

POLEN | CAPITAL

POLEN U.S. SMALL COMPANY GROWTH STRATEGY

Summary



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

- During the fourth quarter of 2018, the Polen U.S. Small Company Growth Composite (the “Portfolio”) returned -15.55% gross of fees. This compares with a return of -21.65% for the Russell 2000 Growth Index (the “Index”) in the same period. Global markets were under considerable pressure throughout the entire quarter.
- We believe the fundamentals of our companies remain very healthy. For the trailing twelve months, they have delivered 18% revenue growth on average, with both strong earnings and cash-flow conversion. Return on invested capital (ROIC), which is the key metric we look at to capture the health of the businesses, has remained stable over the past 18 months at near 20% -- this is exceptional relative to the broader small capitalization universe where average ROIC is negative. Company balance sheets remain strong as well, with 18% debt to total capital on average, and improving efficiency metrics. All of these metrics compare favorably to the Russell 2000 Growth universe, where a high percentage of businesses are unprofitable and have highly levered balance sheets.



Rayna Lesser Hannaway, CFA
*Portfolio Manager
& Analyst*

Commentary

Fourth Quarter 2018

In the month of December, volatility increased significantly and stocks came under pressure, likely due to higher interest rates, further conflict in the international trade wars, and continued questions about the U.S. political situation. With the strong selloff in the quarter, it broke the streak of 11 straight quarters of positive returns for the Index. This was a remarkable run for the Index, and there were widespread concerns about high valuations entering the second half of the year. There have been some reports of a global macro-economic slowdown, and combined with other macro concerns, this is likely what accounts for the strength of the selloff. From a fundamental point of view, many of our portfolio holdings reported results that were higher than their expected long-term growth rates in the period. Despite that, there were only a handful of stocks that showed positive absolute returns in the period. Within our Portfolio, where there were disappointing pieces of short-term news or concerns about other factors, the selloffs were rather severe. There were some companies that had some issues or short-term setbacks, but there were no issues severe enough to cause us to sell out entirely. Many of our holdings went down with the overall market, but not nearly as much as the Index. We attribute this outperformance to continued strong results and what we believe is excellent long-term positioning amongst our portfolio holdings.

To put this in perspective, this is the sixth time in the last twenty years that the Index has declined more than 20% in a quarter. Depending on your perspective and your risk tolerance, this is either a lot or a little. This pullback has mostly been valuation driven to date. We say this because there have not been a lot of earnings revisions to the downside thus

far. In periods of high volatility to the downside like this we would expect our strategy to hold up very well relatively, and this was the case in this quarter. We believe that superior downside protection comes from owning the best businesses in the category, making them less susceptible to a sharp selloff without any fundamental changes. We believe that investing in high-quality companies that have solid and repeatable growth prospects helps to protect capital in challenging periods, while also allowing for compounding growth in other periods.

Our analysis indicates that our companies remain very healthy. For the trailing twelve months, they have delivered 18% revenue growth on average, with both strong earnings and cash-flow conversion. Return on invested capital (ROIC), which is the key metric we look at to capture the health of the businesses, has remained stable over the past 18 months at near 20%, which is exceptional relative to the broader small capitalization universe where average ROIC is negative. Balance sheets for our holdings remain excellent as well, with 18% debt to total capital on average, and improving efficiency metrics. All of these metrics compare favorably to the Russell 2000 Growth universe, where over one-third of the companies are unprofitable and balance sheets metrics are worsening.

Looking at the relative performance sorted by sector, the Portfolio benefited from the relative sector weights in the quarter. Most notably, an underweight in Healthcare was beneficial due to the sharp selloff in Biotechnology. The price movements in that industry can cause some near-term swings in relative returns, both positive and negative. Due to the volatility of that group, price declines can be rather sharp during market selloffs, as investors take down their risk profile. As we have discussed, we generally do not invest in Biotechnology companies due to their financial profile and how it does not fit with our investment style. The prices of our Healthcare holdings went down less than the overall market, mostly due to their company profiles, which are steady growers with high returns on capital. Consumer Discretionary was also favorable in the quarter. This was almost entirely due to stock selection, largely driven by the acquisition of Nutrisystem in the quarter. There were no significant underperforming sectors in the quarter.

In terms of factors, our style of investing was favored in the market in the period. Style can play a role in the short term in our category when measuring relative returns versus the Index. This helped returns in the fourth quarter, but by our estimation, it only partially explains our outperformance, which was also boosted by some idiosyncratic stock movements in the period. Specifically, companies with the fastest growth rates underperformed the overall market in the quarter. Our lower exposure was beneficial to relative returns, and as a reminder, we generally do not buy the fastest growers because, in our view, many are unlikely to be able to sustain high rates of growth. In addition, our higher exposure to high ROIC com-

panies and lack of exposure to non-earners was beneficial in the quarter. This is not surprising to us and is one of the core reasons why we invest the way that we do. When there are economic downturns or even anticipated slowdowns in the economic outlook, well-run companies with solid positioning and balance sheets that can sustain their growth typically hold their value in the market much better than the others. Specifically, the types of companies that we like to invest in are very resilient and can get stronger in economic downturns, so therefore they tend to hold their price better during sharp selloffs. This quarter investor preferences shifted toward resilient companies like this, and contributed to our strong relative performance during the period.

Full-Year 2018

For the full year, our Portfolio reported positive absolute performance during the roller coaster year, up 3.31% -- something that we are pleased with. This compares with a decline of -9.29% for the Index. We prefer to speak about performance over longer periods of time, due to our longer-term approach. In this case, discussing a year's performance is long enough to give a little flavor for what is happening with our investments, and to hopefully point out why we feel investing the way we do aids in adding value during tough periods.

First, we would like to talk about what happened in the different sectors during the year. We think it is important to note that this year was more favorable for growth as a style, and one of the places it was obvious was in sector performance. The three sectors that we are most heavily exposed to -- Consumer Discretionary, Healthcare, and Technology -- all outperformed the average return of the overall Index. The sectors that are much more dependent on economic cyclicity or commodity prices to drive growth and profitability -- Energy, Industrials, and Materials -- all significantly underperformed the average return of the overall Index. Consumer Discretionary was by far the largest contributor to absolute and relative returns in the Portfolio in 2018. Our weighting in the sector, on average, was double that of the Index weight, and the performance of those securities was greater than 19% for the year. This compares with a return of -8% for the Index in that sector and -9% of the overall Index. Our higher weight was not a function of a view about the consumer and consumer spending, but rather a reflection of where we were finding competitively advantaged, well-run businesses that we felt could post durable growth and returns. We believe all of our investments in the Consumer Discretionary sector are unique in their own way and are much less dependent on overall economic activity as the cause of growth and returns on capital. Significantly lower exposure in Industrials, Energy, and Materials were additive to relative and absolute returns in the year. These sectors sold off more than the overall market and our avoidance of these sectors had a meaningful, positive relative impact on the year. We avoid these sectors due to their dependence on higher levels of economic activity or higher levels of commodity prices to drive growth and profitability.

We saw positive results in Technology in the year. Our investments in the Technology sector produced a 4% return, slightly higher than the Index for that sector, and higher than the overall Index return. The Healthcare sector was the largest detractor in the year, where our investments showed a -9% return, which was less than the sector return for the Index and roughly in line with the overall Index return. This can largely be explained by the performance of some of the individual securities within the sector, as three of our five largest detractors were in the Healthcare sector.

Like 2017, the first half of 2018 presented a bit of a headwind relative to factors that we track. That changed in the second half of 2018, where we saw style being more of a tailwind for relative returns. This is right in line with our expectations, as we have discussed with many of you. We expect as either markets or economic activity becomes more challenging, owning the best businesses that we can find in our category, that fit our rate of return hurdle, may provide protection. In our view, this can be attributed to the companies' durable growth, strong returns on capital, and low levels of leverage. These attributes are very attractive, relatively speaking, when there is uncertainty, as investors are reluctant to sell these businesses, but may flee others that have a wider range of outcomes. As we look at the full year, the factors that we had a meaningful exposure to relative to the benchmark, showed as being largely neutral to performance on a relative basis. Those factors include ROIC, revenue growth, and leverage. We believe that on a long-term basis our tilt toward higher quality will be additive to relative returns but that it can vary over shorter periods of time in this category. This year, the effect of style on relative returns was neutral, which in our view, is ideal as it places more emphasis on the individual holdings.

Portfolio Performance & Activity

Contributors and Detractors

Our largest contributors in the quarter showed relative price strength due to a combination of mergers & acquisitions (M&A), idiosyncratic factors, and defensive business characteristics.

Nutrisystem, Inc. was our strongest performer this quarter, due to the pending acquisition of the company. In early December, it was announced that Nutrisystem is being acquired by Tivity Health, a provider of fitness and health improvement programs. Tivity's goal is to leverage Nutrisystem's assets to be in a better position to address weight management as part of the company's existing health and wellness programs, and to create an independent diversifying revenue stream for the company. The implied transaction premium was nearly 38% based on the terms of the agreement, but with ties to Tivity's stock which didn't react well to the announcement, investors did not realize the entire premium.

Pool Corporation was next best after reporting a strong third

quarter. The company's revenue growth of 8% was strong, despite weather challenges. Pool Corp. remains the leading distributor in what we believe to be a very healthy and resilient market, which is largely tied to non-discretionary pool maintenance and repair. We are pleased to see that e-commerce is not having a negative impact on the business. In fact, the company's new e-commerce app is driving additional share gains with its contractor customers. We continue to have confidence in the company's ability to drive 6-8% organic sales growth and mid-teens incremental margins.

Globant SA was also a top contributor. The company continues to report excellent results, exceeding management's 20% revenue growth targets. The biggest drivers of this strength are the strong global demand environment for digital transformation and the success Globant is having in deeply penetrating its existing accounts through cross selling.

AMN Healthcare Services, Inc. was up nearly 4% in the quarter, when most healthcare stocks were down considerably. This could be due to the company's third quarter results, which pointed to improving fundamentals. Most notable to us was management's commentary that travel nurse demand had risen to its highest level in almost two years, and that the premium rate mix was stabilizing.

Our largest detractors in the quarter showed relative price weakness, mostly due to idiosyncratic factors. For the majority of these holdings, we took advantage of the price weakness by adding to the positions, which we discuss in the next section of this letter.

Blackbaud, Inc. was our weakest performer during the quarter, largely due to the reduction in guidance early in the quarter. Management attributed nearly half of the reduction versus its plan to changes in one-time services revenue, some of which can be explained by the company's transition to a subscription model. Softness in transactional revenue was also a driving factor, which management attributed to changes in the K-12 customer payment behavior, weakness in the UK-based "Just Giving" segment, and smaller average donation sizes in North America. There was also a small reduction in subscription-based recurring revenue, which management attributed to attrition as they sunset old platforms and move investors to the cloud. We believe the company is rightfully in the penalty box given the reduction, and especially the slow pace of growth, which is something we are concerned about too. We had a follow up meeting with management and are satisfied, for now, that they have made some smart decisions that are having a negative short-term impact on the business. We do not expect to see immediate improvement in the financials, but we will carefully monitor the underlying business metrics for signposts of success. In our opinion, Blackbaud remains well-positioned for the long term, with a dominant position in its category and a capable management team that exemplifies the key qualities we look for when we evaluate company leadership.

LeMaitre Vascular, Inc. was weak again this quarter after reporting weak third quarter results that reflected slower revenue growth and lower profitability than expected. Management attributed the weakness in the business to multiple factors, including customer attrition and supply constraints in the company's Allograft business, weakness in Europe with the company's Valvulotome business, and lower-than-expected export sales to their international distributors. Perhaps most concerning to investors was that management backed off their long-range growth targets for revenue and operating profit, adding a lot of uncertainty around what the company's organic growth trajectory will be over the longer term. After a visit with the company's CEO, George LeMaitre, we feel comfortable that the strategy and opportunity for the company are still in place. We do not expect growth to reaccelerate quickly, but appreciate the strategic nature of the company's vascular surgeon-focused product portfolio, and what we feel is a long runway for growth and healthy operating model.

Stamps.com Inc. was likely weak in the quarter due to a few pieces of news that could cause uncertainty in the near term. These include Amazon entering the shipping business, the potential renegotiation of Stamps.com's contract with the U.S. Post Office, and the potential withdrawal of the U.S. from the Universal Postage Union. These speculative headwinds drove a re-valuation of the business, although the business itself continues to perform well. Management has addressed these concerns head on with commentary on their quarterly calls with investors, but we suspect that many investors will wait and see how these play out over the next few months.

Ellie Mae, Inc. was also weak in the quarter, likely due to reporting weaker-than-expected results for the third quarter and weaker guidance for the fourth quarter. The business is being impacted by the weakness in mortgage originations, which affects the 30% of Ellie Mae's revenue that is determined by the number of loans closed on its platform. Additionally, the weakness in the mortgage market has caused some mortgage originators to reduce headcount, which impacts the company's seat bookings. While these short-term results were disappointing, there were some bright spots in the quarter around the growth in active users, the growth in revenue per loan, and the number of closed loans, all of which point to increasing market share gains at Ellie Mae, and support our belief that the company has the most attractive platform in the mortgage market today.

Purchases

There was more trading than is typical for us in a quarter, due in part to the price volatility in the market and the acquisition of a large position in Nutrisystem. We used the proceeds of the acquisition to add to existing holdings and start new positions, which we will give more detail on below. We should mention that this was a very interesting quarter for the pric-

es of some of our holdings and companies that we follow with interest to buy. We were presented opportunities to harvest or trim some high market cap / low expected return holdings and outright sell a company that was acquired for cash and re-deploy the cash into lower market cap securities with higher expected returns. These opportunities don't always present themselves, but when they do, we look to take advantage of them with an eye toward future returns.

We started a new position in **Floor & Decor Holdings, Inc.** Floor & Decor is a \$2.5 billion market cap specialty retailer of hard-surface flooring and related accessories, founded in 2000. Floor & Decor's store growth has been impressive; the company has grown its footprint of warehouse-format stores from a total of 25 stores in November 2010 to 95 stores as of September 30, 2018. As of the third quarter 2018, Floor & Decor generated over \$1.6 billion in trailing twelve month (TTM) sales, and has grown same-store sales by double digits for nearly ten years straight. Floor & Decor's customer mix is roughly 60% professional and 40% do-it-yourself. The hard flooring category has been growing at mid to high single digit rates for the last five years. There appears to be a shift toward hard flooring from carpet, as innovation and health benefits have helped change customer preference. We believe that the company has a long runway for growth and the management team has proven, even in their short year and a half stint as a public company, that they can execute on the growth plan. Based on the plan that management has laid out, the three drivers of future growth are new store expansion, increases in comparable store sales, and operating margin expansion. We view these as doable, with significant potential upside in all three areas. The company's competitive advantage is their dedication to the category, superior customer experience, large in-stock inventory component, and price. Floor & Decor's flooring-dedicated footprint is many magnitudes larger than the flooring departments in Home Depot and Lowe's stores, which have more space in the category than other smaller regional retailers. In addition, the company's dedication to keeping large amounts of items in stock make shopping at a Floor & Decor store more convenient than other flooring retailers where there is often a longer wait for merchandise. They also advertise their commitment to being the low-cost retailer in the category, with many advertised prices lower than Home Depot/Lowes and a commitment to not being beaten on price. We believe management has shown that they are skilled in managing this business by executing their plan to date with a balance of growth, profitability, and returns on capital, with limited reliance on financial leverage to grow. We like what we see in terms of their ability to wisely re-invest back into the business by growing their store base, and we think they can do it while increasing margins and returns over time. In terms of valuation, we looked at it several different ways and our conclusion is that we are buying it at what appears to be a

discounted price. The stock has pulled back significantly from its highs due to concerns about low housing inventory and turnover, rising interest rates, and the impact of tariffs on products they import from China. We believe that these shorter-term challenges are more than accounted for in the price today. We intentionally started with a smaller position and have been taking advantage of the price volatility to continue to build the position.

We also started a new position in **Inogen, Inc.** in the quarter. Inogen is a \$2.5 billion market cap medical device manufacturer of portable oxygen concentrators (POCs) that enable a major upgrade in lifestyle for patients that suffer from chronic obstructive pulmonary disease (COPD). COPD is the third leading cause of death in the U.S. behind heart disease and cancer, and is estimated by the World Health Organization to be the leading cause of death worldwide in 15 years. Currently, it is estimated that only half of U.S. sufferers are diagnosed. The treatment of patients with severe cases of COPD has historically been delivered in the form of large tanks of oxygen delivered to the end user that are difficult to move around with and that need to be routinely refilled/replaced. Inogen is the leader in the smaller-form-factor portable devices, which allow patients to get out of their houses and even travel, and they do not need to be routinely refilled, which is a life changer for many. These smaller-form devices are rapidly taking share with penetration of POCs going from 4.5% to about 10% of oxygen users in the last five years. Inogen's management estimates that the market for POC's could get to 65% at full penetration. Inogen is currently the market-share leader in this rapidly growing category. The company will continue to benefit from the rapid growth in POCs, which is being driven by the growth in effective diagnoses, which is 7-10% per year, plus substitution of portable devices in place of the older tanks. There are other players in the POC market, but we believe that Inogen has a strong competitive advantage: consumer preference for their products because they are smaller, lighter, quieter, and more reliable than other POCs. Inogen also has a unique selling model where they sell direct to consumers, leveraging aggressive advertising on both TV and digital, and internal resources focused on patient education. The traditional selling model was to healthcare providers and professionals that would recommend the POC device to their patients. This is the model that Inogen's competitors have adopted and is still a strong area of growth, and one that Inogen selectively participates in, but the direct-to-consumer (DTC) initiatives have been a stronger driver of the company's growth and one they continue to channel more of their resources toward.

We have been watching Inogen for more than a year now, but believed that the price wasn't right to meet our expected return hurdles. After their latest earnings report, (which surprised some investors) together with the market pullback, the stock has pulled back 60% from its highs and now meets our hurdles. During the last quarterly call, management

discussed a pivot in strategy toward spending more on the DTC segment, which could temporarily depress margins. This took some investors by surprise. However, we are now even more excited about the business, especially the incremental investments they are making in their direct to consumer business. In our opinion, the market is taking a short-sighted view of this decision. Management has demonstrated considerable success in the direct-to-consumer arena and we believe they are making smart reinvestment decisions. They have a sound financial model and have delivered what we believe is an appropriate balance between growth, margins, and returns on capital, all while heavily reinvesting in the business. We started the position on the smaller side and will look to tactically increase it if the stock trades at a discount.

We added to our position in **Stamps.com Inc.** Stamps provides an Internet-based solution for mailing or shipping letters, packages, or parcels. Their solutions make shipping easier, more convenient, and more cost effective than other methods. The company has gradually transitioned from a company that sold postage on their website through a partnership with the U.S. Postal Service (USPS), to a well-diversified service provider of shipping solutions. Their partnership with the USPS is still an important part of how they make money, but their current model is much more subscription based and plays right to the heart of the growth in e-commerce. The stock has come under pressure recently due to a few speculative factors, most of which we view to be very short term in nature. Given the positioning of the company for future growth, high levels of returns on capital, and what we believe to be high levels of skill on the part of management, we feel it is a great investment. Due to the recent stock weakness, we believe that we are getting a chance to buy more at a discount.

We added to our position in **Ellie Mae, Inc.** As a reminder, Ellie Mae provides software as a service (SaaS) solutions to the mortgage origination industry. Ellie Mae's solutions help automate the mortgage origination process, which drives down costs and the time to close loans, while also addressing the statutory and regulatory changes that further complicate the process. With the stock trading at a significant discount to intrinsic value, we decided to increase the position to 2.5%. We continue to believe this is an incredibly strategic asset and we are impressed with management's ability to navigate the business, even in what is a very difficult mortgage market. Ellie Mae continues to drive higher revenue per loan and is gaining considerable market share, which gives us confidence that it is the market issues that are challenging them and not something specific to Ellie Mae. Looking ahead, we see potential for large upside once the mortgage market rebounds, which is something we are willing to wait for.

We added to our position in **LeMaitre Vascular, Inc.** LeMaitre Vascular is a leading global provider of innovative devices for the treatment of peripheral vascular disease. The Company

develops, manufactures, and markets disposable and implantable vascular devices to address the needs of vascular surgeons. They have a diversified product portfolio consisting of 16 well-known brand name products used in arteries and veins outside of the heart (#1 or #2 market share in most of the product lines). They singularly focus on the vascular surgeon in niche product markets that are less interesting to the largest medical device companies. Currently, the company has products that target \$800 million of the \$5 billion vascular surgery product market. Each year, they make acquisitions to enhance their product bag and increase their total available market (TAM). Based on management's stated growth plan, organic growth in the future will be driven by salesforce expansion, minimal risk R&D introductions, modest unit growth, and average selling price (ASP) increases and is targeted to be at 10% revenue growth and 20% operating income growth. The stock came under pressure after the company reported third quarter earnings, which showed slowing growth, and when management backed off their long-term plan to consistently drive 10% top-line and 20% operating income growth. While this uncertainty remains, in our view it makes sense to add to the position, as it is trading at a significant discount to intrinsic value even considering a slower trajectory in sales and operating profit growth after evaluating multiple scenarios. Even with the potential for a slower growth profile over the short to intermediate term, we believe the company still has the right products, positioning and management skill to compound value over our three to five-year horizon.

We added to our position in **Globant SA**. Globant is a digital-native IT services company operating at the intersection of engineering, design, and innovation. The company provides digital and cognitive transformation services to high-profile blue-chip clients like Google, Disney, Southwest Airlines, Electronic Arts, and Coca-Cola, using the most cutting-edge practices and technologies. Globant is well known for its deep technology capability and thought leadership in digital. We believe that the company's digital nativity is a competitive advantage, as well as their unmatched pool of talent, access to talent in South America, and their highly efficient global delivery model. We have been impressed with the company's results since having started the position earlier in the year and had been waiting for an opportune time to increase our position. The price volatility in the fourth quarter gave us an opportunity to add to Globant at levels similar to when we first started the position.

We added to our position intra-quarter in **Ollie's Bargain Outlet Holdings, Inc.** after reducing the position earlier in the quarter for reasons we detail in the next section. The company reported quarterly earnings that were consistent with what the company has delivered since they have been public. Following this release, the stock declined close to 40% over the ensuing weeks. The combination of heightened market volatility and high valuation for this particular

security could explain this movement. We analyzed the report, re-examined our assumptions, and concluded that the only change was in the price of the stock. We believe the expected return from these levels is strong enough to add some back, so we did. This type of activity is very rare for our process, but the volatility intra-quarter presented the opportunity on both sides.

Sales

We sold our position in **Monolithic Power Systems, Inc.** Monolithic Power Systems is a high-performance analog semiconductor company that sells into the computing, automotive, industrial, infrastructure, and consumer end-markets. The company has done an extraordinary job of growing its revenue, while delivering outstanding margin improvement and investing in innovative solutions to increase its total available market (TAM). This is exactly what we like to see our companies do successfully and, in our view, Monolithic Power Systems remains a well-run company that continues to have a strong market position. That being said, the three to five-year expected return and risk/reward profile of the company is currently not that attractive to us relative to the rest of our Portfolio, and some of the new names we were working on, for a couple of reasons. First, we have been keeping a close eye on the growth rate of the company over the last several quarters. It has been accelerating above what we believe to be a sustainable level, mostly due to the success the company has enjoyed in the automotive segment, which in the most recent year has grown over 50%. While we expect the automotive segment to remain strong due to new design wins, we do not believe the company can sustainably maintain revenue growth at current levels given the cyclical nature of some of their other end-markets, some of which are already showing signs of slowing both for Monolithic Power Systems and its competitors. Second, this potential deceleration in growth is especially risky given the significant premium in valuation the company enjoys relative to its analog semiconductor peers, especially as industry multiples compress out of cyclical fears and with evidence of softer end markets. Even if Monolithic Power Systems was to continue outpacing the overall semiconductor industry and the cyclical nature proved to be less than feared, the valuation at current levels presents a risk as it's a big outlier in its industry and other growing analog semiconductor companies that have enjoyed similar multiples earlier in their lifecycles have never been able to maintain them at this level. We decided that exiting the position and re-deploying the capital to companies with lower market cap and higher expected return was prudent at this time.

We also sold our position in **Nutrisystem, Inc.** in the quarter. The impetus for selling Nutrisystem was the announcement that the company is being acquired by Tivity Health for a combination of cash and stock, which valued the company at

roughly \$47 per share, based on Tivity's closing price prior to the announcement. This is not the outcome we had hoped for, as we believe Nutrisystem's management could have created more value, continuing to build their business independently. Perhaps their willingness to sell at these levels suggests that they had less confidence in their ability to execute the transition to a digital media model, or perhaps the South Beach concept was not performing as well as they had anticipated. After analyzing the dynamics of the deal, we decided it was best to sell the position right away and use the opportunistic market environment to redeploy the cash in companies that, in our view, had a better risk/reward profile and better expected returns.

We trimmed our position in **Five Below, Inc.** Five Below is a discount retailer, operating more than 600 stores in about 32 states. The company sells on-trend products at prices of \$5 or less, mostly targeted to teen and tween customers. Five Below has been one of the fastest growing retailers in the U.S., with a compound annual growth rate (CAGR) of greater than 25% over the last five years. Five Below has also posted nice returns on capital, which have been stable over that time. The management team is impressive to us, and their execution has been at very high levels in our view. They have been able to repeat finding on-trend items when it appears to be hard to do so. The real estate strategy has also been well executed, as they have taken advantage of some locations that have become available from other struggling retailers. Even with these positives, Five Below was a candidate to start to harvest, mostly due to market cap. This was a holding in the Portfolio that was initiated in March 2017, and from that time the market cap has gone from \$2 billion over \$6 billion. This is what we would consider to be a successful investment for our mandate, and while it is not normally ideal to start to sell our share of a great company, we are highly confident in our process to find new purchases or places to redeploy the proceeds within the Portfolio. This particular sale presented an interesting second feature to the market cap nuance, in that expected return is less than other opportunities. Management believes that they can continue to grow 20% in square footage, but we believe it is not as easy due to the size of their current store base. We think their returns on capital may come down a little over the next few years, but the level of growth is more in doubt due to the difficulty of growing square footage from the current base. When we weigh the probability of potential outcomes, we think a deceleration in growth is more likely now, and returns could revert to the mean. When we take valuation into account, with its valuation well above the peers and its own history as well, our expected return is lower. When we take market cap into consideration, we feel a reduction in position is warranted. Going forward, we will monitor results and weigh it against other holdings and potential buys.

We also trimmed our position in **Ollie's Bargain Outlet Holdings**. Ollie's is a discount retailer that operates in 20 states,

mostly rural parts of the U.S. The company sells a broad selection of products that merchants want to offload to reduce inventory and move product. Ollie's resells these products at a low price point and is able to capture nice margins. According to management and confirmed by our own store visits, their warehouse style stores are truly no-frills and are a must visit for customers to benefit from the discounts. This is due to agreements with their vendors, who do not want their products marketed at severely discounted levels. This leads to a treasure-hunt style experience for the customers, and we feel makes them one of the few "Amazon proof" retailers in our universe. The business has grown 19% over the last three years, with earnings and cash flow growing even faster. The returns on capital are north of 20%, as margins have increased gradually due to solid execution and the expansion of the loyalty program and other successful moves by management. The stock has appreciated significantly since the inception of the Portfolio, going from a market cap of \$2 billion to more than \$6 billion intra-quarter. Again, this is a successful investment in our mandate and, in our view, a good trim due to high valuation / lower expected return and high market cap.

Outlook

The fundamental growth prospects for the companies in our Portfolio continue to remain excellent in our view. Rising interest rates typically serve to slow down the pace of economic activity. Sometimes this results in a recession, and sometimes it just results in what feels like a slowdown from heightened levels of economic activity. We don't know exactly how it will play out, but we do believe that the businesses we are invested in are well positioned to continue to do well in any scenario. We continue to look across the landscape to find great investments in the small-cap space. There are some businesses that we felt were very good, but that the price was not at a level where we believed we could get our desired long-term rate of return. Some of those are getting closer to the right price for us, and we will continue to monitor them. We believe that owning a concentrated portfolio of the best businesses, that we expect can achieve our expected return targets, gives us the best chance to compound superior returns over the long term. If the pullback that occurred in the fourth quarter turns out to be a precursor for tougher economic times, as we have mentioned, we believe that many of our portfolio holdings will see their businesses get stronger due to their competitive advantages, strong returns on capital, solid cash flow generation, and manageable amounts of leverage. In that type of environment, we expect our management teams to be agile and invest for the future, rather than be reactionary and defensive. This is precisely why we target the types of companies to invest in that we do. As we progress through the year, we will keep you updated on these and other topics we are monitoring.

Small Company Growth Team Update

We are excited to announce that the International Small Company Growth strategy has officially launched. Portfolio Manager & Analyst Rob Forker joined our team in 2018 to help us expand coverage outside of the U.S. and to launch this strategy. We believe that our philosophy and process applied in this strategy will produce solid returns and add value for investors in the strategy.

We are also pleased to announce that Troy Renauld joined us in December as a Research Analyst, providing research for both small company strategies. Prior to joining our team,

Troy worked at Bright Rock Capital Management as an Equity Research Analyst. We will continue to evaluate our needs on an ongoing basis and selectively add talented people that are the right fit with our culture, to ensure consistent execution of our process.

Thank you for your interest in Polen Capital and the U.S. Small Company strategy. We appreciate the opportunity to manage your assets in this category. We look forward to speaking with you soon.

Tucker Walsh and Rayna Lesser Hannaway

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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 12-31-2018			
	Polen (Gross)	Polen (Net)	R2000G
Dec-18	-8.98	-8.98	-11.68
3 Month	-15.55	-15.77	-21.65
YTD	3.31	2.31	-9.29
1 Year	3.31	2.31	-9.29
Since Inception (3/9/17)	12.98	11.90	3.91

Footnotes

Returns are trailing through: Dec-31-2018

Annualized returns are presented for periods greater than 1 year.

Source: Archer

GIPS Disclosure

Polen Capital Management U.S. Small Company 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		Russell 2000 Growth	Composite Dispersion	Polen Gross	Russell 2000 Growth
						Gross	Net				
2017*	17,422	6,954	10,468	5.75	5	20.75%	19.92%	18.22%	N/A	-	14.8

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

*Performance represents partial period (March 9, 2017 through December 31, 2017), assets and accounts are as of December 31, 2017.

**The 3 Year Standard Deviation is trailing through 12/31/17 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 December 31, 2017. 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. Effective January 1, 2018, accounts must be fully invested at the market open on the first business day of the month, in order to be included in that month's composite.

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. HNWI: 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