Polen Focus Growth

Portfolio Manager Commentary – March 2021

Summary

- During the first quarter of 2021, the Polen Focus Growth Composite Portfolio (the "Portfolio") returned 1.81% gross of fees versus 0.95% for the Russell 1000 Growth Index (the "Index") and 6.18% for the S&P 500.

- So far this year, the various companies categorized as "COVID winners" in e-commerce, digital transformation, and other secular growth spaces have generally underperformed "COVID losers" such as oil and gas companies, airlines, and brick-and-mortar retailers.

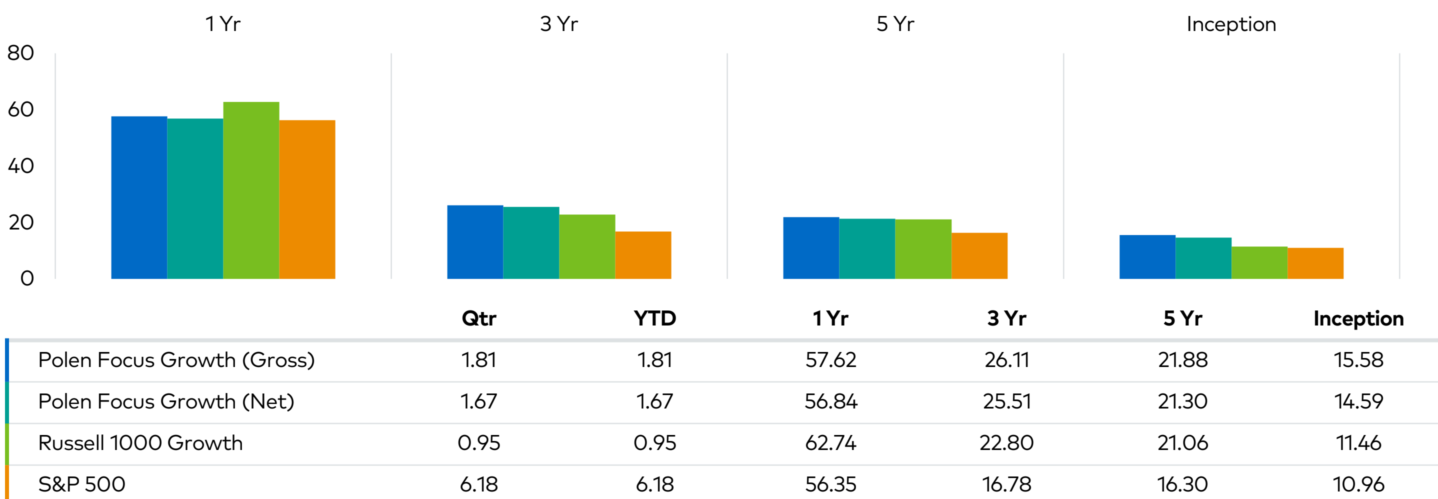
- Though rising interest rates have made headlines recently, the earnings growth we expect from holdings could more than overcome valuation compression and provide a potential path to satisfactory returns.

- We calculate the overall earnings per share growth of the Portfolio was just under 10% in 2020, while according to S&P Global, S&P 500 earnings per share declined over 20%, a 30+ percentage point spread.

- Over the long term, we continue to expect that the Portfolio's earnings per share growth will be in the mid-teens range and earnings per share growth for the S&P 500 will be in the mid-single-digit range, as it has been historically.

- We added new positions in Amazon and Netflix and added to our position in Salesforce.com. We eliminated our positions in Dollar General and Regeneron. We slightly trimmed Autodesk, MSCI, PayPal, Alphabet and Align, in each case, to help fund other purchases.

Seeks Growth & Capital Preservation (Performance (%) as of 03-31-2021)



	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
Polen Focus Growth (Gross)	1.81	1.81	57.62	26.11	21.88	15.58
Polen Focus Growth (Net)	1.67	1.67	56.84	25.51	21.30	14.59
Russell 1000 Growth	0.95	0.95	62.74	22.80	21.06	11.46
S&P 500	6.18	6.18	56.35	16.78	16.30	10.96

The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher. Periods over one-year are annualized. Please reference the GIPS Report which accompanies this commentary.

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.

Commentary

During the first quarter of 2021, the Polen Focus Growth Composite Portfolio (the "Portfolio") returned 1.81% gross of fees versus 0.95% for the Russell 1000 Growth Index (the "Index") and 6.18% for the S&P 500.

The Re-Open Trade and Value vs. Growth

Similar to the fourth quarter of 2020, U.S. equity markets have experienced a rotation to pro-cyclical companies. Investors seem to expect that these companies should benefit disproportionately from the re-opening of the economy as vaccines loosen the grip that COVID-19 has had on the world. Companies in the energy, financial services, industrial, and materials sectors led while consumer, technology, and healthcare companies lagged.

So far this year, the various companies categorized as "COVID winners" in e-commerce, digital transformation, and other secular growth spaces have generally underperformed "COVID losers" such as oil and gas companies, airlines, and brick-and-mortar retailers. This divergence in performance naturally lends itself to the growth versus value debate since many of the "winners" and "losers" fall squarely into one camp or the other by style index representation.

As the U.S. economy continues to normalize, we think there will be a snapback in earnings of many companies that were beaten up during COVID. In fact, the earnings growth for many of these companies could look quite astounding compared to very low bases in the previous year. Simultaneously, we think that many of the beneficiaries of remote work and e-commerce will be facing tough comparisons in 2021.

In what was a very difficult 2020 for some of the Portfolio holdings, we calculate the overall earnings per share growth of the Portfolio was just under 10%. At the same time, according to S&P Global, S&P 500 earnings per share declined over 20% for the same period, a 30+ percentage point spread!

While earnings growth for various companies could swing in different directions in 2021, we believe long-term earnings growth drives sustainable returns.

For companies we view as competitively disadvantaged pre-COVID but will likely see a near-term earnings rebound, our analysis shows little change to our pre-COVID views about their long-term earnings growth expectations. We also continue to believe the companies we own have only become stronger due to COVID—they should remain well-positioned over the long term despite the difficult comparisons some may face in 2021. For example, the digitization of our home and work lives was in motion pre-COVID and has only seemed to accelerate as a result of COVID. At the same time, we believe the significant disruption many businesses face today, such as brick-and-mortar retailers, will continue to be an ongoing issue well into the future.

2021 may look quite different than 2020 for various companies from an earnings growth perspective. That said, we believe the long-term tailwinds that have been in motion for many years will continue well into the future and benefit many of the businesses we seek.

Over the past 32 years, the Portfolio has been able to compound earnings growth above 15% annually versus approximately 6% for the S&P 500.

We believe the Portfolio is well-positioned for the long term with currently 23 of what we view as the most competitively advantaged and financially superior growth companies we can find, and nothing less.

Interest Rates and P/E Multiples

Valuation is often on clients' minds, given the historically high P/E multiples of many companies and the recent and significant rising of interest rates from pandemic lows. We note, however, that the recent rise in interest rates has only reverted U.S. Treasuries to pre-pandemic levels.

When looking at the interest rate trends over the last 40 years, this rise does not appear significant to us. Consider if rates were to "normalize" to the ranges seen in the early 2000s (10-year Treasury yields were approximately 4%, or more than 2x today's levels) and potentially cause P/E multiples to contract significantly. Still, the earnings growth we expect from our holdings could more than overcome valuation compression and provide a potential path to satisfactory returns.

40 Years of Declining Interest Rates

Source: FactSet.

Various factors could also reasonably cause interest rates to remain lower for longer, in which case we would expect the Portfolio returns to more closely approximate the Portfolio earnings growth.

These factors include long-term trends in aging demographics and automation, which we believe are strong headwinds to inflation. The businesses we seek to own are generally well prepared for higher-interest rate environments because they have strong balance sheets with no or low levels of interest-bearing debt. Plus, it is our belief that their unique value propositions and strong competitive advantages often lead to pricing power. Still, we expect that inflation could continue to be modest over the long term for some of the reasons discussed, and as such, interest rates could remain relatively low for quite some time.

Portfolio Activity

After a relatively subdued fourth quarter of 2020, the Portfolio activity picked up in the first quarter of 2021. We added new positions in **Amazon** and **Netflix** and added to our position in **Salesforce.com**. We eliminated our positions in **Dollar General** and **Regeneron Pharmaceuticals**. We slightly trimmed **Autodesk**, **MSCI**, **PayPal**, **Alphabet**, and **Align Technology**, in each case, to help fund other purchases.

We purchased **Amazon** in February 2021, which accounts for 5% of the Portfolio's weighting. For most of the last decade, Amazon did not meet our guardrails. We also did not have enough visibility into future free cash flow margins to indicate that the company would sustainably meet our guardrails and, relatedly, if valuation supported the double-digit annualized returns we seek. We now believe we have that visibility.

In 2008, almost all of Amazon's revenue and operating profits came from its e-commerce business. Amazon Prime and Amazon Web Services (AWS) were new and relatively small back then. The company had roughly 5% operating profit margins overall, entirely from the e-commerce business. In 2009, the company began harvesting its retail business profits to accelerate investment in its distribution and logistics infrastructure globally and very heavily build out and scale AWS data centers. The company's return on equity began to decline at that time and turned negative for three full years from mid-2012 to mid-2015 (margins and free cash flow declined similarly). So, beginning in 2010 and continuing to mid-2018, Amazon's business was outside our guardrails. We chose to stick to our guardrails and not own Amazon.

Amazon's profit drivers have changed quite dramatically over the years. Starting in the back half of 2018, Amazon came back above our hurdles. Revenue generation overcame ongoing heavy investments in areas such as delivery infrastructure, data center infrastructure, and shipping.

Our research suggests that today, after considering cost allocation, Amazon's underlying profit drivers from higher-margin AWS and Advertising could grow much faster than its low-margin e-commerce business (excluding Prime), its historical driver of revenues and operating profits.

Amazon Prime, AWS, and Advertising together account for only about 20% of revenue today, but we believe over 150% of operating profits. Looking forward, growth higher-margin businesses means Amazon's total margins and profit dollars could rise quite dramatically.

Our guardrails have historically kept us away from poor businesses.

It is important to note that *Amazon proved to be an exception to our guardrails*. Based on our experience, very few companies that remain outside our guardrails for an extended period operate from a position of competitive strength but rather, from a position of competitive pressure. Today, we feel we have better visibility into the future earnings growth and margins from AWS and Advertising and believe these could drive 30%+ annual earnings growth for the next five years. Even with significant P/E multiple compression, we would still expect double-digit investment returns.

We purchased **Netflix** in March, initiating a 3% position in the Portfolio. We believe Netflix is a highly competitively advantaged company. It has recently met all our investment guardrails, and we anticipate it will remain sustainably above our guardrails over the next five years and beyond. We know Netflix for its ubiquitous streaming service and deep library of owned content. The company has made investments in this content (currently running at nearly $20 billion/year), generally keeping subscribers highly engaged and loyal to their service. The company has number one market share in 99% of markets globally, but it is our view that video streaming on-demand is still an underpenetrated space with many years of attractive growth likely ahead. The service is also relatively affordable at roughly $11/month on average globally.

We believe Netflix's growth in content spend is beginning to moderate, which could allow margin expansion to continue for many years when paired with ongoing subscriber growth and price increases. While there is competition from the likes of Apple (Apple TV+), Amazon (Prime Video), Disney (Disney+ and Hulu), and others, we believe there can be a handful of winners in this industry. Already, we see many people subscribe to multiple streaming video services, with Netflix being their "anchor" service. That said, the barriers to entry are high, and we believe they are getting higher given the substantial amount of capital and size of the subscriber base required to maintain a competitive service for both viewers and content producers. Over the next five years, we expect Netflix's earnings growth to be approximately 30% annualized and free cash flow to grow at an even higher rate.

We opportunistically increased our weighting in **Salesforce.com**. After management announced the company would acquire Slack for approximately $28 billion, a high purchase price, shares came under significant pressure.

We believe the Salesforce-Slack strategic vision is on point, and although the purchase price is high in absolute dollars, it represents less than 15% of Salesforce's market capitalization. We maintain an optimistic view of Salesforce's business, its competitive positioning within enterprise software, and the rationale behind the Slack acquisition. We expect continued earnings and free cash flow growth many years into the future.

We have eliminated **Dollar General** to fund the purchase of Amazon, which we consider a superior investment opportunity. We feel Dollar General has been an excellent "Safety" holding for us, especially in 2020. Since our initial purchase in July 2016, Dollar General shares have more than doubled, beating the S&P 500 and slightly underperforming the Index (our actual returns were higher, as we had added to the position on a drawdown soon after our initial purchase).

During the COVID drawdown in early 2020, Dollar General declined 10% versus 25% for the Index and 29% for the S&P 500. We had expected the company to grow its store footage 5% per year with same-store sales increasing 2-3% and yielding revenue growth of 7-8% over the long term. Slight margin expansion would lead to 10%+ EPS growth, according to our research.

2020 could have pulled forward more than three years of revenue and earnings growth into a single year. The pandemic and quarantining led people to stock up on everyday consumables, and stimulus checks and extended and elevated unemployment benefits have allowed Dollar General customers to spend more. In fact, the company recently reported full-year 2020 results in which revenue grew 22% and EPS grew 60%. These results included over 200 basis points of margin expansion off a low base of 8.3% operating margins in 2019. This compares to margin expansion of tens of basis points in typical market environments. Dollar General now has over 17,000 stores. There could be more than three years of approximately 5% annual square-footage growth left before maturing at over 20,000 stores. Same-store sales growth could be in the 3-4% range for some time, and we think the company remains extremely well run. We simply believe our investment in Amazon is a superior alternative.

We eliminated our position in **Regeneron Pharmaceuticals** also to help fund the Amazon addition. Regeneron's revenue and earnings continue to grow roughly in line with our expectations. We believe Regeneron has a differentiated R&D model that has allowed it to bring novel biologic therapies to market in several therapeutic areas. That said, we believe Regeneron has intermediate-term risks that make a continued holding more difficult, particularly considering the recent opportunities we have seen for the Portfolio.

The company's largest drug, Eylea, may face increasing competition as new competitive therapies have been approved, albeit without Eylea's advantaged safety profile. In addition, the end of Eylea's patent life coincides with a period when the U.S. government is seeking avenues to lower the reimbursement for certain drugs like Eylea. We believe Regeneron has many opportunities for continued growth in the coming years, and the competitive advantages from its proprietary drug development process remain intact. However, we feel the investment opportunity in Amazon was a better use of capital.

Portfolio Performance & Attribution

Our top absolute performers (Portfolio average weight multiplied by return) in the first quarter were **Alphabet**, **Facebook**, and **Abbott Laboratories**. The largest absolute detractors during the quarter were **ServiceNow**, **Amazon.com**, and **Adobe**.

Despite a relatively tough quarter for technology-oriented businesses, we think both **Alphabet** and **Facebook** performed well. The revenue growth from both companies has been accelerating in recent quarters and we expect it to remain strong in 2021. In addition, it appears that both potential restrictions from Apple's iOS changes and regulatory headaches may become quite manageable, in our view.

Each of our biggest detractors in the quarter was among the largest "COVID winners" in 2020, so a pullback early in 2021 is not entirely surprising. We currently have no changes to our long-term outlook for any of these businesses.

Outlook

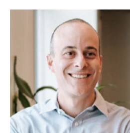
Re-opening trades, vaccines, and interest rates are all very interesting. But, in our experience, long-term investment returns are driven by sustainable earnings growth. The universe of companies able to grow earnings at double-digit rates for many years is extremely small, in our opinion, and we spend all our time and energy focused on finding only these companies. The rest is mostly noise to us. Our goal is to continue to invest in a concentrated group of competitively advantaged businesses that can grow in aggregate at a mid-teens or better rate. We have been able to do that for the last 32 years, and we are confident we can continue to do that going forward. If we succeed in doing so, the returns should roughly follow.

Thank you for your interest in Polen Capital and the Focus Growth strategy. Please feel free to contact us with any questions or comments. We wish everyone a happy and healthy new year.

Sincerely,
Dan Davidowitz and Brandon Ladoff

Experience in High Quality Growth Investing

Dan Davidowitz, CFA
Portfolio Manager & Analyst
22 years of experience



Brandon Ladoff
Portfolio Manager & Director of Research
8 years of experience

polen capital

GIPS Report

Polen Capital Management
Focus Growth Composite—GIPS Composite Report

		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 G (%)	Composite Dispersion (%)	Composite Gross (%)	S&P 500 (%)	Russell 1000 G (%)
2020	59,161	20,662	38,499	12,257	1903	34.64	34.00	18.40	38.49	0.4	18.16	18.53	19.64
2019	34,784	12,681	22,104	8,831	939	38.80	38.16	31.49	36.40	0.3	12.13	11.93	13.07
2018	20,591	7,862	12,729	6,146	705	8.99	8.48	-4.38	-1.51	0.2	11.90	10.95	12.12
2017	17,422	6,957	10,466	5,310	513	27.74	27.14	21.83	30.22	0.3	10.66	10.07	10.54
2016	11,251	4,697	6,554	3,212	426	1.72	1.22	11.96	7.09	0.2	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	9.10	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	15.30	15.88
2011	2,374	561	1,812	556	171	9.04	8.25	2.11	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	26.46	37.21	0.3	16.99	19.91	20.01
2008	266	10	256	137	112	-27.81	-28.42	-37.00	-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	11.30	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	-	-	-

Total assets and UMA assets are supplemental information to the GIPS Composite Report.
While pitch books are updated quarterly to include composite performance through the most recent quarter, we use the GIPS Report that includes annual returns only. To minimize the risk of error we update the GIPS Report annually. This is typically updated by the end of the first quarter.

GIPS Report

The Focus Growth Composite created on January 1, 2006 with inception date April 1, 1992 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. Prior to March 22, 2021, the composite was named Large Capitalization Equity Composite. The accounts are highly concentrated and unconstrained with regard to the number of the highest-conviction positions (i.e., positions of greater than 5%) comprising the portfolios. 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 for the periods April 1, 1992 through June 30, 2020. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Focus Growth Composite has had a performance examination for the periods April 1, 1992 through June 30, 2020. The verification and performance examination reports are available upon request.

Polen Capital Management is an independent registered investment adviser. A list of all composite and pooled fund investment strategies offered by the firm, with a description of each strategy, 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. The U.S. Dollar is the currency used to express performance. Certain accounts included in the composite may participate in a zero-commission program. 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 using returns presented gross of management fees calculated for the accounts in the composite the entire year. Policies for valuing investments, calculating performance, and preparing GIPS Reports 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 volatility and other material characteristics of the indices referenced may be materially different from the performance achieved. In addition, the composite's holdings may be materially different from those within the index. Indices are unmanaged and one cannot invest directly in an index.

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%	1.10	1.21	1.33	1.46	1.61	1.77	1.95	2.14	2.36	2.59
9%	1.09	1.19	1.30	1.41	1.54	1.68	1.83	1.99	2.17	2.37
20%	1.20	1.44	1.73	2.07	2.49	2.99	3.58	4.30	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

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