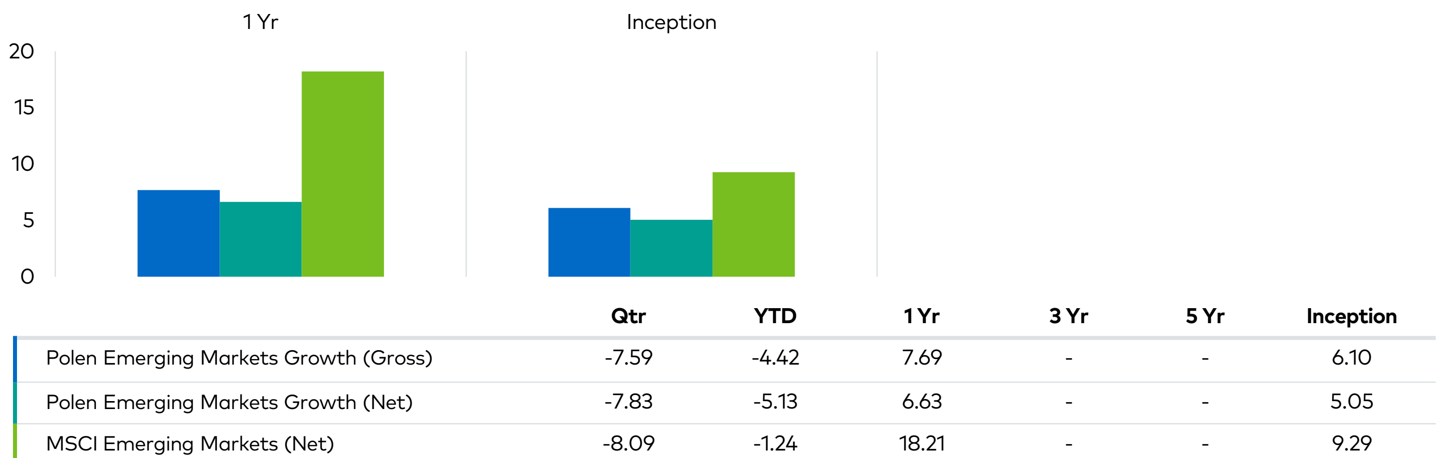
Polen Global Emerging Markets Growth

Portfolio Manager Commentary – September 2021

Summary

- During the third quarter of 2021, the Polen Global Emerging Markets Growth Composite Portfolio (the "Portfolio") returned -7.59% gross of fees outperforming the MSCI Emerging Markets Index (the "Index"), which returned -8.09%.
- Events in China significantly impacted emerging markets, namely increased regulatory scrutiny from policymakers and the well-publicized credit troubles surrounding real estate developer Evergrande.
- As has been the case throughout the year, emerging market equity sectors typically associated with being more cyclical or value in nature continued to outperform the broader market.
- Year to date, the only sectors in the emerging markets index to have delivered a positive performance are energy, financials, industrials, IT, materials and utilities.
- While emerging markets face additional health hurdles compared to their developed counterparts, we expect economic growth in emerging markets to accelerate at a fast pace as conditions improve. Therefore, we believe that the case for investing in global emerging markets remains bright and intact.

Seeks Growth & Capital Preservation (Performance (%) as of 09-30-2021)



	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
Polen Emerging Markets Growth (Gross)	-7.59	-4.42	7.69	-	-	6.10
Polen Emerging Markets Growth (Net)	-7.83	-5.13	6.63	-	-	5.05
MSCI Emerging Markets (Net)	-8.09	-1.24	18.21	-	-	9.29

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 third quarter, emerging markets were significantly impacted by events in China, namely increased regulatory scrutiny from policymakers and the well-publicized credit troubles surrounding real estate developer Evergrande. Together, these two ongoing issues grabbed media headlines and were the main drivers behind the negative performance of emerging market equities during the quarter.

It is important to highlight that increased regulation and anti-competitive measures, particularly within the technology sector, are not something new (or even unique) to China. However, market sentiment deteriorated during the quarter after the Chinese government stepped in to effectively quash private, after-school-tutoring (AST) businesses, mandating them to become non-for-profit entities.

Though a new reform framework had been anticipated, the actual measures taken were far more extreme than expected—effectively shutting down the private education sector with no compensation for existing business.

Naturally, the speed and severity of the government's actions ignited significant ripple effects across the Chinese market, raising concerns as to whom would be impacted next by policy.

The Portfolio had a small direct exposure to the AST sector through its holding in TAL Education. When we initiated this investment, we fully understood that there may be some regulatory headwinds in the education sector. Nevertheless, we conducted full due diligence of these risks. At the time, we concluded that while there was a possibility of an increased regulatory burden on the sector, the underlying demand of the Chinese population for advancing their educational outcomes would persist. As such, it was our view that, even under a worst-case scenario, there would still be a vibrant AST business in China.

Therefore, the government's decision to effectively shut down the sector came as a massive shock, not just to us, but also to market participants, private companies, entrepreneurs, and the millions of tutors and teachers who work in the sector (most of whom are self-employed and who had their livelihoods curtailed). This "Black Swan" event was confirmed by the severity of share price moves with most Chinese education companies falling between 50-70% on the day of the announcement. Despite the relatively limited direct impact on the Portfolio's net asset value (NAV), it goes without saying that we regret the impairment of our clients' capital as a result of these events. In our view, these events had the potential for far more wide-reaching implications than just the Chinese education space.

It is now clear that the Chinese government aimed to prioritize what it sees as the greater good of society over the interests of shareholders (both foreign and domestic) and to do so without any form of compensation. This led us to reassess the risk in our Portfolio and decrease our exposure in some Chinese businesses where we felt that potential returns were not adequately compensating for the increased regulatory risk. As a result of selective Portfolio changes, our overall China weight dropped from 32% to 22% during the quarter. Including Netherlands-listed Prosus (which derives the majority of its NAV from its investment in Tencent), the figures declined from 39% to 25%.

The second big news from China came from Evergrande. The world's most indebted property company came under pressure amid difficulties to meet debt payments. While the outcome is uncertain, we think the Chinese government will most likely try to sweep the case under the carpet, just as we have seen historically in other sectors of the economy. We do not have exposure to the real estate sector in China nor to any parts of the financial system. This is primarily an outcome of our process to invest in businesses with deep competitive moats, characteristics which we rarely find in these sectors. However, in China's particular case, we also have reservations about investing in financial companies due to these continuous issues.

The problems surrounding Evergrande are also a great example of why focusing on companies with robust balance sheets and self-financed growth is such a core part of our investment approach.

Though our commentary seems very bearish, our views remain optimistic. While we acknowledge that the risks of investing in some Chinese companies have increased, we are also still very optimistic about the long-term investment opportunities in China. We continue to believe that we are invested in a selection of high quality, competitively advantaged businesses that will benefit from the long-term structural growth trends in many parts of the Chinese economy and can deliver long-term earnings growth and shareholder returns. We also continue to actively research new potential investment opportunities in the country, and our conviction in China is evidenced by our regional 22% weighting in the Portfolio, a decision we make independent of the Index.

A final point regarding emerging markets is that, in general, they are inherently higher risk—many countries are at an earlier stage of their economic development relative to more developed markets. These risks can surface in many ways. Through our nearly 30 years of collective experience investing in emerging markets, we have long learned that tail risks are in no way uncommon. That said, we believe the long-term opportunities outweigh these risks, which we seek to address through appropriate portfolio management.

As part of our process, we concentrate on potential risks not just at a company level, but also from a correlated perspective at the Portfolio level. While full clairvoyance of future events will always elude us, we can commit that we will continue to apply our investment philosophy in a disciplined and thorough manner, and we believe that the process will yield solid risk adjusted returns for our clients over the long run.

Portfolio Performance & Attribution

During the third quarter of 2021, the Polen Global Emerging Markets Growth Composite Portfolio (the "Portfolio") returned -7.59% gross of fees marginally outperforming the MSCI Emerging Markets Index (the "Index"), which returned -8.09%. Year to date, the Portfolio returned -4.42% versus -1.24% for the Index.

As has been the case this year, equity sectors typically associated with being more cyclical or value in nature continued to outperform the broader market.

Year to date, the only sectors in the Index to have delivered a positive performance are energy, financials, industrials, IT, materials, and utilities. These six sectors account for almost 60% of the Index. However, the Portfolio only has three investments (one bank, one insurance company, and one telematics company) in these sectors, which account for about 7% of the Portfolio's NAV.

Though we do not explicitly exclude any sectors as part of our investment process, we hold limited positions in certain sectors because we struggle to find many (if any) companies that meet our quality standards. Most of the forementioned sectors are commoditized in nature, and we believe it is fundamentally more difficult to find companies with what we have identified as true competitive advantages—a vital characteristic of what we determine to be a high-quality company. These sectors also exhibit a large degree of cyclicality, which contrasts our preference for secular and consistent growth.

We invest with an independent mindset and, as such, are completely benchmark agnostic in our approach. With an active share of 95%, it is likely that we will encounter periods where we underperform or outperform a benchmark. However, in a year where there is such large outperformance by cyclical and commoditized sectors, it is not a surprise to see us underperform year to date.

During the quarter, the largest relative detractors from performance came from our Chinese holdings, namely **Tencent Music**, **Ping An Healthcare**, and **TAL Education.** All of which were either directly or indirectly impacted by increased government regulation. Despite the Portfolio having a similar weight in China versus the Index, the country was our largest source of relative underperformance at a country level.

This, in part, can be explained by the fact that most of the new regulation has been targeted at more private sector companies and less at those sectors with high government involvement (such as financials), in which we are not invested. The sector factors above, specifically our low investments in more cyclical and commodity-based sectors, have also played a part.

Among the largest relative contributors this quarter were our investments in **Mobile World, Yandex,** and **Titan.**

Mobile World, one of Vietnam's largest retailers, performed well during the quarter despite tightening restrictions in response the nation's largest wave of COVID-19. While these measures have had a short-term impact on the company, it has performed well through the pandemic, and we expect it to continue to do so as Vietnam further eases restrictions.

Yandex, Russia's leading internet search platform, also delivered positive results across the board. Its traditional search platform continues to lead the market and deliver healthy returns. In turn, the company's investments in building out a comprehensive digital platform are progressing well and provide a large potential future growth runway. **Titan**, our Indian Jewelry retailer, like other Indian companies, has performed well this year and continued to do so in the most recent quarter. Unlike many sectors where lockdowns led to a permanent loss of business, demand in the jewelry industry was delayed rather than lost. As such, we expect to see earnings at Titan recover robustly from the pandemic.

Another company which has been a robust performer this year is Mexico's FEMSA. Among other operations, it holds a 47% stake in Coca-Cola FEMSA (KOF), the largest franchise bottler of Coca-Cola beverages globally. During the quarter, KOF issued bonds with coupons directly linked to the achievement of sustainability targets. Specifically, the company commits to achieve a water use ratio (the liters of water used per liter of beverage produced) from 1.49 today to 1.36 by 2024 and 1.26 by 2026 (an ultimate reduction of 15%), with the results to be verified by an independent third-party. With Mexico's water scarcity over the next 20 years expected to reach high levels, these are necessary steps to address future challenges. Though we are starting to see more sustainability-linked bond issuance globally, they are still largely in their infancy across emerging markets. We applaud this initiative and think it will only help increase the sustainability capabilities of what is already a resilient franchise.

Portfolio Activity

During the quarter, we trimmed our positions in **Prosus, Alibaba,** and **Netease**, and used the proceeds to add to **Nagacorp** and initiate a position in **Momo.com.**

As mentioned previously, we trimmed some of our Chinese holdings in the quarter because of the crackdown on private capital in the after-school space and the increased levels of regulation across other sectors. As a result, we reduced our holdings in **Prosus** (for which a 29% stake in Tencent represents over 100% of company NAV), **Alibaba**, and **NetEase.** While we still believe these companies to be highly competitively advantaged businesses with cash flows and long runways for growth, we consider that the risk posed by burdensome regulation has ticked higher somewhat. Our lower, but still meaningful allocations to these names reflect our assessment of balance between risk and reward outcomes. Although risk for Chinese companies may have increased, we are still seeing plenty of attractive opportunities across our universe.

We used the proceeds from these trims to initiate a new position in Taiwan's leading B2C e-commerce retailer **Momo.com** and increase our weighting in Cambodian Casino operator **Nagacorp.**

Unlike other countries in the North Asian region, the Taiwanese e-commerce market is still in its infancy. Momo.com, alongside SEA-owned Shopee, is leading the adoption of the industry. Momo is best thought of as an "Amazon-like" comparable in Taiwan. Like Amazon, it operates a combined 1P/3P model (first party/third party) and competes on the speed of fulfilment and quality of service. Momo's market dominance is underwritten by a large share of consumer mind and a formidable distribution capability. We expect that these advantages will be hard to dislodge, and that Momo will remain a pioneer of the Taiwanese e-commerce industry for many years to come. We also believe the rewards for such a position should be material.

E-commerce penetration in Taiwan is well below regional peers, and we expect it to pick up significant momentum over the next decade amid powerful demographic tailwinds.

Taiwan's first real lockdowns, which occurred earlier this year, should only accelerate this migration towards digital commerce. Momo has been growing rapidly in the last few years, with sales from 2016-2020 enjoying a CAGR (compound annual growth rate) of 24%. Encouragingly, the pace of this growth is only accelerating as digital and e-commerce adoption rises. In the last four quarters, sales growth has risen to an average of 30% and earnings growth to 54%. We believe that the company is well-placed to continue this momentum well into the future.

Momo's highly favorable unit economics standout as a unique attribute. Thanks to a healthy working capital cycle, Momo has reliable cashflows and profits, and accordingly, has been able to organically fund its rapid growth without taking on a single penny of interest-bearing debt. Indeed, the company is so cash-generative that it has been able to pay out about 85% of profits to shareholders in its seven years since listing. In 2020, return on invested capital was 55%. These financials are unparalleled amongst the global e-commerce industry. In our opinion, even if these financials were to deteriorate materially from here, the returns to business owners should remain highly attractive.

Momo illustrates several key characteristics which we believe will support the company's expansion: a dominant market position, highly cash generative financials, and a long and steep growth runway ahead.

In the case of Nagacorp, along with other casinos in the Asian region, the pandemic has been a major headwind. Casinos have been closed since the Delta variant wave began to spread precipitously in Cambodia in April of this year. On the positive side, the vaccine roll out in Cambodia has gone incredibly well and the country now ranks among the most vaccinated countries in the world, according to the CDC. The government has made it clear that it does not intend to indefinitely pursue a "zero-COVID" policy. We expect that with almost all Cambodia adults now vaccinated and cases still falling, life in Phnom Penh will soon enter a faster phase of recovery. Additionally, we believe that the government will also begin to ease boarder restrictions. This would be a huge boost for Naga, which typically generates over 50% of its revenue from foreign visitors. As Naga and Cambodia itself begin to reopen, we expect the company to experience a healthy acceleration in demand.

Structural investments that Naga has been able to fund during the pandemic should help drive even greater utilization rates and efficiencies than we saw pre-pandemic, potentially powering substantial growth through 2022 and beyond. Longer term, casino capacity is set to double in 2025 when its latest development "Naga 3" is slated to open. By this point, we expect that Naga's earnings could easily be about 10x larger than they were in 2020. Essentially, we see a relatively straightforward path to near 60% compound earnings growth over the next five years. For this reason, we are comfortable paying 35x 2019 earnings from a valuation perspective. Perhaps it's a function of where the company is heading or a function of prolonged negative sentiment around pandemic-hit businesses, but we think on a long-term view Naga's shares are structurally mispriced and deserve to be a top position within our Portfolio.

Outlook

While emerging markets faced a "wall of worry" during the quarter, we remain confident that the Portfolio owns a collection of competitively advantaged companies that are well-positioned to benefit from powerful secular tailwinds over the next decade. Though several investment trends can dominate performance in the short term, we believe that our continual focus in only investing on what we consider to be fundamentally sound businesses will be key to long-term share appreciation. While emerging markets face additional health hurdles compared to their developed counterparts, we expect economic growth in emerging markets to accelerate at a fast pace as conditions improve. Therefore, the case for investing in global emerging markets remains bright and intact.

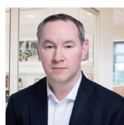
Thank you for your interest in Polen Capital and the Global Emerging Markets Growth strategy. Please feel free to contact us with any questions.

Sincerely,

Damian Bird & Dafydd Lewis

Experience in High Quality Growth Investing

Damian Bird, CFA
Head of Team, Portfolio Manager & Analyst
12 years of experience



Dafydd Lewis, CFA
Portfolio Manager & Analyst
16 years of experience

GIPS Report

Polen Capital Management
Global Emerging Markets Growth Composite—GIPS Composite Report

		UMA	Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation[1]	
Year End	Total ($Millions)	Assets ($Millions)	Assets ($Millions)	U.S. Dollars ($Millions)	Number of Accounts	Composite Gross (%)	Composite Net (%)	MSCI Emerging Markets (%)	Composite Dispersion (%)	Polen Gross (%)	MSCI Emerging Markets (%)
2020	59,161	20,662	38,499	2.51	1	16.05	14.90	18.33	N/A	N/A	N/A

[1]A 3 Year Standard Deviation is not available for 2020 due to 36 monthly returns are not available.
N/A - There are five or fewer accounts in the composite the entire year. 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 Global Emerging Markets Growth Composite created and incepted on January 1, 2020 contains fully discretionary emerging markets growth equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against the MSCI Emerging Markets Index. 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, 2021. The verification reports are available upon request. 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. Verification does not provide assurance on the accuracy of any specific performance report.

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. 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 using returns presented gross of management fees calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating investments, and preparing GIPS Reports 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. HNW: 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 MSCI Emerging Markets Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world and captures large- and mid-cap representation across 27 emerging markets countries. The MSCI Emerging Markets Index is maintained by Morgan Stanley Capital International. 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 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%	1.10	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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