

# POLEN | CAPITAL

## POLEN INTERNATIONAL GROWTH STRATEGY



**Todd Morris**  
International Growth  
Portfolio Manager & Analyst

### Summary

- *During the second quarter of 2017, the Polen International Growth Composite Portfolio (the “Portfolio”) returned 10.33% gross of fees. The MSCI All Country World Index (ex-USA)(the “Index”) returned 5.78%.*
- *Since inception at the beginning of the year through June 30, the Portfolio returned 21.90% gross of fees versus 14.09% for the Index.*
- *Our holdings in the information technology, consumer staples and healthcare sectors contributed most to Portfolio returns.*
- *Performance was driven by stock selection and the strong underlying earnings of the businesses that we owned. The overall Portfolio’s earnings grew 13%, significantly faster than the earnings growth of the broader international market.*

### Our Approach to International Investing

During the second quarter of 2017, the Polen International Growth Composite Portfolio (the “Portfolio”) returned 10.33% gross of fees. The MSCI All Country World Index (ex-US) (the “Index”) returned 5.78%. Our Portfolio continues to benefit from strong results reported by its constituent holdings. In the second quarter, our holdings in the information technology, consumer staples and healthcare sectors contributed most to portfolio returns. Since inception at the beginning of the year through June 30, the Portfolio returned 21.90% gross of fees versus the 14.09% return from the Index. While we are quite happy to have delivered such strong returns out of the gate, the launch timing may have been fortuitous. Shares of many of the great companies we find interesting at Polen Capital, particularly durable consumer staples and information technology companies, sold off in the fourth quarter of 2016. This offered us the chance to launch the Portfolio while these businesses were trading at a slight discount. As such, we have benefitted from both the strong underlying earnings growth of our holdings as well as a recent recovery in their valuations.

We believe in Ben Graham’s observation that the market is a “voting machine” in the short run. As such, an individual sector will pass in and out of favor over time as investor appetites wax and wane. Polen Capital’s investment history informs our sharp focus on long-term earnings growth to weather short-term variations. We are now following the same playbook internationally.

In our last commentary letter, we noted our goal of constructing portfolios capable of generating persistent earnings growth. We believe share prices follow earnings growth in the long run. Though international earnings growth figures can be volatile, we are applying Polen Capital’s principles in the same disciplined manner. The aim is for stronger absolute earnings growth and steadier earnings growth. Through the end of the first quarter, the latest period for which we have FactSet data, we are right on target. The trailing one-year earnings growth of the Portfolio is 13.0%. This is significantly faster growth than the earnings growth of the international market. And more importantly, we believe our Portfolio will maintain solid double-digit earnings growth over the longer term, which

is much greater growth than the international market has historically sustained. We believe earnings growth is the primary driver of returns over time and that our Portfolio's growth profile will drive differentiated returns.

## Portfolio Performance & Activity

As of June 30, the Portfolio was comprised of 25 high-quality companies. During the second quarter the leading contributors to the Portfolio were **Tencent Holdings Ltd.**, **Alibaba Group Holdings Ltd.** and **ICON Plc.**

The reality of our internet connected world is that a few large enterprises are becoming platforms. These platforms, which continually create data through consumer or user interactions, are becoming incredibly powerful businesses. More users create more data, which benefits the platform. Data will draw advertisers and service providers to these platforms to identify, target and serve users. Tencent and Alibaba's are two such platforms emerging in China. Their competitive advantages continue to strengthen with the addition of more users to their platforms.

Tencent is a social network connecting more than 900 million users, most of whom are in China. Tencent has done an exceptional job layering services – both wholly-owned and via partnerships – from e-commerce, to financial services and myriad other offerings atop the communications and gaming features that supported its initial growth. Importantly, as users access Tencent's network for more services, the breadth and depth of Tencent's data grows and users get more attached to the platform. In turn, Tencent knows more of its users' interests, habits and needs. This enables improving user experiences with time and creates enormous monetization potential. We believe that Tencent is very well positioned to generate 25% annualized earnings growth during the next few years and will continue to deliver solid growth over the longer term.

With more than 450 million users, Alibaba is the leading e-commerce operator in China. We attended Alibaba's investor day in Hangzhou last month and were pleased to see management well focused on continuing to scale its leading position in core businesses like e-commerce, cloud computing and payments (through its interest in Alipay). Beyond these high-growth, core businesses, new ventures further brighten Alibaba's prospects. A variety of potentially dominant business lines, each supported by data, are emerging from what began as an e-commerce platform. Though we expect Alibaba to continue to invest heavily in these pursuits, we are confident the business can still produce 25% annualized earnings growth over the next few years. We are

also convinced this dominant platform business will deliver strong earnings growth in the years beyond.

ICON is a contract research organization (CRO) based in Dublin, Ireland. ICON provides services, primarily drug trials, for the pharmaceutical and biotechnology industries globally. CROs provide drug companies an outsourcing partner to handle the details of drug trialing, including patient recruitment and enrollment. ICON's proven value to customers came over 20 years of sharp execution, particularly within late stage trials. CRO services have a long runway for growth because drug companies still conduct about half of their trials in-house. We like ICON's chances of continuing to gain market share in this fragmented industry through further sharp execution and by tapping new growth opportunities in Asia and Australia. Its shares have benefitted from a positive re-rating year to date, but we think the company can deliver low-double-digit earnings growth over the long term.

The three bottom contributors for the quarter were **Actelion Ltd.**, **adidas AG**, and **Experian Plc.**, but none of these companies had a negative contribution. Each delivered positive returns, although they trailed the Index during the quarter.

Portfolio turnover has been low since the start of the year as we have been pleased with the performance of the businesses and valuations remain reasonable. However, we did make a couple of adjustments during the second quarter as one of our holdings was acquired. Actelion's acquisition by Johnson & Johnson closed in mid-June. We sold our shares in May and used the proceeds to add to two existing holdings, ICON (discussed above) and Sage Group. Sage Group's recent business transformation positions the company for faster revenue and earnings growth now, which led us to add to our position.

## Attribution

The top three contributors (Portfolio average weight multiplied by return) for the second quarter of 2017 were Tencent Holdings (1.28%), Alibaba Group Holdings (0.98%) and ICON Plc (0.88%). The bottom three contributors were Actelion Ltd (0.00%), adidas AG (0.06%) and Experian Plc (0.09%).

We continue to search for additional great international companies and look forward to sharing our investment theses with you in future letters. Thank you for your interest in Polen Capital and please feel free to contact us with any questions or comments.

Sincerely,

Todd Morris

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1825 Corporate Blvd NW #300, Boca Raton, FL 33431

+ 1-800-358-1887 | [www.polencapital.com](http://www.polencapital.com)

The commentary is not intended as a guarantee of profitable outcomes. Any forward-looking statements are based on certain expectations and assumptions that are susceptible to changes in circumstances.

Please reference the supplemental information to the composite performance which accompanies this commentary.

## Historical Performance

<b>Polen International Growth (SMA) Composite as of 06-30-2017</b>			
	<b>Polen (Gross)</b>	<b>Polen (Net)</b>	<b>MSCI ACWI ex-US - ND</b>
<b>Q2-2017</b>	10.33%	10.10%	5.78%
<b>YTD</b>	21.90%	21.39%	14.09%
<b>Since Inception (1/3/17)</b>	21.90%	21.39%	14.09%

Footnotes

Returns are trailing through 06-30-2017

Source: Archer

# GIPS Disclosure

## Polen Capital Management International Growth Composite-Annual Disclosure Presentation

Year End	UMA		Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation**	
	Total (millions)	Assets (millions)	Assets (millions)	U.S. Dollars (millions)	Number of Accounts	Composite		MSCI ACWI (ex-USA)	Composite Dispersion	Polen Gross	MSCI ACWI (ex-USA)
						Gross	Net				
1Q17*	13,145	5,412	7,733	0.28	1	10.49%	10.49%	7.86%	0.0%	-	12.35

Total assets and UMA assets are supplemental information to the Annual Disclosure Presentation.

\*Performance represents partial period (January 1, 2017 through March 31, 2017), assets and accounts are as of 03/31/17.

\*\* 1Q2017 3 Year Standard Deviation is trailing through 03/31/17 for MSCI ACWI (ex-USA). 3 Year Standard Deviation is not available for the composite due to the composite's January 1, 2017 creation date.

# GIPS Disclosure

The International Growth Composite created on January 1, 2017 contains fully discretionary international growth accounts that are not managed within a wrap fee structure and for comparison purposes is measured against MSCI ACWI (ex-USA).

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, 2015. The verification is available upon request.

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.

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. 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 85 basis points (0.85%) on the first \$50 Million and 65 basis points (0.65%) 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 does not guarantee future results and future accuracy and profitable results cannot be guaranteed. Performance figures are presented gross and net of management fees and have been calculated after the deduction of all transaction costs and commissions. Polen Capital is an SEC registered investment advisor and its investment advisory fees are described in its Form ADV Part 2A. The advisory fees will reduce clients' 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.

The MSCI ACWI (ex-USA) Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world (excluding the United States). The MSCI ACWI (ex-USA) is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

The information provided in this document should not be construed as a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in the composite or that the securities sold will not be repurchased. The securities discussed do not represent the composite's entire portfolio. Actual holdings will vary depending on the size of the account, cash flows, and restrictions. It should not be assumed that any of the securities transactions or holdings discussed will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. A complete list of our past specific recommendations for the last year is available upon request.

Return	1 Year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Years	9 Years	10 Years
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