POLEN | CAPITAL

POLEN INTERNATIONAL GROWTH STRATEGY

Key Takeaways

Todd Morris
International Growth Portfolio Manager & Analyst

- During the third quarter of 2017, the Polen International Growth Composite Portfolio (the "Portfolio") returned 6.65% gross of fees. The MSCI All Country World Index (ex-USA) (the "Index") returned 6.17%.
- Since inception at the beginning of the year, the Portfolio returned 30.00% versus 21.12% for the Index.
- Our holdings in the information technology and healthcare sectors contributed most to Portfolio returns.

Commentary

During the third quarter of 2017, the Polen International Growth Composite Portfolio (the "Portfolio") returned 6.65% gross of fees. The MSCI All Country World Index (ex-USA) (the "Index") returned 6.17%. Our Portfolio continues to benefit from strong results reported by its constituent holdings. Holdings in the information technology and healthcare sectors contributed most to portfolio returns this quarter. Since inception at the beginning of the year, the Portfolio returned 30.00% versus the 21.12% return from the Index. Portfolio holdings delivered generally solid and in some cases what we believe are outstanding financial results in the quarter. Our focus remains on identifying internationally based businesses that meet Polen Capital's high investment standards.

We continue to see the Portfolio's constituent holdings growing earnings at a rapid rate. Beyond the growth in earnings our Portfolio has generated, we're pleased by two other attributes: more stable growth prospects going forward and stronger financial standing. These attributes combined are consistent traits in all Polen Capital portfolios. They shape our way of thinking and give confidence that our Portfolio stands a better chance of outgrowing the benchmark's highly volatile and lower-quality earnings over time.

Portfolio Performance & Activity

As of September 30, the Portfolio was comprised of 25 high-quality companies. During the third quarter, the leading contributors to the Portfolio were **Tencent Holdings Ltd., Baidu, Inc.,** and **Alibaba Group Holdings Ltd.**

In the third quarter, our investments in the three largest Chinese internet platforms all appreciated as they each reported strong financial results. Business momentum in China has translated into strong investment returns for the Portfolio on a year-to-date basis. These platform companies exhibit strong growth and breadth of operations. Each is positioned to capitalize on what we think will be a long-term trend of consumer spending growth as China's middle-class will likely double in size from here.

We're beginning to sound like a broken record reviewing Tencent's contribution to the strategy each quarter. In its fiscal second quarter, Tencent reported 59% revenue growth and 45% non-GAAP earnings growth. This is interesting for a few reasons. First, revenue growth accelerated from an already elevated rate of 44% in the fourth quarter of 2016 and 55% in the first quarter of 2017. The majority of Tencent's revenues still come from PC and mobile gaming, but PC gaming, which is more mature and losing share to mobile, is now less than 25% of total revenue, and non-gaming revenues are growing strongly. As one example, social media monetization, particularly in the form of online advertising revenue, is in its early days. Second, Tencent's growth is allowing heavy investments in business lines that are strengthening ties to platform users. Areas of investment include ad-technology enhancements, digital payment technology, video content and cloud computing capabilities. Despite intensive investments, we think Tencent can grow earnings greater than 30% annualized over the next three to five years.

We invested in Baidu at the Portfolio's launch because we believed the company would lap regulatory changes that were negatively impacting core search revenue growth in the second half of 2016. Baidu's core search business is a classic Polen Capital business due to its heavy competitive advantages, profitable business model and long runway for growth. We also believed that investments in online-to-offline (O2O) initiatives over the last few years were unlikely to continue at elevated rates. O2O subsidies were dragging down Baidu's profit margins and the strategic rationale for pairing O2O with search wasn't crystal clear. O2O also was becoming less important relative to other opportunities such as video and artificial intelligence efforts. Baidu's results for the quarter ended June 30, 2017, which were reported in August, offered a glimpse of the combined effect of these drivers. These results included renewed growth in the core search business and reduced operating expenses in O2O lifting overall profit margins. Going forward, we believe Baidu is positioned to deliver continued growth in the core search business and will continue pulling back on O2O investments. The company will invest heavily in video and artificial intelligence, but these are areas that we believe are highly strategic and should provide long-term value for shareholders. Overall, Baidu is well positioned to deliver greater than 20% annualized earnings growth for the next three to five years.

Alibaba occupies a dominant position in Chinese commerce and is spreading its reach elsewhere in Asia. Given our views on consumer spending growth in China, we like the strong foundation Alibaba is building its international operations atop of. Data driven insights and engagement tools that Alibaba provides consumers and sellers are propelling the platform's growth at an accelerating rate. In fact, Amazon, which many in western markets think of as the most dominant ecommerce company globally, would be wise to take note of the various ways Alibaba has encouraged users to spend more time in its Taobao mobile app, including live video and influencer feeds and video product reviews. In the quarter ended June 30, Alibaba reported 56% year-over-year revenue growth. Here we have another example of a scaled platform accelerating its growth off a high base. Like Tencent, Alibaba cautioned us against expecting equally robust profit growth because of an aggressive investment program geared to enhance core offerings and broaden the platform. This is wise counsel and something we've expected. Alibaba's investments aim to make the company stronger years into the future, and we appreciate management's long-term view. Despite high levels of investment, we think Alibaba can grow earnings greater than 30% annualized for the next three to five years.

The leading detractors for the quarter were **Reckitt Benckiser Group plc, Nestlé S.A.,** and **Coloplast A/S.**

Consumer staples companies are a meaningful part of our Portfolio. Branded consumer products companies have been a great investment for decades by combining innovative product and brand development supported by scaled advertising and distribution capabilities. However, brand resonance, and advertising and distribution channels are changing rapidly. Polen Capital businesses, and our consumer staples holdings fit this description, use their strong financial position to absorb disruptive shocks to the status quo. Furthermore, high returns on capital employed generate cash that can be used to reposition strong companies for changing environments. Durable demand for consumer staples products add a layer of stability. We may be experiencing dynamic change in consumer staples businesses. Brands, advertising channels and go-to-market channels are all shifting, perhaps permanently. Fortunately, all our consumer staples holdings are leveraging what we feel are their considerable strengths while charting a course to reposition or are already on the path of change.

U.K.-based Reckitt Benckiser makes health, hygiene and home products such as Mucinex cold and cough medicines, Nurophen pain medicines and Durex condoms. Reckitt was a laggard in the quarter and fits at the edge of the shifting consumer staples trends discussed above, but is responding well. Reckitt is a company with a record of sharp execution around cost controls, product line extensions often framed as "innovations," and creative marketing. We're pleased to see management shifting the business mix with the divestiture of its food business, which operated French's mustard and Frank's Red Hot Sauces. Central to Reckitt's shift is the acquisition of Mead Johnson this summer. Mead Johnson is a leader in children's nutrition products. We would not be surprised for Reckitt to roll out its playbook of recent years: sharp execution, geographic or product line extensions and a nuanced approach to marketing – which is well regulated in the children's health market. We have confidence in Reckitt management and their ability to use these levers to drive low-double-digit total returns growth for our investors.

Swiss consumer products giant Nestlé is one of the slower-moving players in the consumer staples space, so we were pleased to hear new management address branding, marketing and distribution channel issues head-on during September's Investor Day. For more than 150 years, Nestlé has built a vast global branding and distribution franchise. It will take a while to turn the ship, but new management comes from outside the company and this is good for affecting real change. The margin expansion targets that Nestlé gave us are achievable on multiple fronts. First, cost rationalizations of redundant manufacturing and operations will drive higher profits. Second, the commitment to eliminate ~10% of the existing portfolio through divestitures could also enable a mix shift to higher-margined business lines. In either case, we think low-double-digit total returns growth in-line with the guidance given in September is well within reason.

Coloplast is a Danish medical technology company with leading positions in the ostomy and continence care markets as well as urology and wound care businesses. These intimate healthcare businesses are not glamorous, but due to aging populations globally and rising middle class spending on healthcare in the emerging world, both are, sadly, persistent growth businesses. Coloplast occupies ~40% market share in its core markets and consistently carves out share gains from competition. Management has done an exceptional job managing costs to drive higher profits for the last decade. In August, Coloplast issued decent fiscal third quarter results, but cautioned that currency headwinds and a one-time repricing issue on a government contract for continence care products will result in slightly slower than expected full year revenue growth. Coloplast's shares dropped ~10% after the report despite a confident tone from management about the stability of demand in core markets. Given Coloplast's history of incremental innovation we believe that this one-time issue will, in fact, be temporary. This gives us confidence that Coloplast remains a differentiated player with extremely durable demand. Coloplast can deliver low-double-digit total returns for the long term. Early in the fourth quarter, Coloplast shares regained most of the ground lost after the August report.

Attribution

The top three contributors (Portfolio average weight multiplied by return) for the third quarter of 2017 were Tencent Holdings (1.18%), Baidu, Inc (1.04%) and Alibaba Group Holdings (0.90%). The bottom three contributors were Reckitt Benckiser Group plc (-0.42%), Nestlé S.A. (-0.19%) and Coloplast A/S (-0.08%).

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

Sincerely,

Todd Morris

POLEN | CAPITAL
1825 NW Corporate Blvd., Suite 300, Boca Raton, FL 33431
+ 1-800-358-1887 | www.polencapital.com

Historical Performance

Polen International Growth (SMA) Composite as of 09-30-2017			
	Polen (Gross)	Polen (Net)	MSCI ACWI ex-USA
Sep-17	1.29	1.29	1.86
3 Month	6.65	6.42	6.17
YTD	30.00	29.19	21.12
Since Inception (1/3/17)	30.00	29.19	21.12

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

GIPS Disclosure

Polen Capital Management
International Growth Composite-Annual Disclosure Presentation

		UMA	Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation**	
Year End	Total (millions)	Assets (millions)	Assets (millions)	U.S. Dollars (millions)	Number of Accounts	Composite		MSCI ACWI	Composite Dispersion	Polen Gross	MSCI ACWI (ex-USA)
						Gross	Net				
2Q17*	15,037	6,017	9,021	0.3	1	21.90%	21.39%	14.09%	N/A	-	12.44

Total assets and UMA assets are supplemental information to the Annual Disclosure Presentation.
**Performance represents partial period (January 1, 2017 through June 30, 2017); assets and accounts are as of 06/30/17.*
*** 2Q2017 3 Year Standard Deviation is trailing through 06/30/17 for MSCI ACWI (ex-USA). 3 Year Standard Deviation is not available for the composite due to the composite's January 3, 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 invests exclusively in a portfolio of high-quality 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 ACA Performance Services, LLC for the periods January 1, 2016 through June 30, 2016. A verification covering the periods from April 1, 1992 through December 31, 2015 was performed by Ashland Partners & Company LLP, which was acquired by ACA Performance Services, LLC, whose report expressed an unqualified opinion thereon.

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