POLEN | CAPITAL

POLEN U.S. SMALL COMPANY GROWTH STRATEGY

Key Takeaways

Tucker Walsh
Head of the Small Company Growth Team & Portfolio Manager

- During the fourth quarter of 2017, the Polen U.S. Small Company Growth Composite Portfolio (the "Portfolio") returned 3.00% gross of fees. The Russell 2000 Growth Index (the "Index") returned 4.59%. Since inception on March 9, 2017, the Portfolio returned 20.75% gross of fees versus 18.22% for the Index.

- The average growth in earnings based on September earnings reports was 25% for the Portfolio companies, which outperformed our expected mid-teens annual earnings growth expectation.

- We continue to expect the Portfolio to have mid-teens or higher earnings per share growth in 2018. While we are still waiting on companies to report 4Q 2017 earnings, we expect that our realized earnings growth for 2017 will be approximately 19%, compared with 18% expected growth for our benchmark, the Russell 2000 Growth.

Performance Commentary

During the fourth quarter of 2017, the U.S. Small Company Growth Composite Portfolio (the "Portfolio") returned 3.00% gross of fees. This compares with a return of 4.59% for the Russell 2000 Growth Index (the "Index") in the same period. As for the year of 2017, we had approximately ten months of performance due to our March 9 inception date. During that period, the Portfolio returned 20.75% gross of fees versus 18.22% for the Index. Global markets were strong and up pretty consistently throughout the year. We were pleased with the performance of the businesses in the Portfolio, as many showed results that were higher than their expected long-term growth rates. This is a continuation of a strong market, as the fourth quarter marks the eighth-straight quarter of positive returns for the Index. Growth outperformed value in the quarter and large cap outperformed small cap.

The positive absolute returns in the Portfolio were driven by companies with solid returns due to strong earnings reports in the period. We continue to expect the Portfolio to have mid-teens or higher earnings per share growth in 2018. This is in-line with the expected growth rate of 16% for the Russell 2000 Index, which is an acceleration from levels in 2017. The companies we own have historically been more likely to meet or exceed growth expectations relative to those in the broader Russell universe.

In terms of sectors, the Index was led by the energy, consumer discretionary, and consumer staples sectors during the fourth quarter. We had limited benefits from these leaders as we are structurally underweight the energy sector and do not presently have any consumer staples exposure. However, our consumer discretionary holdings in aggregate did have the highest absolute impact on performance. The Portfolio had the best sector returns in the information technology and financial sectors due entirely to positive stock selection. The Portfolio showed positive returns in almost all sectors with the exception of healthcare, which was one of the weaker sectors in the Index, as well.

Portfolio Attribution - Fourth Quarter

In normal markets, we would expect the growth in earnings to drive positive absolute and relative returns for the Portfolio. This past quarter, the average growth in earnings was 25% for the Portfolio companies, which outperformed our expected mid-teens annual earnings growth expectation.

Our top five contributors in the quarter based on total effect were largely driven by strength in earnings and fundamentals. **Pool Corporation**, which was the strongest performer on the heels of a down third quarter, was up 21% in the fourth quarter. The world's largest wholesale distributor of swimming pool supplies, equipment and related leisure products posted quarterly earnings that exceeded expectations due to stronger than expected sales growth and gross margins in the period despite cooler weather and delayed sales due to hurricanes. We believed that the underperformance witnessed in the third quarter was an overreaction to minor fundamental concerns. We made no changes to the position because the growth outlook and returns on capital are still very good for Pool Corp.

Advanced Energy Industries Inc., the manufacturer of power conversion products for manufacturing processes, posted strong results for another quarter. **Ollies Bargain Outlet Holdings, Inc.** was next best, after reporting another strong quarter of year-over-year growth. The differentiated and fast-growing value retailer reported its eighth-straight quarter of greater than 25% earnings growth and reported that new store productivity has hit an all-time high. **Trex Company, Inc.**, the manufacturer of composite decking, was up 22% in the quarter. The company reported very strong organic growth and an increase in gross margins, resulting in much better earnings year over year. Finally, **LendingTree, Inc.**, our newest position, was also a strong contributor, up 17% since our purchase intra-quarter. The Company is gaining significant traction with its online loan marketplace, having delivered 81% revenue growth and 57% incremental margins when they reported in October.

The Portfolio didn't have any significant detractors based on total effect, just a few underperformers for the quarter. **Medidata Solutions**, **Inc.** was the largest detractor to the Portfolio. The clinical-research-focused, cloud-based solutions provider reported quarterly earnings that beat expectations but fell short of Wall Street revenue forecasts due to subscription timing. We are not concerned by this as backlog and bookings remain very strong and we remain confident the company can grow subscription revenue by 20% in 2018. **Fox Factory Holding Corp.** was also a detractor. The designer and manufacturer of performance-defining ride dynamics products reported a strong quarter but implied that revenue and earnings growth would decelerate in the coming year. While this may be the case, we believe the company still has solid growth prospects for the next several years and we continue to like the company's competitive position. **Alarm.com Holdings, Inc.** was also down in the quarter after reporting solid earnings. We believe there could have been some disappointment with the company's gross margins, which came in below Wall Street expectations albeit above last year's levels. The other metrics were excellent, however, with revenue, EPS, and cash flow all ahead of expectations driven by excellent growth in their core software as a service revenue. Transaction processing company **Euronet Worldwide, Inc.** was a detractor in the quarter. Late in the quarter there were concerns that the European Commission may create new rules that would negatively impact EEFT's ATM dynamic currency conversion business. This is something we will be monitoring but its impact is difficult to determine at this time. Lastly, **Stamps.com, Inc.**, which was our biggest contributor last quarter, lagged in the quarter after the company reported a solid quarter but maintained guidance for the year after several dramatic beat and raises. This pull-back provided what we believed to be a tremendous opportunity to add to our position.

Portfolio Attribution - Since Inception

As we have discussed in previous letters, we are most exposed to the three main sectors in the growth category, which are technology, healthcare and consumer discretionary, due to the attractive nature of the businesses and their secular growth potential. As we would expect, these sectors played a key role in our annual performance. Consumer discretionary, at 25% of the Portfolio, was the largest contributor to performance as an overall sector. Technology, which was close to 40% of the Portfolio throughout the year, was next best. Healthcare, which was 19% of the Portfolio, detracted the most from the Portfolio. This was due to a few underperformers and a lack of exposure to biotechnology and pharma, which was a top performing industry in 2017. It is important to note that we did not have any companies in the healthcare sector that we chose to sell due to disappointing fundamentals, as all the weakness was short term in our view. Our lack of exposure to biotechnology is not new and it is a direct fallout of our process. Many of these companies have no earnings or cash flow and are awaiting FDA approval for their drugs or therapies. These events are hard to predict and when they go wrong, there is a substantial permanent loss of capital. We invest in companies that can compound their earnings and cash flow while showing high rates of return on capital. We believe these companies will provide solid rates of return and are more predictable and easier to forecast than those in industries such as biotechnology. When those industries outperform over the short term, we may show some relative underperformance in those areas. Over the longer term, the performance of the businesses and their ability to compound earnings will substantially determine the absolute and relative returns of our Portfolio.

As for individual contributors during the year based on total effect, Ollies Bargain Outlet was at the top of the list. The company increased revenue by 17%, increased margins and reported earnings growth of 43%. Ollies is proving that it can thrive in the marketplace by increasing the amount of store units while increasing same-store growth through its loyalty program. The growth it is experiencing could be repeated for years to come and we are still excited by the company's prospects. Advanced Energy was a significant contributor during the year. The company reported results that were well above its long-term growth rate as the company saw a benefit from the increased demand from 3D-wafer fabrication in the semiconductor equipment end market. Another solid contributor was Fox Factory, a company that we have discussed in prior letters. The company posted another good year of results with stronger than predicted growth from the off-road vehicle segment as well as solid growth from their premium bike segment. Trex Company was one of the top contributors in 2017 as the company saw strong demand for its composite decking products as the composite segment of the decking market continues to gain more market share. Trex has done an excellent job of delivering above-average growth rates as well as strategic acquisitions to compound their growth. In addition, the management has made good capital allocation decisions that have contributed to the duration of the growth.

In terms of detractors based on total effect, the largest detractor was **Cardtronics Plc**, the world's largest non-bank ATM operator. After many years of strong growth and high returns on capital, the company saw its growth come to a halt in 2017. First, it lost one of its large customers and concurrently reported a decline in same store revenue, which it attributed to a software upgrade on their ATM network. Losing a large customer is disappointing, but we thought that it would be prudent to wait and see, given what the management discussed regarding the same-store decline and their optimism about adding new large customers. In the next quarter, Cardtronics reported another decline in same-store ATM revenue and added fewer large customers than the level that would make up for the weakness in the same store revenue. We concluded that these trends were concerning as we look long term. In the short to medium term, the company will not grow substantially, if at all. We decided that it was best to sell the position and deploy the capital to a new position.

The other company with a fundamental issue during the year was **Papa John's International, Inc.**, which operates and franchises pizza delivery and carryout restaurants and, in certain international markets, dine-in and restaurant-based delivery restaurants. Papa John's has shown steady growth in revenue with a decent amount coming from its value proposition and the strong trend toward delivery in the United States, combined with international growth. The company has seen its comparable store sales in the United States grow at a slower rate and in the latest quarter it blamed weak comp sales on its close affiliation with the NFL. We see an increase in competition coming from delivery options like GrubHub, UberEats, and other new entrants. In addition, we have seen the company increase its debt and use the proceeds to buy back stock. We are generally big fans of stock buybacks when the company feels that they have exhausted all other options for growth with the cash flow generated by the business. We are not happy with high debt loads or with the concept of increasing debt to buy back a lot of stock. So, due to a worsening competitive environment and the increase in debt, we decided to exit the position and use the capital to increase the positions in our existing holdings.

WageWorks, Inc. was also a detractor in 2017. It provides consumer-directed benefits such as health card programs, health savings accounts, pre-tax spending accounts, medical and dental reimbursement arrangements, and transit and parking programs. The company had a strong year of growth both through organic growth and through a large acquisition. We believe that the company is well positioned as a one stop shop for all of these services. We suspect that there was some concern during the year about the Affordable Care Act and the proposed tax plan regarding consumer directed benefits and if the thresholds would be changed or eliminated. In the new tax plan, there were no major changes to consumer directed benefits so the focus should revert back to the growth in the business in 2018. We still hold our position in the company and believe in its long-term prospects. **Prestige Brands Holdings, Inc.**, a seller and distributor of over-the-counter healthcare and cleaning products, posted good results in the year but was a detractor to the portfolio in the year. We like the company's market position and believe that it will show solid organic growth and will supplement that growth with acquisitions of other brands to which it can make accretive additions and sell through its distribution. The management team has proven that it can find the right brands and show strong returns on capital via strong cash flow. We took advantage of short term underperformance to add to our position during the year.

Portfolio Positioning

The Portfolio invests in high-quality companies in growth industries. The companies are competitively advantaged and we believe each can sustain above-average earnings growth for many years. Currently, all 29 holdings in the Portfolio are U.S. companies that report positive earnings. We believe this high-quality bias affords the Portfolio downside protection while capturing appreciation from the strong earnings growth of the holdings. The Portfolio is invested mostly across the three main growth sectors: technology, health care and consumer discretionary. These sectors make up 83% of the Portfolio and 62% of the Index weights.

Changes to the Portfolio

We made a few changes to the Portfolio in the fourth quarter.

Purchases:

We bought a new position in **Nutrisystem, Inc.**, a leader in the weight loss industry that has helped millions of people lose weight over more than 40 years. We believe that Nutrisystem has built a great brand name in this category and affords them a competitive advantage. We like the backdrop for the company's products, as there continues to be a problem with obesity in the United States. We believe that Nutrisystem's offering is extremely attractive from a convenience, quality, and value perspective. Nutrisystem customers purchase monthly food packages of frozen and ready-to-go food containing a four-week meal plan consisting of breakfasts, lunches, dinners, snacks and flex meal plan recipes. The company has done an excellent job extending its reach with programs customized for men and diabetics, and recently rolled out an entirely new concept based on the low-carb South Beach Diet. We are especially excited about this initiative as it leverages the institutional knowledge and success that Nutrisystem has had with its core brand but will appeal to a different set of customers who are more focused on low-carb, low-sugar eating and more whole foods. We believe growth at the company should continue at a high pace driven by strength in new customers across all of their programs, reactivation of former customers, and growth of revenue per customer through upsells, a la carte items, and longer lengths of stay.

We bought a new position in LendingTree, the operator of the nation's leading online loan marketplace. LendingTree provides consumers with online tools and information to help them find the best loan for their needs and connects them with multiple lenders that compete for their business on their proprietary online platform. The company has built a brand through television and online advertising, driving traffic to their site. They also have established strong rela-tionships with nearly 500 lenders as they have proven to de-liver profitable leads in all kinds of loans. These two strengths constitute a competitive advantage for LendingTree. An ex-ample of their advantage is that LendingTree has facilitated more than 55 million loan requests since inception, including more than $26B in loan originations in the past 12 months. We are excited about LendingTree as penetration of consum-er financial services online is still relatively low compared to other more mature online markets such as travel or general e-commerce. We believe that consumer financial services will move in the same direction with more marketing dollars moving to online channels and consumers demanding more efficient technology-enabled processes in financial services, just as they are now used to with much of their transactions. LendingTree is an early mover in this market and is considerably changing the consumer credit landscape. If the company delivers on the exciting prospects ahead of it, this could be a much larger company and we will see earnings compound at a high rate.

In addition, we added to positions in two companies. We added to Prestige Brands, which is a healthcare products company with leading over-the-counter brands such as Clear Eyes, CompoundW, Monistat, and Chloraseptic. We also increased our position in Stamps.com, which was discussed in the Portfolio Attribution section. Both companies are seeing strong demand for their products and we believe they each have a long runway for growth. We see excellent expected return potential from both of them so we took advantage of their short-term underperformance.

Sales:

We sold our entire position in Advanced Energy during the quarter. The company posted another very strong quarter, with earnings up 55% year over year. While we anticipate that results will likely remain strong for the company in the near term, the semiconductor industry has proven to have its own cyclicality that can run separate from the economic cycle. We owned a position in the company based on the growth prospects they had in the upgrade to 3D wafer fabrication that would lead to strong growth, higher margins, and high returns on capital. All of that has played out, and we believe that we are pretty far along in the upgrade cycle. As we look at the next few years, our expected return is far lower than it was when we made our initial purchase. We felt that it was best to exit as a result and initiate new positions with the proceeds.

We also sold **SPS Commerce, Inc**. SPS Commerce serves brick-and-mortar retail customers with software solutions that connect retailers with their suppliers. It also sells business analytics applications into its retail customers. The retail industry is extremely challenged given the growth of ecommerce and the share gains being made by Amazon.com. We are concerned that SPS's recent slowdown in growth is a manifestation of these challenges and that these challenges will not abate. The company has lowered its projected growth expectations as it continues to be challenged by the broader pressures in the retail ecosystem. When financial conditions at retailers are poor, retailers often cut back their spending on technology solutions like SPS's. This adversely impacted our expected return expectations so we decided to exit the position and reallocate that capital into other positions.

Turnover

The turnover for the portfolio for the year was 16.71%. We sold a total of five positions to zero and had no trims. We added a total of four new positions and had adds to five of our existing holdings. We were pleased that we only had two fundamental issues to deal with in the year. In a year that was characterized by a strong market with few declines, we were pleased with the outcome.

Attribution

The top three contributors (total effect) for the fourth quarter were Pool Corporation (0.73%), Advanced Energy Industries, Inc. (0.64%), and Ollie's Bargain Outlet Holdings, Inc. (0.47%). Since inception, the top three contributors were Ollie's Bargin Outlet Holdings, Inc. (1.82%), Advanced Energy Industries, Inc. (1.20%), and Trex Company, Inc. (0.90%).

The three largest detractors (total effect) for the fourth quarter were Medidata Solutions, Inc. (-0.92%), Fox Factory Holding Corp. (-0.74), and Alarm.com Holdings, Inc. (-0.73%). Since inception, the largest detractors were WageWorks, Inc. (-1.01%), Prestige Brands Holdings, Inc. (-0.92%), and Cardtronics plc Class A (-0.85%).

Outlook

As we look to 2018, we really like the prospects for our companies and we anticipate that many, if not all of them will benefit from the recent tax break for corporations due to their high concentration in U.S. revenue and taxes. We are confident that our companies will take the excess cash from the tax reduction and utilize it well to help grow the businesses at a marginally faster rate for the next several years. By focusing on high-quality companies that generate strong cash flow, we are confident that our holdings will generate above-average growth for the foreseeable future. Many companies in our benchmark have added debt to help fund their growth prospects in the last several years due to the low cost of borrowing. If interest rates increase, their cost of borrowing will increase and make it more difficult to fund future growth. While it is not easy to predict when that might happen, we are confident that our companies will not face that issue due to their strong cash flow growth. Fundamentals in general are quite strong right now as is the U.S. economy. We are seeing strong growth from many companies across the small company spectrum right now.

The Portfolio is invested in a concentrated number of high-quality businesses with strong earnings, cash flow growth and high returns on capital. Our view is investing in a concentrated portfolio is the best way to take advantage of the inefficiencies that are resident in the small cap space. We believe that the growth in earnings for the companies we own will be the primary driver of our performance going forward.

Thank you for your investment in the Portfolio. Please do not hesitate to reach out to us with your questions or comments.

Sincerely,

Tucker Walsh

The commentary is not intended as 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

Polen Small Company Growth (SMA) Composite as of 12-31-2017			
	Polen (Gross)	**Polen (Net)**	**R2000G**
Q4-2017	3.00	2.77	4.59
Since Inception (3/9/17)	20.75	19.92	18.22

Source: Archer
Returns are trailing through: Dec-31-2017

GIPS Disclosure

Polen Capital Management
U.S. Small Company 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 Gross	Composite Net	Russell 2000 Growth	Composite Dispersion	Polen Gross	Russell 2000 Growth
3Q17*	16,178	6,541	9,637	3.48	3	17.24%	16.69%	12.18%	N/A	-	15.11

Total assets and UMA assets are supplemental information to the Annual Disclosure Presentation.
**Performance represents partial period (March 9, 2017 through September 30, 2017), assets and accounts are as of 09/30/17.*
*** 3Q2017 3 Year Standard Deviation is trailing through 09/30/17 for Russell 2000 Growth. 3 Year Standard Deviation is not available for the composite due to the composite's 3/9/2017 creation date.*

GIPS Disclosure

The U.S. Small Company Growth Composite created on March 9, 2017 contains fully discretionary small company equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against Russell 2000 Growth. 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 fees and include the reinvestment of all income. Net of fee performance was calculated using actual 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 100 basis points (1.00%) on the first $50 Million and 85 basis points (0.85%) on all assets above $50 Million of assets under management. HNW: Per annum fees for managing accounts are 175 basis points (1.75%) of the first $500,000 of assets under management and 125 basis points (1.25%) 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 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 Russell 2000® Growth Index measures the performance of those Russell 2000 companies with higher price/book ratios and higher forecasted growth values.

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