

Polen Global SMID Company Growth

Portfolio Manager Commentary – March 2025

Summary

- The Global SMID asset class faced a turbulent first quarter, with U.S. small caps declining sharply amid macroeconomic and geopolitical headwinds. In contrast, international small caps showed resilience, leading to notable performance divergence across regions.
- The Polen Capital Global SMID Company Growth Composite Portfolio (the "Portfolio") underperformed as our quality growth investment style lagged the core benchmark, the MSCI ACWI SMID Cap Index (the "Index").
- Security selection was most effective in Consumer Discretionary and Information Technology, but was offset by weaker results in Industrials and Consumer Staples.
- The most significant contributors this quarter, both relative and absolute, were Sanrio, Goosehead Insurance, and Lottomatica. The most significant relative and absolute performers were Globant, e.l.f. Beauty, and Kalyan Jewellers.
- During the quarter, we initiated new positions in Lottomatica and Saia, and exited positions in Axis Bank, Booz Allen Hamilton, and Tetra Tech. We also made adjustments across existing holdings, trimming some positions to fund new investments and adding to companies where we believe the market is underestimating business quality.
- While global economic crosswinds are shifting rapidly and geopolitical uncertainty creates a challenging environment for companies and investors, we remain focused on resilient businesses that can self-fund growth and execute across various economic backdrops.

Seeks Growth & Capital Preservation (Performance (%) as of 3-31-2025)



The performance data quoted represents **past performance and does not guarantee future results**. Current performance may be lower or higher. Performance figures are presented gross and net of fees and have been calculated after the deduction of all transaction costs and commissions, and include the reinvestment of all income.

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. Opinions and views expressed constitute the judgment of Polen Capital as of the date herein, may involve a number of assumptions and estimates which are not guaranteed, and are subject to change. All company-specific information has been sourced from company financials as of the relevant period discussed.

Commentary

The first quarter of 2025 was turbulent for global equities, with the small cap sector particularly impacted by a range of macroeconomic and geopolitical factors. The MSCI ACWI SMID Index returned -1.61%. The Russell 2000 Index, which represents the U.S. small cap market, experienced a significant decline of 9.5%, highlighting the broader challenges facing the market. Ongoing tariff disputes, persistent inflation, and weakening consumer confidence contributed heavily to market volatility. Economic uncertainty was compounded by an unpredictable approach to tariffs. These factors, combined with elevated price pressures, further fueled concerns about a potential recession.

While these headwinds weighed on U.S. equities, international markets presented a more nuanced picture. The MSCI ACWI ex-USA Small Cap Index managed a modest gain of 0.6%. In Europe, optimism began to build around a cyclical recovery spurred by the German election and a new U.S. defense strategy that introduced increased fiscal stimulus and the potential for deregulation. As Europe's largest economy, Germany holds hope that stronger growth could have positive spillover effects across the region. In China, early signs of economic stabilization emerged, with the government aiming to encourage private consumption to offset mounting global challenges. Meanwhile, Japan benefited from cyclical tailwinds such as onshoring, a weaker yen, and higher nominal GDP growth, all of which reinforced structural shifts like rising wages and corporate governance reform. The start of the year, therefore, saw a notable divergence in performance as non-U.S. equities gained traction amid relative geopolitical stability.

Among sectors, Information Technology and Consumer Discretionary were the worst performers in the Index, with Information Technology declining by over 10%. The best-performing sectors were Utilities and Financials. At the country level, India was the weakest performer, down nearly 12%, while China and Latin America posted the highest returns. Developed markets outperformed emerging markets. From a style perspective, value outperformed growth during the period.

Portfolio Performance & Attribution

Over the first quarter, the Polen Capital Global SMID Composite Portfolio returned -4.84% gross of fees (-4.99% net of fees), compared to the Index return of -1.71%.

The Portfolio's underperformance was driven by the relative weakness of our quality growth investment style versus the core benchmark. Security selection was strongest in Consumer Discretionary and Information Technology, but this was more than offset by weaker performance in Industrials and Consumer Staples. At the country level, the most positive security selection came from Japan and Italy, offset by weaker performance in the U.S. and India.

Our most significant contributors this quarter were **Sanrio**, **Goosehead Insurance**, and **Lottomatica**.

Sanrio, a Japanese entertainment company best known for the Hello Kitty franchise, delivered robust results during the period. Growth in licensing in the U.S. and China, driven by Hello Kitty's 50th anniversary promotions, led to substantial margin expansion. We continue to hold Sanrio in the Portfolio, given the long-term opportunities from continued growth of Hello Kitty, greater international anime penetration, and further margin gains from licensing growth in China and the U.S.

Goosehead Insurance, a U.S. insurance broker, reported stronger-than-expected results driven by higher contingent commissions and expanding EBITDA margins. Core revenues increased and management remains optimistic about accelerating growth in 2025. Goosehead's ability to balance robust top-line growth with prudent margin expansion reinforces our confidence in its long-term trajectory.

Lottomatica, an Italian gaming operator, reported another set of compelling results, highlighting its continued momentum. The company is leveraging its number-one position in the Italian gaming market and omnichannel presence to gain market share amidst rising penetration of online gambling. Lottomatica's solid growth outlook is supporting continued margin expansion and capital returns to shareholders. We added to this position during the quarter, given its continuously improving fundamental outlook.

The most significant detractors were **Globant**, **e.l.f. Beauty**, and **Kalyan Jewellers**.

Globant, a U.S.-listed South American IT services company, posted disappointing Q4 FY24 results. The market was dissatisfied with FY25 revenue guidance, which fell short of expectations for accelerating growth. Results were impacted by the pull-forward of revenue from Globant's largest client, Disney, as well as overall weakness in Latin America due to political instability. Tighter IT budgets and a spending shift toward hardware are also creating headwinds across the industry. We have maintained our position, as management remains confident in Globant's ability to compound revenues at 20% per year in a healthier environment.

e.l.f. Beauty, a U.S.-based cosmetics company, came under pressure during the quarter. Tariff concerns, a broader slowdown in the cosmetics and beauty industry, and timing-related headwinds with retail customers resulted in slower growth than anticipated. Nonetheless, Elf maintains a compelling competitive position, benefiting from its price advantage, and could gain further market share should consumers trade down. We used the recent dislocation in the stock price as an opportunity to add to our position.

Kalyan Jewellers, an Indian jewelry retailer, was impacted by a broader sell-off in Indian small and mid cap stocks and by some corporate governance concerns. We have investigated these

concerns and found them to be legacy issues predating the company's listing and subsequent restructuring by a well-known global private equity firm. Meanwhile, Kalyan has continued to report solid growth and meet its store expansion targets. We reduced our position as part of an effort to decrease overall India exposure but have maintained a holding given the attractive long-term growth outlook and improving returns on capital.

Portfolio Activity

During the quarter, we initiated two new positions and exited two holdings. We also made adjustments across existing positions, including trimming some holdings to fund new investments and adding to companies where we believe the market is underestimating business quality.

We initiated a position in **Lottomatica**, which we believe is ideally positioned to benefit from the ongoing shift from offline to online gambling. This transition is driving sustainable double-digit revenue growth and EBITDA margin expansion, from the high 30s toward 40%+ over time, supporting mid-to-high-teens earnings growth. At the time of purchase, shares were trading at just 6x FY25 EBITDA—an attractive valuation relative to global gaming peers.

We also established a position in **Saia**, a U.S. trucking company. Saia is a leader in the less-than-truckload segment, an industry undergoing consolidation due to increasing operational complexity. Saia aims to be a consolidator and, despite a recent cyclical slowdown, we believe the company will emerge even stronger, delivering mid-teens earnings growth over time. The stock was purchased at 12x EBITDA, a discount to its closest U.S. peers.

To fund these positions, we trimmed various holdings across the Portfolio and exited **Axis Bank**, **Booz Allen Hamilton**, and **Tetra Tech**.

Axis Bank was sold due to concerns regarding its growth outlook, as both the Indian economy and company-specific initiatives to accelerate growth showed signs of stalling.

In the U.S., we exited **Booz Allen Hamilton** and **Tetra Tech**—both government contractors. Given the current uncertainty surrounding the U.S. budget and government efficiency initiatives, we decided to reallocate to opportunities with more attractive risk/reward profiles.

Outlook

Looking ahead to 2025 and beyond, we remain optimistic about our Portfolio companies and their relative outlooks, and we find the valuation for SMID stocks compelling. While global economic crosswinds are shifting rapidly and geopolitical uncertainty is creating a challenging environment for companies and investors, our focus remains on resilient businesses that can self-fund growth and execute across a range of economic backdrops.

Thank you for your interest in Polen Capital and the Global SMID Company Growth strategy. Please feel free to contact us with any questions.

Sincerely,

Maneesh Singhal and Rayna Lesser Hannaway

Experience in High Quality Growth Investing



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Portfolio Manager & Analyst
14 years of industry experience



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Important Disclosures & Definitions:

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MSCI ACWI SMID Cap is a market capitalization weighted equity index that measures the performance of the mid and small-cap segments across developed and emerging market countries. The index is maintained by Morgan Stanley Capital International.

The Russell 2000® Index is a market capitalization weighted index that measures the performance of the small-cap segment of the U.S. equity universe. It is comprised of 2,000 of the smallest securities in the Russell 3000® Index. The index is maintained by the FTSE Russell, a subsidiary of the London Stock Exchange Group.

The MSCI ACWI ex USA Small Cap Index is a market capitalization weighted equity index that measures the performance of the small-cap segment across developed and emerging markets (excluding the U.S.). The index is maintained by Morgan Stanley Capital International.

It is impossible to invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes.

Past performance is not indicative of future results.

Source: All data is sourced from Bloomberg unless otherwise noted. All company-specific information has been sourced from company financials as of the relevant period discussed.

Definitions:

Headwind: a factor or condition that can impede the performance or growth of investments, sectors, or entire economies. These obstacles could be economic, political, or market-related and can negatively affect investment returns

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA): a metric used to determine a company's financial performance and gauge its profitability before non-core expenses and charges. It is calculated by taking net income and adding interest, taxes, depreciation, and amortization back to it.

Internal Rate of Return (IRR): the annualized rate of return that an investor expects to earn based on the projected future cash flows (earnings growth, buybacks, dividends, and valuation re-rating).

Contribution to relative return: a measure of a security's contribution to the relative return of a portfolio versus its benchmark index. The calculation can be approximated by the below formula, taking into account purchases and sales of the security over the measurement period. Please note this calculation does not take into account transactional costs and dividends of the benchmark, as it does for the portfolio. Contribution to relative return of Stock A = (Stock A portfolio weight (%) - Stock A benchmark weight (%)) x (Stock A return (%) - Aggregate benchmark return (%)). All company-specific information has been sourced from company financials as of the relevant period discussed.