Polen Global Growth

Portfolio Manager Commentary - March 2020

Summary

- Global markets dropped in unison as COVID-19 spread to nearly all corners of the world. The U.S. market experienced the fastest 30% decline in its history, and the economy has seen a rapid spike in unemployment claims as consumers stay home and businesses have had to close their doors.

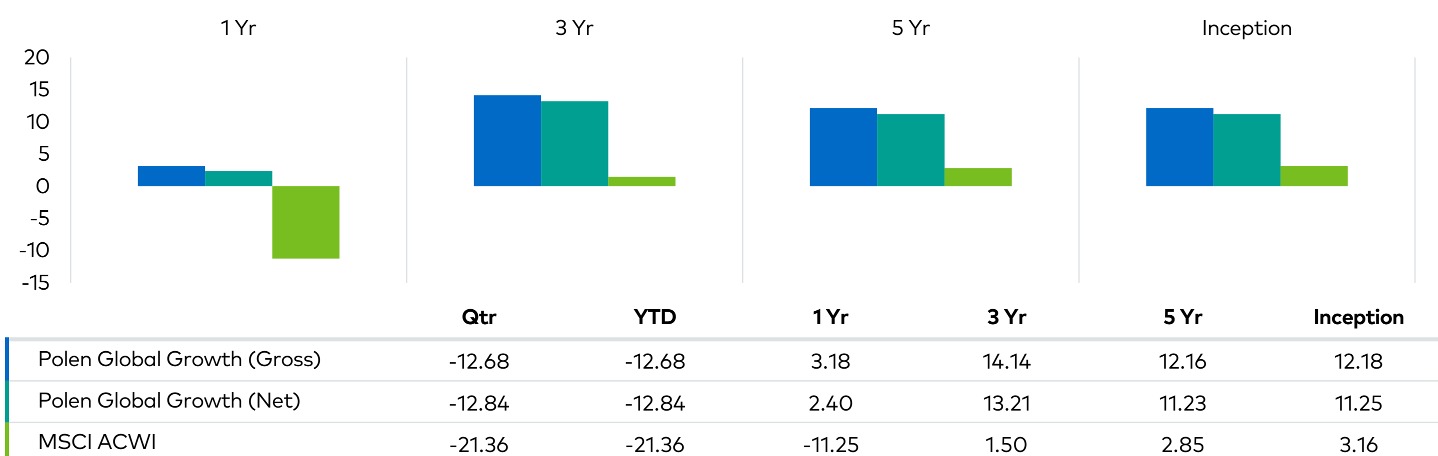
- During the first quarter of 2020, the Polen Global Growth Model Portfolio (the "Portfolio") returned -12.68% gross of fees, outperforming the MSCI All-Country World Index (the "Index") return of -21.36%. Since inception on January 1, 2015, the Portfolio has delivered an annualized investment result of 12.18% gross of fees compared to a 3.16% annualized return from the Index. Thus, the Portfolio has outperformed the Index by more than 900 basis points per year on average.

- The Portfolio only captured 77% of the downside this quarter and ranks in the top decile of the eVestment Global Large Cap Growth Equity universe for (lack of) downside capture since inception.[1]

- We will take action in seeking to avoid or minimize any risks, like selling O'Reilly Automotive and trimming EssilorLuxottica. And, we will certainly be ready to take advantage of any new opportunities like our LVMH and Autodesk purchases. That said, even if we chose to leave the Portfolio unchanged, we believe we would be positioned well because we are operating from a place of strength.

- We are in uncertain times now, but we are confident that Polen Capital, overall, and our investment approach are built to manage through these types of challenges.

Seeks Growth & Capital Preservation (Performance (%) as of 3-31-2020)



	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
Polen Global Growth (Gross)	-12.68	-12.68	3.18	14.14	12.16	12.18
Polen Global Growth (Net)	-12.84	-12.84	2.40	13.21	11.23	11.25
MSCI ACWI	-21.36	-21.36	-11.25	1.50	2.85	3.16

[1] Source: eVestment Alliance.
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 supplemental information to the composite performance 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 2020, the Polen Global Growth Model Portfolio (the "Portfolio") returned -12.68% gross of fees, outperforming the MSCI All-Country World Index (the "Index") return of -21.36%. Since inception on January 1, 2015, the Portfolio has delivered an annualized investment result of 12.18% gross of fees compared to a 3.16% annualized return from the Index. Thus, the Portfolio has outperformed the Index by more than 900 basis points per year on average. Cumulative returns since inception are 82.84% gross of fees for the Portfolio versus 17.75% for the Index.

We are currently living through a very unusual time and an unprecedented environment in the market. Global markets dropped in unison as COVID-19, better known as the coronavirus, spread from China to Europe, then to the United States and nearly all corners of the world. The U.S. market experienced the fastest 30% decline in its history, and the economy has seen a rapid spike in unemployment claims as consumers stay home and businesses have had to close their doors. The Federal Reserve has responded swiftly with aggressive monetary policy actions—drawing from its Global Financial Crisis playbook—and Congress and President Trump passed the $2.2 trillion CARES Act, the largest fiscal stimulus bill in history. Similar impacts and actions are taking place in most countries across the globe as the coronavirus spread has been indiscriminate.

From our point of view, the magnitude of these actions reflects the magnitude of the situation. Given that containment and quarantine seem to be the only way to mitigate the rampant spread of the coronavirus, we are essentially experiencing a government-mandated recession, the likes of which we have not seen in recent times. In a typical recession or even crisis environment, economies slow down—sometimes meaningfully. But this time, certain segments of economies have nearly stopped, at least temporarily. The amount of time that it takes to get "back to normal" is the key variable in how the global economy recovers from this shock. The longer it takes, the greater the risk to the global economy.

Few could have foreseen the current situation and fewer still will emerge unscathed, but we believe our discipline of concentrating in only the highest-quality businesses is a real advantage. We are always prepared for more challenging periods, and this time is no different.

In addition to only owning competitively advantaged businesses—which we feel is key in times like these—we always require strong balance sheets as well. This is one of our five investment guardrails, which have been in place for more than 30 years.

The Portfolio's net debt to free cash flow ratio is less than 1x versus more than 10x for the Index and, given the relative quality of the companies in our Portfolio versus the broader market, we suspect that very wide gap will become larger in the coming months and quarters. We cannot overstate how important we think balance sheet strength and liquidity are during a time like this—during a swift and severe reduction in commerce.

Since the inception of the Global Growth portfolio and for the more than 30 years that we have been executing our investment discipline, we have consistently captured less of the market's downside during difficult times.

The Portfolio only captured 77% of the downside this quarter and ranks in the top decile of the eVestment Global Large Cap Growth Equity universe for (lack of) downside capture since inception. As detailed in the 5-year look back in our 4Q19 Commentary, we believe we have protected on the downside because we concentrate in businesses that can sustainably deliver higher-than-average earnings growth, have avoided commoditized and leveraged businesses, and have remained balanced across the spectrum of growth companies while paying reasonable prices.

Overview of the Portfolio

The Global Growth Portfolio is a high-conviction portfolio that is typically invested in 25-35 of the best businesses in the world. We only invest in businesses that we believe have sustainable competitive advantages and can deliver above-average earnings and free cash flow growth over the long term. While we expect some of our holdings to compound faster and some slower, we aim for the Portfolio to generate mid-teens earnings per share growth in the long term. We take a long-term approach to investing and typically expect to hold our investments for many years. Most of the companies we own operate in several countries and often benefit from natural or financial hedges that we feel help to alleviate policy, country, and currency risk.

We also concentrate the Portfolio in sectors such as technology, consumer, and healthcare, where we feel we find the highest-quality earnings and more sustainable growth. Companies in these sectors make up approximately 80% of our Portfolio currently. The geographic exposure of the Portfolio is based on where we find the highest quality. Currently, fourteen of our holdings are based in the U.S. and twelve are based in various other countries around the world. The revenue breakdown, which is the way we like to look at geographic exposure, reveals that roughly 45% of revenues come from the United States currently and 50% is from a range of countries. The rest is a residual cash holding. We are unlikely to invest in companies domiciled in frontier markets and expect to have limited direct investment in most emerging markets.

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That said, we can gain meaningful emerging market exposure through the revenues that our multinational holdings derive from these markets. For the Global Growth Portfolio and its investment objective, we believe this is often a more prudent way to gain such exposure.

Portfolio Performance & Activity

Despite negative absolute returns, the Portfolio delivered strong relative results during the quarter. Our consumer discretionary holdings were down in line with the market, but we outperformed across almost every other dimension from an attribution point of view. Our higher exposure to and outperformance within healthcare, communication services, and technology all contributed to our outperformance. Our lack of exposure to energy, financials, materials, and industrials—the worst-performing sectors—also helped. From a geographic perspective, we outperformed across all super regions due almost entirely to selection effect. While we were not able to completely sidestep the challenges presented by the coronavirus, we were by and large invested in the right areas and in the right businesses.

From an individual company perspective, the attribution was more about how our companies are expected to perform in the current environment rather than how they have actually performed recently. For that reason, we will highlight the top contributors and detractors and spend more time providing our thoughts on new holdings and other portfolio activity. The leading contributors during the quarter were **Coloplast**, recently acquired **Autodesk**, and **Tencent Holdings**. **Novo Nordisk** and **Microsoft** also posted positive returns during the quarter. Coloplast and Novo Nordisk sell medical devices and drugs, respectively, to patients with chronic conditions and persistent demand. Tencent is a predominantly online business, which may benefit from consumers spending more time at home. Autodesk and Microsoft both sell mission-critical software and enjoy highly recurring revenue streams.

The leading detractors during the first quarter were **adidas**, **MasterCard** and **O'Reilly Automotive**, with **Facebook** and **Accenture** rounding out the bottom five. Of these five, only adidas and O'Reilly really underperformed the market. The other stocks were down with the market but were leading detractors given their more significant weights in our Portfolio. Consumer spending across MasterCard's network will certainly decline near-term as will advertising on Facebook's platform, but we believe both of these businesses have strong long-term growth prospects. Accenture will see its growth pressured as well, but work to shift companies to a digital environment remains strategically important to its customers and demand for cost-cutting outsourcing work should remain as well. Like all retailers, adidas will see near-term pressure from store closures and lack of consumer spending, but we believe the business is well-positioned for the long term. Management's ongoing effort to connect directly to consumers and to shift to online sales is a strategic initiative of obvious importance today, in our view. For O'Reilly, we felt the current environment posed new risks and weakened the investment case, which led us to liquidate our position. We expand on this rationale below.

Changes to the Portfolio

We have been actively reassessing our investment cases and the financial strength of the companies that we own in this "new environment" and will continue to critically evaluate. Based on our analysis, we are happy to report that overall our Portfolio remains positioned to deliver on our promise to protect and grow assets for our clients. One company, **O'Reilly Automotive**, had slightly higher debt than we would prefer. Another, **EssilorLuxottica**, had the potential for near-term supply challenges in addition to the demand challenges that nearly all businesses will face in this self-isolating environment. We will take action in seeking to avoid or minimize any risks, like selling O'Reilly and trimming EssilorLuxottica. And, we will certainly be ready to take advantage of any new opportunities like our **LVMH Moët Hennessy (LVMH)** and **Autodesk** purchases. That said, even if we chose to leave the Portfolio unchanged, we believe we would be positioned well because we are operating from a place of strength.

In the first half of the quarter, we sold our position in **Novo Nordisk**, trimmed **CSL** and **Zoetis**, and added to **Facebook**. We sold our position in Novo Nordisk in January, before the potential impacts of coronavirus had become more evident. While the company dominates the diabetes care market with leading market share and a history of innovative products that improve control of diabetes, payors have been effectively pitting competitors against each other to bring down costs. Although Novo Nordisk's key products are superior, payors seem to have decided that competitor products are "good enough." Price declines are not subsiding and appear to be heading to the eventual commoditization of the insulin industry. As the scale player and an innovator, we think Novo is better positioned than anyone to manage through this situation. But, we ultimately decided that management is swimming against the current, and the growth potential was not large enough for us to build a conviction weighting. So, we liquidated our small position.

In early February, we trimmed our positions in **CSL** and **Zoetis**. While both companies continue to perform well and are dominant within their respective industries, we felt that both were trading at relatively high valuations. While we could not be happier with each business, we trimmed the positions in order to raise our weighting in **Facebook**, which continues to compound revenue and earnings at healthy rates and is more attractively valued. While there are concerns about advertising revenue slowing, core Facebook engagement remains strong, and we believe the company has executed well to strengthen the platform. We believe multiple areas are either under-monetized or not monetized today that remain options for the future. These include WhatsApp, Messenger, Oculus, payments, and e-commerce.

Most of the remaining activity during the quarter could be classified as risk management and opportunistically upgrading the Portfolio. The two adjustments made from a risk management perspective were selling **O'Reilly Automotive** and trimming **EssilorLuxottica**. These also helped fund the new investments in **LVMH** and **Autodesk**.

We sold **O'Reilly Automotive** in response to the unique circumstances surrounding the coronavirus spread mitigation in the United States. In nearly any financial stress environment, we think O'Reilly would be positioned to play the role of a strong safety in the Portfolio. It is a counter-cyclical business because car maintenance can only be put off for so long, regardless of the strain on households. As we have written innumerable times, the industry can be thought of as "healthcare" for vehicles. One key variable for this dynamic, however, is that people need to be driving their cars for parts to break down. While social distancing practices will certainly impact all our companies in some form or fashion, we felt it potentially could have a more meaningful impact on O'Reilly. The company may see not only severely reduced store traffic in the near term, but also a delay in maintenance requirements resulting from a potentially significant reduction in miles driven, particularly if the spread mitigation is prolonged. Its higher-than-average debt burden also creates some risk, and we suspect that earnings growth will moderate as share buybacks are curtailed. No single issue is unmanageable, but considered in aggregate, we felt the investment case had weakened.

We also trimmed **EssilorLuxottica** given two concerns: 1) that the company may experience both demand and supply issues as it navigates the coronavirus and 2) that earnings growth would be slightly slower than we expected given the near-term reinvestment of synergies from the merger. From the supply perspective, we felt the frames segment of the business—which came from the Luxottica side of the merger—was more exposed. While the company has been able to shift production to avoid supply constraints so far, almost all the company's luxury frames are produced in Northern Italy and they have a significant manufacturing base in China as well. This did not seem like an ideal scenario to us. Management is also reinvesting nearly all the merger synergies, so near-term earnings per share growth may be a little slower than we expected, too, coronavirus impacts aside. While EssilorLuxottica remains a dominant business with market share multiples higher than those of their competitors, we felt it was prudent to trim the position.

From a more positive perspective, the coronavirus disruption has also provided the opportunity to upgrade the quality and growth potential of the Portfolio, and to enter new positions at more attractive prices. We added **LVMH** to the Portfolio, taking a 1.0% position initially, and then raising it to 2.0% as concerns around coronavirus pressured share prices further. The company is a collection of some of the best global luxury brands and is run by Bernard Arnault, who created the company through a series of acquisitions. He owns 46% of the total business today and like us, is long-term oriented with vision and patience that we applaud. The business consists of five divisions: Fashion & Leather, Wine & Spirits, Perfumes & Cosmetics, Watches & Jewelry and Selective Retailing and, in total, owns more than 70 brands. Its brand portfolio includes the world's largest luxury brand, Louis Vuitton, and other global megabrands like Celine, Christian Dior, Dom Perignon, Bulgari, Sephora, and, the company's most recent acquisition, Tiffany. LVMH's top five brands account for roughly 75% of total profits.

Our research indicates the company enjoys multiple competitive advantages that reinforce each other. LVMH has achieved significant scale across the globe, which is increasing each year. Annual revenue of >€55bn and growing allows the business to support brands and deploy capital to strengthen its competitive advantages at a scale no competitor appears able to match. For example, LVMH spends ~12% of annual revenues, or approximately €7bn, on marketing to strengthen brand equity. To put this in context relative to other luxury conglomerates, Kering Group, the world's second-largest luxury business, which owns brands like Gucci and Yves Saint Laurent, generates annual revenue of roughly €17bn. Experience is a second competitive advantage. Some brands within LVMH are hundreds of years old. These brands offer significant experience of executing on a well-honed playbook for nurturing and growing brands based on marketing support, heritage, quality, and uniqueness that resonates with consumers. The company has done this successfully many times, and we expect more of the same from this well-capitalized group of talented managers. Heritage is an additional competitive advantage that we feel cannot be replicated since it is supported and created by time. These brands have appeal based on decades—if not centuries—of heritage and brand story that supports the ideals of high-quality luxury.

Given the uncertainty around the coronavirus's impact on the next few quarters, we started with a small weight and have added on share price weakness. Our overall weight remains modest as we are being patient in the current environment. That said, we think this is an excellent business and one that we would like to own for the long term.

We also purchased a 2.0% position in **Autodesk** during the quarter. Autodesk's software products have leading share in each of its three business segments—Architecture, Engineering and Construction (AEC), Manufacturing (MFG) and Media & Entertainment (M&E). Technology today is allowing some businesses to make a step-function change from good to great. Our most notable example is Adobe—as a dominant industry leader with customers completely reliant on their products, the company was able to transition to a subscription-based model. Autodesk is in the early stages of a near identical transition.

We see that the shift to a subscription-based model has widened the company's moat and increased its quality when looking at a variety of metrics, such as margins, ROE/ROIC, earnings power, and free cash flow generation and recurring revenue, which has increased from 40% pre-transition to over 95% today. Due to the transition, we believe the business has operating leverage and is poised to unlock significant earnings power over the next 3-5 years—in line with Adobe's achievements.

In addition to the company's successful business model transition, the global construction industry is only just now hitting what we believe is a tipping point. Firms the world over are not only seeing the transition to digital products like Autodesk's Revit—the world's leading building information modeling (BIM) design tool—as more efficient but are realizing that they are becoming competitively disadvantaged by not using it. Some governments—like the U.K.—are even mandating that BIM be used to increase efficiency and decrease waste. Further, we believe that even if the construction and manufacturing sectors experience a slowdown resulting from coronavirus spread mitigation, Autodesk's tools are too mission-critical to turn off.

While Autodesk carries an optically high price-to-earnings multiple of 33x next-twelve-months earnings, the business model transition has created a temporary mismatch between earnings and free cash flow. On a free cash flow basis, the company is trading at about 20x. We have been following Autodesk closely, patiently waiting for a more favorable price, and we believe the current uncertain environment has offered a good entry point. Autodesk is also geographically balanced, deriving roughly 70% of revenue from outside of the Americas, and its BIM software provides a tool to reduce significant waste in the construction industry, which we find appealing from an ESG perspective.

In addition to the actions noted above, we trimmed **Adobe** to fund our purchase of Autodesk. We maintain strong conviction in Adobe's future though, which is reflected by the fact that it remains one of our largest holdings even after this trim.

Outlook

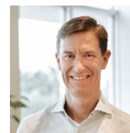
We are in uncertain times now, but we are confident that Polen Capital and our investment approach are built to manage through these types of challenges.

We continue to believe in the growth potential of our portfolio companies and believe long-term earnings growth will ultimately drive a strong investment outcome for our clients.

As always, we thank you for your interest in Polen Capital and the Global Growth portfolio.

Sincerely,
Damon Ficklin & Jeff Mueller

Experience in High Quality Growth Investing



Damon Ficklin
Co-Head of Team, Portfolio Manager & Analyst
18 years of experience

Jeff Mueller
Portfolio Manager & Analyst
7 years of experience

Historical Performance

	Polen (Gross) (%)	Polen (Net) (%)	MSCI ACWI Index (%)
3 Months	-12.68	-12.84	-21.36
YTD	-12.68	-12.84	-21.36
1 Year	3.18	2.40	-11.25
3 Year	14.14	13.21	1.50
5 Years	12.16	11.23	2.85
Since Inception (01-01-2015)	12.18	11.25	3.16

Returns are trailing through 3-31-2020. Annualized returns are presented for periods greater than one-year.
Source: Archer.

GIPS Disclosure

Polen Capital Management
Global Growth Composite—Annual Disclosure Presentation

		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 ACWI (%)	Composite Dispersion (%)	Polen Gross (%)	MSCI ACWI (%)
2019	34,784	12,681	22,104	6.50	2	37.37	36.35	26.60	N/A	12.10	11.22
2018	20,591	7,862	12,729	4.77	2	3.14	2.22	-9.41	N/A	11.50	10.47
2017	17,422	6,957	10,466	4.16	2	32.66	31.55	23.96	N/A	10.12	10.36
2016	11,251	4,697	6,554	0.33	1	1.21	0.34	7.86	N/A	-	11.21
2015	7,451	2,125	5,326	0.33	1	10.07	9.14	-2.36	N/A	-	10.94

[1]A 3 Year Standard Deviation is not available for 2015 and 2016 due to 36 monthly returns are not available.
Total assets and UMA assets are supplemental information to the Annual Disclosure Presentation.
N/A - There are five or fewer accounts in the composite the entire year.

GIPS Disclosure

The Global Growth Composite created on January 1, 2015 contains fully discretionary global growth accounts that are not managed within a wrap fee structure and for comparison purposes is measured against MSCI ACWI. Prior to October 18, 2016, the benchmark for the Global Growth Composite was the MSCI ACWI variant with gross dividends. As of October 18, 2016, the benchmark was changed retroactively to the MSCI ACWI variant with net dividends, to more accurately reflect the Global Growth Composite's strategy. 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 December 31, 2019. 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. The verification reports are available upon request. 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. 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 Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI 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%	1.10	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