generation insulins.

Given our high conviction in the investment case for **MasterCard Incorporated**, the position was increased during the quarter from below average to average weight. Along with Visa, MasterCard is a leading global payments network. Both networks provide consumers with an alternative to cash, making online and offline payments safer, more reliable and more convenient for everyone involved. To make this a little more concrete, consumers are currently using 1.3 billion cards on MasterCard's network to make almost 60 billion purchases a year at 32 million points of sale. These purchases amount to more than $3 trillion, or more than 5% of global GDP. In other words, it is hard to imagine a world without MasterCard because it provides essential payments infrastructure. Consumers currently use plastic, both online and offline, for 35% - 40% of their spending (conservatively estimated), but the rate of penetration tends to be much lower outside the United States in regions where MasterCard earns most of its revenues. The continuing shift by consumers from cash to card-based payments and MasterCard's largely fixed costs will be important drivers of earnings growth in the future.

Other position weights increased during the quarter were **Automatic Data Processing, Inc. (ADP), Check Point Software Technologies Ltd,** and **Nestle S.A.** There has been no meaningful change to the investment case or our estimates of earnings power of these businesses. But, we expect continuing strong business performance from each company in a less certain environment. Each position size was raised as we concentrate the Portfolio and avoid marginal holdings. Both ADP and Check Point were increased from small positions to average weight. In general, we seek to avoid small Portfolio holdings of 2.0% or less and smaller positions are typically temporary because we are either building or eliminating a position within the Portfolio.

The small position in **ASML Holding NV** was eliminated during the quarter. ASML has become by far the leading supplier of advanced photolithography equipment to the semiconductor industry as a result of many years of investment in research and development and close collaboration with suppliers and customers. The company is now in an immensely strong competitive position, operating some of the most advanced manufacturing facilities on the planet. While ASML remains a strong business and a strong fit with the Portfolio's investment criteria, its customers compete in a more challenged industry, prone to short and severe cycles. ASML can be a more cyclical business than we are currently comfortable with. Other than hoarding cash, management has relatively few options to insulate the business during a downturn. Further, there is scope for the stock price to de-couple from business fundamentals during the most challenging times of a semiconductor cycle. While ASML is one of the most competitively advantaged businesses we study and its long-term growth rate seems assured, as an investment it also lacks consistency. Because we were unable to justify increasing the position, the position was instead eliminated from the Portfolio.

Holdings in **Baidu, Inc., SGS SA** and **AIA Group Limited** were reduced during the quarter. Baidu was discussed above. Both SGS and AIA continue to operate with strong business fundamentals and long-term growth prospects. Similar to the decision to eliminate ASML, the intention in trimming both SGS and AIA is to limit the Portfolio's exposure to heightened macroeconomic and currency risks, which are the kind of risks that are beyond the control of company management teams.

SGS is the leading testing and inspection company, operating the largest network of independent testing laboratories in the world. The company has an unusual but attractive outsourcing business model ensuring quality assurance and compliance, mainly for larger and well-known multi-national corporations. SGS is hired as a trusted partner by leading and competing smartphone manufacturers, including Apple, Inc. and Samsung Electronics Co. Ltd. for example, to ensure safety, integrity, quality and compliance before new handsets reach consumers. The consumer testing franchise within SGS is an especially attractive business and continues to grow profitably and organically. Other business units serve customers in more cyclical industries. Overall, the operating environment has been difficult for SGS in the last three years and we have some concerns it is at risk of deteriorating further before it improves. While SGS is an established and resilient business, it is not currently compounding earnings at the rate we would expect and management has not been as proactive as we would hope in controlling costs. The Portfolio's holding in SGS has been reduced as we continue to evaluate the investment.

Our reasons for trimming AIA Group are similar. We have very high conviction in the strength and professionalism of AIA's distribution franchise in Asia, the quality of the management team and the financial strength of the company. We continue to see pent-up demand for AIA's insurance and savings products, which provide protection for families in countries with low levels of public assistance. It is also fair to say the macroeconomic environment has weakened in Asia more than we expected. An uncertain macro environment may actually bolster demand, but it is too early to say what effects market turbulence and capital flows may have across the region. Given this degree of uncertainty, we have reduced the position in AIA from above average to average weight.

Outlook and Expectations

While the next few years may present a more challenging stock market environment, we see no need to change or adapt the way the Portfolio invests. We continue to invest in relatively few, very high quality businesses with the aim of preserving and growing clients' capital. We are confident in the future because we know how strong the businesses in the Portfolio are. Turnover is likely to remain relatively low. As we deploy cash, our intention is to maintain a high bar, remain patient and focus on absolute rather than relative returns. We expect earnings growth in the low-to-mid teens to be the main driver of Portfolio performance over time.

Thank you for your interest in the Polen Global Growth Portfolio.

Sincerely,

Julian Pick, Global Portfolio Manager & Analyst