POLEN | CAPITAL

POLEN INTERNATIONAL GROWTH STRATEGY

Summary

Todd Morris
Portfolio Manager & Analyst

- During the second quarter of 2019, the Polen International Growth Composite Portfolio (the "Portfolio") returned 4.96% gross of fees. The MSCI All Country World Index ex-USA (the "Index") returned 2.98%.

- Our holdings in the information technology and healthcare sectors contributed most to Portfolio returns. Holdings in the communication services and industrials sector were a headwind.

Commentary

Daniel Fields
Portfolio Manager & Analyst

Data signals derived from stock market exchanges, known as market internals, indicate broad changes in investor thinking. This interests us because we are not economists, market forecasters or astrologers. So, the collective wisdom of crowds, in this case the stock market's internals, provide an interesting perspective. When market internals shift, we're curious about investor motivations. Please note these observations do not change our approach to managing the portfolio. If anything, they reaffirm our belief that the Polen Capital philosophy of quality growth investing should continue to stand the test of time. It should also be noted that we spend most of our time thinking about individual businesses and the durability of their long-term earnings growth.

Index performance reviewed through the lens of market internals makes a good spectator sport. The MSCI All Country World Index ex-USA (the "Index") peaked in the last week of January 2018. For the five years preceding that peak, technology contributed most positively to Index returns. Since January 2018, technology has lagged the Index and leading performance contributions shifted to other, more defensive sectors like consumer staples, utilities and healthcare. This signal could be viewed as a regime change since market internals have indicated shifting investor preferences. Perhaps investors are more defensive since January 2018 because global economic growth prospects are dimming. Still, the Portfolio continues to perform well on a relative basis despite this dynamic.

In the second quarter of 2019, the Polen International Growth Composite Portfolio (the "Portfolio") returned 4.96% versus the Index's return of 2.98%, resulting in outperformance of 1.98%. We feel the Portfolio's defensive growth positions will hold up well over time even as different constituencies lead markets. Case in point, the Portfolio did well versus the Index in both regimes. During 2017, tech sector leadership contributed to strong Index returns. Since January 2018, Index performance has been more volatile. Regardless of market regimes, the Portfolio outperformed with minimal changes to positioning. In the second quarter, investments in technology, healthcare and information services businesses contributed to the Portfolio's returns. Holdings in communications services and an industrial distribution business were laggards.

Portfolio Performance & Activity

As of June 30, 2019, the Portfolio held 24 companies. During the second quarter, the leading contributors to performance were **SAP SE** (1.16%), **adidas AG** (1.13%), and **ICON PLC** (0.78%). Each of these stalwarts has been discussed in past commentary letters.

In May, Germany-headquartered SAP reported a strong first quarter and materially increased its recent 2023 guidance. The company's new guidance includes steady and significant expansion of operating profit margin for each of the next five years. Management also committed to considering a multi-year share repurchase program. Despite the less conservative guidance, we think the targets are highly achievable— we see a steady revenue growth profile and cost optimization opportunities given the firm's upgrade cycle and cloud transition are now largely complete. SAP software remains mission-critical for clients, thereby creating significant switching costs. These factors combined lend stability to SAP's business. In our view, the company enjoys a large, attractive and growing reinvestment runway and is run by a solid management team focused on long-term shareholder value growth. We believe SAP can compound total shareholder returns at a low to mid-teens rate over the next five years.

Shares of adidas, the Germany-based athletic footwear and apparel maker, continued to climb in the second quarter. Through the first half of 2019, adidas shares have re-rated significantly. Given our long-term mindset, we often struggle to make heads or tails of short-term swings in the market's views of a business. In the last five years, adidas saw an acceleration of its business, brought in new management, and has steadily refined its operations.

Under CEO Kasper Rorsted, adidas continues to centralize operations and product management from what was a federated approach under prior management. We favor the new structure for a few reasons. First, centralized management of product development enables a more focused product lineup, which can focus and strengthen brand messaging. We believe this is a critical component of adidas' advantage – the ability to maximize the bang of each marketing buck. Second, removing redundant operating functions enables operating profits to expand faster than sales and is a driver of long-term earnings growth. As one of only two true globally scaled companies within its industry, adidas continues to benefit from its ability to reinvest heavily into its brand and manufacturing and distribution capabilities. At the same time, the company maintains its ability to drive profit growth and further distance itself from competitors. We think adidas can compound total shareholder returns at a mid-teens rate for the next five years.

ICON, the Irish contract research organization (CRO), continues to produce positive results. CROs provide outsourced services involving the planning, enrollment and efficient execution of drug trials for biotech, pharmaceutical and medical device companies. ICON is a best-in-class operator with a track record of above market growth and exemplary profit margins. We believe the secular shift by biotech and pharma companies away from in-house trial administration to lower cost and more efficient specialists like ICON has legs. In fact, there appears to be a boom, of sorts, in innovation among the small biotech players who often lack in-house trial administration capabilities. Consequently, as more start-up and early stage drugs come out of the research lab, ongoing demand for ICON's services should continue to be created. ICON management continues to drive the business with one eye toward efficiency and the other toward adding new technological or geographic coverage to improve the breadth of its service offerings. One such example is ICON's growing focus on building its network of trial enrollment sites and staffing sites with trial management professionals. ICON's approach to site management is different from other players in the industry and we believe gives them an edge today. We think ICON can compound total returns to shareholders at a low-to-mid teens rate for the next five years.

The three bottom contributors for the quarter were **Baidu Inc** (-0.85%), **Bunzl Plc** (-0.49%), and **Alibaba Group Holding Ltd.** (-0.40%).

Our investment thesis in Baidu recently deteriorated when the company pivoted away from its dominant position in Chinese internet search. This is due to two primary causes: a pre-mortem coming to fruition and poor management. Our pre-mortem view that internet usage in China could be fundamentally different than in the West seems to be playing out. Walled gardens and vertical internet usage in China now appear to be Baidu's view of what's to come, leading to a sudden strategic pivot. Walled gardens, such as Tencent's Weixin platform, capture user attention and data and strengthen network effects in a manner deleterious to Baidu's search offering. Vertical search bypasses traditional internet search queries by going directly to an app or a provider's site. For example, in e-commerce, shoppers go to Alibaba; for travel, users go to Ctrip; and for dining or local services, users go to Meituan Dianping. Baidu's core search business had been delivering ~10% growth, but the latest quarter's results indicate the company is turning its back on search.

As for management, we have seen three strategy shifts in recent years, but this is the first shift in which the company has turned its back on its cash-cow core search business. In our view, strategic pivots or platform expansions are best executed when a legacy cash cow is maintained as a source to fund scaling in new areas. Baidu is now repurposing its app to be a content source meant to capture user time and attention with various video content, news, search and other offerings. Baidu aims to build its own walled garden. This change requires significant investments while Baidu is actively deemphasizing search.

Beyond core search, Baidu had interesting long-term growth drivers like autonomous vehicles, leading AI technology and a cloud software business. These could be valuable sources of revenue for Baidu by the mid-2020s. For much of the last two years, Baidu balanced investments in these future growth drivers with continued efforts to expand core search into peripheral offerings like newsfeed. That balance now appears to be gone. We believe heightened spending to repurpose Baidu's offerings toward content aggregation and delivery – away from search – will negate earnings growth. Deemphasizing the competitively advantaged core business is a change we cannot support. We sold Baidu out of the Portfolio during the second quarter.

Another laggard in the quarter was UK-headquartered Bunzl, one of the world's leading business-to-business distribution and outsourced services providers. Customers use Bunzl to efficiently operate their own businesses and replenish items critical to their success. This makes Bunzl a cog in the operations of its customers and a defensive growth business. Roughly 75% of Bunzl's sales are to resilient end markets like foodservice, grocery, healthcare, cleaning and hygiene.

In April, Bunzl reported slower-than-expected first quarter sales growth, prompting shares to decline. A few factors contributed to slower revenue growth. First, expanded business relations with Walmart Inc (USA) created a revenue bolus in 2018, which Bunzl is now lapping. Heightened management focus on executing the newly expanded relationship with Walmart limited Bunzl's new activity in its sales pipeline for a period. The Walmart relationship is running smoothly now, and Bunzl aims to focus on sales growth again. We think Walmart's relationship with Bunzl is a validation of our holding's value proposition. Another factor weighing on Bunzl shares is slower acquisition activity. Bunzl is an advantaged acquirer of small niche operators. For thirty years, Bunzl has successfully tucked in hundreds of small players in its category, and we expect this to continue over time. The company sees a long runway for acquisitions in its future and follows more than 1,000 target businesses. Bunzl's disciplined acquisition program has contributed to past success and we think will do so in the future. We believe Bunzl can compound total shareholder returns at a low double-digit rate for the next five years.

Chinese e-commerce behemoth Alibaba continues to grow its sizeable business at a high rate. For context, Alibaba's e-commerce platform experienced 19% growth in gross merchandise volume (GMV), the value of goods sold, in its latest fiscal year to nearly $850 billion. Compare that to Amazon.com's ~$350 billion of GMV sold. Alibaba's annual user count also grew at a high-teens rate and now stands at 654 million shoppers—a user base twice the U.S. population. The platform also continues to see adoption by users living in China's lower tier cities.

We have written in the past that internet platforms run on data. Each user visit to the site produces a trove of actionable data that reveals user behavior and tendencies. For example, if the average user opens the Alibaba's apps more than seven times a day and purchases an item once every four days, the company learns about shopper interest and behavior with each app visit, not just during purchases. Engineering and data science yields new technology to enhance the user experience and drive optimal shopper-to-seller matches. This type of information is valuable to the platform operator when aggregated across a user base of 654 million people. Recent results have teased out the benefits Alibaba's recommended and planned data enhancements, but the firm intends to keep a lid on driving higher monetization of this capability while new users in lower tiered cities adopt the platform. This is just one example of the latent horsepower that we see within Alibaba's large and fast-growing business. We believe Alibaba can drive greater than 20% earnings growth for the next five years.

During the quarter we exited our investment in Baidu and used the proceeds to fund a new position in **LVMH Moet Hennessy Louis Vuitton SE.** We also added to our existing positions in Bunzl and Alibaba Group Holding.

We discussed the Baidu investment above, which we exited at a loss. As a result, we've learned some key heuristics and intend to revisit the decision-making process again in the coming months. Some lessons are readily apparent, but others bubble up over time. Thus, revisiting past exited investments can flesh out good learnings down the road. Ours will not be an error-free investment program, but we can commit to reviewing our decision-making process in search of lessons and adjustments to be applied going forward. For those of you who are new to Polen Capital, we humbly highlight that one of our firm's cultural attributes is a focus on continuous improvement at the individual and firm level. We hope this point is apparent.

Paris-headquartered LVMH is the world's largest luxury goods company, and companies selling branded goods have long been within Polen Capital's circle of competence. LVMH's visionary leader, Bernard Arnault, manages the business with an eye toward the long term and a decentralized structure. Luxury brands cannot be built overnight, which creates lasting barriers to entry and pricing power, a unique dynamic today. Many LVMH brands built their significant brand equity over decades, and in some cases centuries. In total, LVMH owns more than 70 brands, including the world's largest luxury brand, Louis Vuitton, and other megabrands like Celine, Christian Dior, Dom Perignon, Bulgari, and Sephora. Brands are run separately and autonomously, allowing each to pursue its own strategy while developing unique creative styles. We are excited about the growth opportunities in front of LVMH. For one, we believe it is benefitting from rising demand for luxury goods from emerging market consumers, as well as from strong structural growth in categories like cosmetics, travel retail, and spirits. In each of these categories, LVMH ranks as one of the highest market share companies. With solid competitive advantages and strong structural growth tailwinds, we believe that LVMH will continue to deliver low teens total returns over the next five years.

The decision to add to our positions in Alibaba and Bunzl reflect our continued belief in these businesses and their long-term growth potential. Shares of both companies sold off during the quarter, giving us an attractive buying opportunity at lower share prices.

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

Sincerely,
Todd Morris & Daniel Fields

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Historical Performance

International Growth SMA Composite as of Jun-30-2019			
	Polen (Gross)	**Polen (Net)**	**ACWIxUS**
Jun-19	5.92	5.92	6.02
3 Month	4.96	4.74	2.98
YTD	18.09	17.61	13.60
1 Year	7.89	6.97	1.30
Since Inception (1/3/17)	18.35	17.35	9.01

Returns are trailing through June-30-2019

Annualized returns are presented for periods greater than 1 year.

Source: Archer

GIPS Disclosure

Polen Capital Management
International Growth Composite-Annual Disclosure Presentation

		UMA	Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation	
Year End	Total (millions)	Assets (millions)	Assets (millions)	U.S. Dollars (millions)	Number of Accounts	Composite Gross	Composite Net	MSCI ACWI ex USA	Composite Dispersion	Polen Gross	MSCI ACWI ex USA
2018	20,591	7,862	12,729	0.3	1	-4.60%	-5.41%	-14.19%	N/A	-	11.54
2017	17,422	6,957	10,466	0.3	1	35.06%	33.94%	27.19%	N/A	-	12.04

Note: N/A - There are five or fewer accounts in the composite the entire year.

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

GIPS Disclosure

The International Growth Composite created on January 1, 2017 contains fully discretionary international growth accounts that are not managed within a wrap fee structure and for comparison purposes is measured against MSCI ACWI ex USA. Polen Capital invests exclusively in a portfolio of high-quality companies.

Polen Capital Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Polen Capital Management has been independently verified by ACA Performance Services, LLC for the periods January 1, 2016 through June 30, 2018. 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. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Polen Capital Management is an independent registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request. In July 2007, the firm was reorganized from an S-corporation into an LLC and changed names from Polen Capital Management, Inc. to Polen Capital Management, LLC.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. 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 management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The management fee schedule is as follows:
Institutional: Per annum fees for managing accounts are 85 basis points (0.85%) on the first $50 Million and 65 basis points (0.65%) on all assets above $50 Million of assets under management. HNW: Per annum fees for managing accounts are 160 basis points (1.60%) of the first $500,000 of assets under management and 110 basis points (1.10%) of amounts above $500,000 of assets under management. Actual investment advisory fees incurred by clients may vary.

Past performance does not guarantee future results and future accuracy and profitable results cannot be guaranteed. Performance figures are presented gross and net of management fees and have been calculated after the deduction of all transaction costs and commissions. Polen Capital is an SEC registered investment advisor and its investment advisory fees are described in its Form ADV Part 2A. The advisory fees will reduce clients' returns. The chart below depicts the effect of a 1% management fee on the growth of one dollar over a 10 year period at 10% (9% after fees) and 20% (19% after fees) assumed rates of return.

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

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

Return	1 Year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Years	9 Years	10 Years
10%	1.1	1.21	1.33	1.46	1.61	1.71	1.95	2.14	2.36	2.59
9%	1.09	1.19	1.3	1.41	1.54	1.68	1.83	1.99	2.17	2.39
20%	1.2	1.44	1.73	2.07	2.49	2.99	3.58	4.3	5.16	6.19
19%	1.19	1.42	1.69	2.01	2.39	2.84	3.38	4.02	4.79	5.69