POLEN | CAPITAL

POLEN FOCUS GROWTH STRATEGY

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Summary

- During the second quarter of 2019, the Polen Focus Growth Composite Portfolio (the "Portfolio") returned 6.18% gross of fees compared to 4.64% for the Russell 1000 Growth Index and 4.30% for the S&P 500. Over the trailing 12 months, the Portfolio has returned 20.18% gross of fees versus 11.57% for the Russell 1000 Growth and 10.42% for the S&P 500.
- U.S. equity indices continued their upward march in the second quarter as interest rates declined amid expectations of a rate cut by the Federal Reserve and an accommodative policy that seems likely to us to continue for some time into the future.
- Some of our top performers this quarter were similar to those in the first quarter and were also some of our largest positions, including Microsoft, Facebook and Visa. The only significant detractors this quarter were Alphabet and Regeneron.
- We had a bit more trading activity in the Portfolio this quarter, mostly due to valuation-driven weighting adjustments. We discuss valuations more broadly herein.

Commentary

During the second quarter of 2019, the Polen Focus Growth Composite Portfolio (the "Portfolio") returned 6.18% gross of fees compared to 4.64% for the Russell 1000 Growth Index and 4.30% for the S&P 500. Over the trailing 12 months, the Portfolio has returned 20.18% versus 11.57% for the Russell 1000 Growth and 10.42% for the S&P 500.

Some of our top performers this quarter were also some of our largest positions including **Microsoft Corporation**, **Facebook, Inc.** and **Visa Inc.** The only significant detractors this quarter were **Alphabet Inc.** and **Regeneron Pharmaceuticals, Inc.** We discuss both companies below and our rationale for the eight trades, an unusually high number for us, during the period.

U.S. equity indices continued their upward march in the second quarter as interest rates declined amid expectations of a rate cut by the Federal Reserve and an accommodative policy that seems likely to us to continue for some time into the future. On one hand, we are seeing higher valuations--P/E ratios for the market and our Portfolio are higher than historical averages. On the other hand, we see a higher possibility of lower rates for a longer duration. Therefore, we feel it is a good time to discuss our views on current equity market valuations.

Valuations are High...Or are They?

We would be remiss to not take a cautious view on valuations at present levels. We are now more than ten years into the current bull market and share prices have broadly risen threefold. The S&P 500 is trading at roughly 17x forward earnings, a premium to its long-term average of 15x. Our Portfolio, which normally trades at a 30-50% premium to the S&P 500, is now at the high end of that range.

Exceptional mathematical skill is not required to reason that as valuations eventually return to their historical averages, both for the S&P 500 and for our Portfolio relative to the S&P 500, our long-term returns could be impacted. Since 1989, our Portfolio's annualized gross return has almost exactly matched the 15% earnings per share growth we estimate the Portfolio has achieved on a weighted-average basis. But, consider the aforementioned premium for our Portfolio compared to the S&P 500, which is approximately 20% higher today than its historical average. This higher premium relative to the S&P 500 would imply that over the next five years, the Portfolio's annualized return could trail our estimates for mid-teens earnings per share growth by 300-500 basis points. It also leads to an expected annualized return for the Portfolio that is more in the 10-12% range. While this would still allow for the double-digit annualized returns we target, these returns would be below our historical norms.

The described scenario is certainly possible, and, in our view, a less than desirable outcome. But, when we go through valuation exercises that involve many "unknowables," as is typically the case, we also think about other plausible and more optimistic scenarios. One such scenario is the possibility that interest rates could be lower for longer.

While we do not make economic or market predictions because we feel this cannot be done accurately and consistently, we do have a view on what valuations should be for our companies. An imprecise tie-in to sustainable interest rates and inflation is baked into this view. Our assumption has been that the 5-year risk-free rate should "normally" yield approximately 5% annually—we use the 5-year U.S. Treasury Note yield as its matches our average holding period. Coincidently, we also estimate that our Portfolio's average earnings yield, the inverse of the Portfolio's P/E, over the past 15+ years has been approximately 5%. Yet, over the last 20 years, the 5-year T-Note yield surpassed 5% only one of those years, 2006. It has been far below 5% over most of this period and is now only 2.25%.

Therefore, if you assume that (1) the earnings yield on our Portfolio more closely approximates the 5-year U.S. Treasury Note yield (as it has historically) (2) interest rates will remain structurally below the assumed 5% rate and (3) inflation is low, then the Portfolio's P/E should be higher than its historical average given much lower yields in other areas.

In fact, to keep the Portfolio's earnings yield in line with today's 5-year U.S. Treasury Note yield of 2.25%, our Portfolio would need a 44x P/E multiple rather than its current 26x P/E multiple. Of course, we believe a 44x P/E multiple for a collection of businesses that are growing their earnings approximately 15% would be too high. The more important point, in our view, is that if yields are now structurally lower in other asset classes, a Portfolio of high-quality businesses growing its earnings at an elevated rate could command a richer premium than its historical average. With its 26x P/E and if its earnings yield is a predictor, the Portfolio is implying long-term interest rates are more likely to stay in the 4% range than 5%. From our perspective, this level is not egregious and is certainly possible.

In fairness, economic growth and inflation in the U.S. have been stubbornly low for many years. The vast majority of this low growth, low inflation environment is due to the maturation of the U.S. economy, globalization, demographic trends and technological innovation. Over the next several years, we do not believe these trends should change very much—they are not easily reversed, and we think some could become even more pronounced. For instance, new advances in automation, machine learning, artificial intelligence and self-driving vehicles could eliminate large numbers of unskilled, labor-intensive jobs. This evolution could be deflationary and possibly a headwind to economic growth for an extended period. Consequently, interest rates could remain well below "normal" for quite some time in this hypothetical scenario.

In any event, equity valuations cannot be completely untethered from interest rates and yields in other asset classes, in our view, because money is fungible. When investors seek returns, they will likely move from the asset class that is not providing satisfactory yields to another asset class to achieve their required returns.

For many of the reasons mentioned in the second and more optimistic scenario, it is plausible, in our view, that we can generate similar mid-teens returns despite a higher P/E on the Portfolio. The returns would roughly track the expected Portfolio's earnings growth rather than the expected 10-12% returns laid out in the first scenario. That said, it is dangerous to say, "it's different this time." While we are not economic forecasters and will not make a "call" about whether the Portfolio's P/E will remain higher than its historical average, we continue to see a reasonable path for at least low double-digit annualized returns for each of our Portfolio holdings.

As always, we will continue to focus on allocating capital prudently to high quality businesses with competitive advantages that we believe can achieve adequate returns under any scenario. Another potential offset to higher valuations is that our preferred investments are companies that we feel have massive competitive advantages and wide-open growth prospects. Companies with these qualities often grow faster and for longer than even we expect. As such, the valuations on the businesses we seek to identify often prove, in hindsight, quite attractive and much lower than we thought.

Portfolio Performance & Activity

During the second quarter, the leading contributors to the Portfolio's performance were the same as last quarter: Microsoft (1.23%), Facebook (1.17%) and Visa (0.80%). The largest detractors in the second quarter were Regeneron (-0.76%), Alphabet (-0.65%) and **O'Reilly Automotive, Inc.** (-0.17%).

Facebook and Alphabet came under pressure during the quarter as the Federal Trade Commission and the Department of Justice divvied up responsibilities for potential antitrust investigations of the largest technology companies in the U.S. This caused quick and pronounced stock-price weakness in both holdings, which, in our view, were already at attractive valuations prior to the news. Facebook and Alphabet have been the subject of many investigations (antitrust and others) in both the U.S. and abroad, so they are no strangers to these issues.

Both Google, Facebook and their owned properties are free to users and provide services that their users value in some way. Therefore, we believe it will be very difficult to prove that consumers are being harmed, which is the current standard in the U.S. for antitrust punishment. Even Facebook's and Google's paying customers, i.e., marketers, are in a far better position having these two companies than not, in our view. Small and mid-sized businesses especially benefit because of their ability to use the two platforms to advertise at an attractive price—these businesses had little advertising airtime due high costs in the days when TV and radio dominated ad dollars.

In addition, Facebook and Google do have competition. Google competes with Microsoft and Amazon everyday along with other vertical market search engines like Kayak and TripAdvisor in the travel space. Furthermore, search is shifting more toward mobile apps and away from the Google website—its share of mobile search is well below its desktop market share. Facebook competes with Snap, Twitter TikTok and several upstarts. Neither company has significant operations in China, yet companies like Tencent and Alibaba have global ambitions. In fact, competition has been a direct cause of each company's continued innovation— another antitrust concern that we believe is unfounded. Perhaps the biggest point, in our view, is that nobody is being forced to use or pay for these services. We see the chances of regulatory action that is meaningfully detrimental to either company's business model as remote and used the weakness in their share prices to marginally add to each position.

Regeneron has been a persistent underperformer for us over the last few years mostly due to a lack of near-term growth catalysts, concerns about upcoming competition, and/or drug price reform that could negatively impact its highly profitable eye drug, Eylea. As we've mentioned in previous commentaries, we do not view any one of these risks as a likely or large headwind but, when combined, the company could be facing stronger headwinds than we would prefer. We continue to evaluate Regeneron's risk profile, and for the time being, have decided to maintain a small weighting. We think its proprietary drug discovery technology and the firm's cash flow generating opportunity from current and future drugs has significant value.

With our thoughts on valuation noted above, we recently trimmed our positions in O'Reilly Automotive, Starbucks, Nike, ADP and Dollar General due to our beliefs that their current valuations will make our future returns less attractive. While these companies are all growing in line with our expectations, we have less confidence in the upside potential of these growth expectations and are, therefore, more cautious on valuation. With the proceeds from these trims, we added to our positions in Mastercard, Alphabet and Facebook where we believe valuations are more attractive and/or growth prospects are brighter. In the case of Alphabet and Facebook, we used the recent weakness in both companies' share prices, driven by regulatory concerns, as opportunities to increase our weightings.

This past quarter's trims do not necessarily mean that we ascribe to the "valuations are stretched across the board" camp. What we have noticed is that some of our slower growing companies are trading at valuations that seem less attractive than our faster growing companies. While this is somewhat unusual, we have seen many instances where market participants have difficulty valuing faster-growing companies and anticipate a growth slowdown far earlier than it actually occurs.

Going Forward

The companies in the Focus Growth strategy continue to execute well and are delivering in line with or, in some cases, better than our growth expectations. We continue to expect sustainable mid-teens earnings growth to be the primary driver of our future returns. Valuations may temper our future returns if historical valuations are a guide. That said, we continue to expect and target double-digit returns because we believe our companies are competitively advantaged and can compound earnings and free cash flow for years to come.

Thank you for your interest in Polen Capital and the Focus Growth strategy. Please feel free to contact us with any questions or comments.

Sincerely,

Dan Davidowitz and Brandon Ladoff

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

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

Historical Performance

Focus Growth SMA Composite as of Jun-30-2019				
	Polen (Gross)	**Polen (Net)**	**R1000G**	**S&P 500**
Jun-19	5.86	5.86	6.87	7.05
3 Month	6.18	6.06	4.64	4.30
YTD	24.37	24.09	21.50	18.54
1 Year	20.18	19.62	11.57	10.42
3 Years	21.76	21.19	18.07	14.19
5 Years	18.01	17.43	13.40	10.72
7 Years	17.50	16.90	15.76	13.99
10 Years	17.96	17.27	16.28	14.70
15 Years	12.07	11.31	9.90	8.75
20 Years	10.12	9.30	5.56	5.90
25 Years	14.27	13.34	9.99	9.97
30 Years	14.78	13.78	10.10	10.03
Since Inception (1/1/89)	14.93	13.92	10.52	10.41

Returns are trailing through June-30-2019

Annualized returns are presented for periods greater than 1 year.

Source: Archer

GIPS Disclosure

Polen Capital Management

Large Capitalization Equity 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	S&P 500	Russell 1000 Growth	Composite Dispersion	PCM Gross	S&P 500	Russell 1000 Growth
2018	20,591	7,862	12,729	5,924	704	8.98%	8.47%	-4.38%	-1.51%	0.2%	11.9	10.95	12.3
2017	17,422	6,957	10,466	5,310	513	27.74%	27.14%	21.83%	30.22%	0.4%	10.66	10.07	10.69
2016	11,251	4,697	6,554	3,212	426	1.72%	1.22%	11.96%	7.09%	0.3%	11.31	10.74	11.31
2015	7,451	2,125	5,326	2,239	321	15.89%	15.27%	1.38%	5.68%	0.1%	10.92	10.62	10.85
2014	5,328	1,335	3,993	1,990	237	17.60%	16.95%	13.69%	13.06%	0.2%	10.66	9.1	9.73
2013	5,015	1,197	3,818	1,834	245	23.77%	23.07%	32.39%	33.49%	0.3%	11.91	12.11	12.35
2012	4,527	889	3,638	1,495	325	12.43%	11.75%	16.00%	15.26%	0.1%	16.01	15.3	15.88
2011	2,374	561	1,812	555	171	9.04%	8.25%	2.12%	2.63%	0.2%	15.98	18.97	18.01
2010	1,181	322	860	316	120	15.65%	14.70%	15.06%	16.72%	0.2%	20.16	22.16	22.42
2009	626	131	494	225	120	39.71%	38.50%	26.45%	37.21%	0.3%	16.99	19.91	20.01
2008	266	10	256	137	112	-27.81%	-28.42%	-37.01%	-38.44%	0.3%	15.26	15.29	16.63
2007	682	-	682	491	149	10.78%	9.86%	5.49%	11.81%	0.2%	8.36	7.79	8.66
2006	730	-	730	524	219	15.00%	14.04%	15.80%	9.07%	0.1%	7.25	6.92	8.43
2005	1,849	-	1,849	945	419	-0.53%	-1.43%	4.91%	5.26%	0.2%	8.08	9.17	9.67
2004	2,017	-	2,017	1,124	665	8.72%	7.76%	10.88%	6.30%	0.2%	10.08	15.07	15.66
2003	1,617	-	1,617	907	513	17.73%	16.67%	28.68%	29.75%	0.7%	12.98	18.32	22.98
2002	970	-	970	518	407	-6.69%	-7.53%	-22.10%	-27.88%	0.9%	13.15	18.81	25.58
2001	703	-	703	408	289	-4.61%	-5.50%	-11.89%	-20.42%	1.0%	13.58	16.94	25.56
2000	622	-	622	359	236	-3.50%	-4.44%	-9.10%	-22.42%	0.7%	16.52	17.67	23.11
1999	640	-	640	377	228	23.89%	22.65%	21.04%	33.16%	0.6%	18.27	16.76	19.27
1998	418	-	418	257	202	31.61%	30.19%	28.58%	38.71%	0.7%	17.95	16.23	18.15
1997	252	-	252	145	158	37.14%	35.63%	33.36%	30.49%	0.9%	13.17	11.3	12.79
1996	140	-	140	89	118	31.94%	30.40%	22.96%	23.12%	0.7%	10.61	9.72	10.49
1995	70	-	70	45	61	48.07%	46.33%	37.58%	37.18%	1.0%	9.72	8.34	9.26
1994	32	-	32	17	27	10.13%	8.96%	1.32%	2.62%	1.6%			
1993	24	-	24	16	26	13.07%	11.85%	10.08%	2.87%	2.9%			
1992	16	-	16	11	24								

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

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GIPS Disclosure

The Large Capitalization Equity Composite created on January 1, 2006 contains fully discretionary large cap equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against the S&P 500 and the Russell 1000 Growth indices. 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, 2018. A verification covering the periods from April 1, 1992 through December 31, 2015 was performed by Ashland Partners & Company LLP, whose report expressed an unqualified opinion thereon. Ashland Partners & Company LLP was acquired by ACA Performance Services, LLC.

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. The Large Capitalization Equity Composite has been examined for the periods April 1, 1992 through June 30, 2018. The verification and performance examination reports are available upon request.

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. From July 1, 2002 through April 30, 2016, composite policy required the temporary removal of any portfolio incurring a client initiated significant cash outflow of 10% or greater of portfolio assets. The temporary removal of such an account occurred at the beginning of the month in which the significant cash flow occurred and the account re-entered the composite the first full month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request. 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.

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 75 basis points (.75%) on the first $50 Million and 55 basis points (.55%) 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 S&P 500® Index is a widely recognized, unmanaged index of 500 common stocks which are generally representative of the U.S. stock market as a whole.
The Russell 1000® Growth Index is an unmanaged index that measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-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 composites' 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