Polen Global Growth

Portfolio Manager Commentary – June 2022

Summary

- During the second quarter of 2022, the Global Growth Composite Portfolio (the "Portfolio") was down -18.08% and -18.34% gross and net of fees, respectively, versus a decline of -15.65% for the MSCI ACWI (the "Index"). Since inception, the Portfolio has compounded at an annualized rate of 11.04% and 10.12%, gross and net of fees, versus 6.88% for the Index.

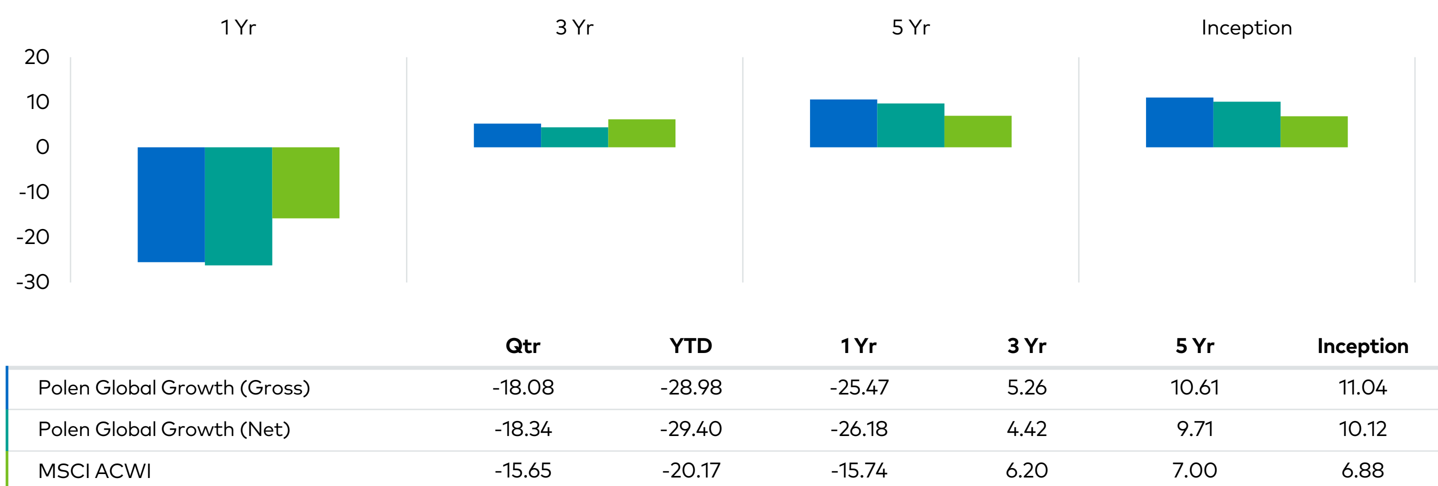
- The conditions during the second quarter of the year have largely been a continuation of what we experienced during the first quarter, with a long list of exogenous factors continuing to weigh on the market, including persistent inflation, tightening monetary policy, and ongoing supply chain issues.

- During the quarter, consumer discretionary, information technology, and health care companies have been broadly punished amid a backdrop of rising rates, valuation resets, and waning consumer confidence, which impacted the Portfolio. The three smallest absolute detractors for the period were ADP, CSL, and Starbucks. The three largest absolute detractors were Alphabet, Amazon, and Align Technology.

- We exited our position in **Netflix** and added to our positions in **ADP**, **Amazon**, and **Siemens Healthineers** in the second quarter of 2022.

- The recent market drawdown seems indiscriminate, but we expect fundamentals to eventually come back into focus. When we combine our ongoing expectations for mid-teens earnings per share growth from the Portfolio with what we believe are now very reasonable valuations, we are optimistic despite the many exogenous factors that are weighing on the market today.

Seeks Growth & Capital Preservation (Performance (%) as of 6-30-2022)



	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
Polen Global Growth (Gross)	-18.08	-28.98	-25.47	5.26	10.61	11.04
Polen Global Growth (Net)	-18.34	-29.40	-26.18	4.42	9.71	10.12
MSCI ACWI	-15.65	-20.17	-15.74	6.20	7.00	6.88

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.

All company-specific information has been sourced company financials as of relevant period discussed.

Commentary

During the second quarter of 2022, the Global Growth Composite Portfolio (the "Portfolio") was down -18.08% and -18.34% gross and net of fees, respectively, versus a decline of -15.65% for the MSCI ACWI (the "Index"). The Portfolio underperformed the Index by 269 basis points net of fees. Since inception, the Portfolio has compounded at an annualized rate of 11.04% and 10.12%, gross and net of fees, versus 6.88% for the Index, outperforming by 324 basis points net of fees. On a cumulative basis since inception, the Portfolio returns 119.19% and 106.00% gross and net of fees versus the Index's cumulative return of 64.76%.

The first half of 2022 has been one of the most challenging first half years that the market has seen in a long time. In fact, the speed of the recent market drawdown has been swifter than we have seen historically. Using the S&P 500 as a proxy for the U.S. market, the magnitude of the downdraft has been 3x faster than the bursting of the tech bubble in 2000-02. The conditions during the second quarter of the year have largely been a continuation of what we experienced during the first quarter, with a long list of exogenous factors continuing to weigh on the market. Persistent inflation, tightening monetary policy, and ongoing supply chain issues continue to make headlines. COVID flare-ups and the zero-COVID policy in China, war, and heightened geopolitical risks add more complications and concern.

Overarchingly, we believe valuations have declined, and high-quality growth companies have been negatively affected because of the rapid change in interest rates, necessitated by the highest inflation rates that we've seen in more than 30 years. While we have certainly seen rate hikes occur during the last 30 years, these hikes have not had such a clear and significant impact on equity valuations as we have recently experienced. The current change in rate expectations has been swift and significant and seems more durable given the need to combat inflation. As long as inflation persists, monetary authorities do not have much choice but to work to tame it, even if rising rates create market distress. Essentially, the complexion of the current backdrop looks different than the rising-rate environments in previous years. As we have noted in prior commentaries, valuations have also crept higher in years past, but even more so in 2021. So, it is not unreasonable to expect some mean reversion in valuations in the current environment.

That said, given the recent pullback and robust ongoing fundamental performance from our holdings, we think the Portfolio is now very reasonably valued. While valuations could certainly go even lower, as markets do tend to go too far in both directions at times, it seems to us that a meaningful valuation correction has already occurred and that the market is now anticipating a recession. It seems more logical to us that if equity markets were to decline meaningfully from here, then lower earnings would be a greater contributing factor.

A recession is certainly possible, perhaps even likely, but that need not be a major cause for concern.

Recessions are normal. Even if one were to occur, we believe our Portfolio would hold up well from a fundamental perspective, given the differentiation and resilience of the businesses we own.

We own a few businesses, like **LVMH**, that could see earnings decline in a recessionary environment, but we would expect most of our businesses and the Portfolio in the aggregate to continue to deliver earnings per share growth through cycles. We believe **LVMH** is actually a great example of how the market is anticipating a recession. The company's stock is down more than 25% year to date despite the business not yet showing any sign of fundamental weakness, from our perspective.

We think the valuation correction has already gone too far for some high-quality growth businesses. **Adobe**, which is one of our largest holdings, is a good example. Our research shows that Adobe has a near monopoly on digital content creation software globally and is a highly advantaged digital marketing business. The business continues to deliver favorable revenue and profit growth despite tough comparisons, large currency headwinds, and macroeconomic weakness in parts of Europe. We expect the company to continue to grow earnings at a high-teens or better rate for the foreseeable future, given the robust secular growth tailwinds from digital media creation and digital marketing.

Adobe's tools are the de facto standards for various applications such as graphics and video editing. Adobe also stands to be a leader in providing tools for creators to develop aspects of the immersive internet (metaverse) as that develops. Adobe's shares are down ~30% year to date despite healthy ongoing growth and are now valued at less than 23x consensus 2023 earnings estimates. This is a discount to companies like Coca-Cola, Colgate, Clorox, McDonald's, and Proctor & Gamble. While each of these consumer staples companies would be considered good businesses by an unbiased observer, in our opinion, none are likely to grow earnings anywhere near as fast as Adobe, given the stiff competition they face and the greater maturity of the markets they serve.

In short, the recent market drawdown does not seem to have been all that discerning, with some solid performing and steady businesses seeing meaningful share price pressure. We do, however, expect fundamentals to come back into focus at some point. If expectations for a recession do not materialize, then the valuation adjustments that we've seen across many of our holdings simply do not seem logical. If we do enter a recession, we expect investors to become much more focused on the fundamentals. There will be companies that continue to deliver growth through the challenges, and there will be those that do not hold up nearly as well. A variety of factors can affect markets and stocks in the short term, but underlying results will ultimately be weighed.

We believe that robust fundamental performance through the tough times has been a big part of what has created ballast for our Portfolio historically. We expect that will be the case again as we go through economic cycles and fundamentals rise in importance.

Portfolio Performance & Attribution

The Portfolio trailed the Index during the quarter as consumer discretionary, information technology, and health care companies have been broadly punished amid a backdrop of rising rates, valuation resets, and waning consumer confidence. While these sectors were generally favored by investors in 2021, we experienced an abrupt change in sentiment in the first half of the year, which impacted the Portfolio. Healthcare, consumer discretionary, and communication services companies detracted from performance on a relative basis. And although the Portfolio's overweight exposure to information technology did not work in our favor, stock selection within the sector helped to lift relative returns.

At the individual company level, the three smallest absolute detractors were **ADP**, **CSL**, and **Starbucks**. The three largest absolute detractors were **Alphabet**, **Amazon**, and **Align Technology**.

ADP continues to deliver steady business performance, as evidenced by its management team continuing to raise guidance for 2022. We added to our position during the quarter, which we detail in the Portfolio Activity section.

CSL's recent update indicated that the worst COVID-19 impacts on the business are likely past, with plasma collections now snapping back. CSL's core business continues to enjoy significant competitive advantages, in our view, and, as collected plasma is processed into finished products, we believe sales will return to their pre-COVID-19 levels. It will take time for this to play out, but it is a welcome improvement. Most of the other segments of the business are performing well, and steady demand for CSL's products, which are less economically sensitive, has likely contributed to the stability of shares recently.

Starbucks, which garners a lower weighting in the Portfolio, had slightly better than average three-month performance. Same-store sales were up double-digits in the U.S. and International ex-China, with solid revenue growth across those regions. The company is experiencing cost pressures from wages and input costs though, and China same-store sales were down 23% due to zero-COVID policy restrictions and lockdowns.

Alphabet, a large weighting in the Portfolio, was the top detractor during the period, as e-commerce growth slowed during the quarter on tough comps from the prior year. That said, Alphabet continues to deliver robust revenue and profit growth. Google Cloud Platform (GCP) continues to grow at a healthy pace, and we do not believe the share price decline was a reflection of weak business performance.

Shares of **Amazon** declined during the quarter against a backdrop of very tough comparisons, ongoing cost pressures, and a bolus in capital expenditures. We believe some of these issues are transitory, and we used this quarter as an opportunity to add to our position in this competitively advantaged company at what we believe is a compelling valuation. We detail our thoughts further in the Portfolio Activity section.

Align Technology shares declined significantly during the second quarter when management reported a meaningful deceleration in growth. Management cited a host of challenges, including COVID-19 impacts, especially in China with restrictions and lockdowns under their zero-COVID policy, a weaker economic environment, inflationary pressures, supply chain disruptions, and the war in Ukraine, to name a few. Tough comparisons were also a reality—Invisalign case starts in 1Q22 were roughly flat, having lapped the 66% growth from the prior year. It's not completely surprising that growth is slowing on such tough comparisons, but the company's shares declined on the news.

By looking at Align's three-year compound average growth rate (CAGR) to smooth out the ups and downs through COVID, key metrics like Invisalign case shipment, clear aligner revenue, and earnings per share have all grown ~20% during the trailing three years. We think this is quite respectable given the challenges during this period, but the lack of near-term momentum or visibility has not been well received in the current environment. According to our research, Align is the clear market leader, has global scale, a superior product, and still very modest market penetration. While growth may be challenged near term, we remain confident in the long-term growth opportunity.

Portfolio Activity

We made a few adjustments during the second quarter, but overall Portfolio activity was fairly subdued. While many businesses have become more attractively valued, the ones we own have become more attractively valued as well. We exited our position in **Netflix** and added to our positions in **ADP**, **Amazon**, and **Siemens Healthineers**.

After taking a small initial position in **Netflix** in the first quarter, we liquidated our position during the second quarter. During the first quarter of ownership, Netflix management reported weaker-than-expected new subscriber growth, provided very tempered guidance, and highlighted a host of challenges. Beyond the challenging comparisons from the prior year, which were expected, management noted the economic environment, increasing competition, and higher market penetration. All these factors have made it more challenging for Netflix to add subscribers at the pace expected. Upon initiating a small position, we thought Netflix was in much earlier innings with regard to market penetration given its ~222 million subscriber base versus ~900 million broadband homes ex-China. However, management recently revealed, for the first time, that they have more than 100 million non-paying subscribers and that the more addressable

segment of the market is roughly 450 million smart TV homes. While we think a large majority of broadband homes will ultimately become smart TV homes, management noted that smart TV home growth has stalled recently. In short, Netflix is much more penetrated into the immediately addressable market than we thought, and that's leading to a variety of challenges. Management is now looking to develop strategies to monetize non-paying subscribers and create an ad-supported model, which they have railed against up to this point. Since Netflix reported 1Q22 results, we focused our research on trying to understand how and when the company plans to monetize non-paying subscribers and roll out an ad-supported streaming subscription. We've also done more work to understand the potential growth of the smart TV market going forward. While there are scenarios that could lead to acceptable growth and a decent investment return from the current valuation, we were not able to build the confidence to add to the position. At a roughly 1% weight of the Portfolio, we felt it was an up-or-out decision after the sharp price decline. Given our lack of conviction and an increasing number of more attractive opportunities within our global opportunity set, we decided to exit the position.

We added to **ADP** during the quarter, bringing it up to an average weight. The business continues to experience good momentum, as evidenced by the fact that management has raised guidance during each of the first three quarters of their fiscal year 2022. FY22 revenue growth is now estimated to be around 10%, with earnings per share growth in the mid-to high-teens. Retention rates, which have been at peak levels recently, remain very robust. As an added bonus, ADP also earns float income, which is income earned from interest. With interest rates at near historic lows for the last few years, lower float income created a headwind to ADP's overall earnings growth. Despite this headwind, earnings continued to compound at a more than acceptable rate. With interest rates beginning to rise again as central banks are forced to combat inflation, we expect this headwind to ultimately flip into a tailwind for the business. This is a steady business with high recurring revenues, delivering solid and improving results recently.

We added to our position in **Amazon** as well. Amazon certainly enjoyed an inflection in company fundamentals during the pandemic as e-commerce growth took off with people all over the world stuck in their homes. The company took advantage of this with the same approach that has helped it become the successful and dominant business it is today – by plowing the extra free cash flow back into the business. While it has delivered solid growth during the past several quarters, it has continued to build out its capacity to such an extent that it now has slack in the system, a rarity for Amazon. While some of its increased costs, like higher wages, will likely remain above pre-pandemic levels, we think the elevated costs from supply chain challenges will prove more temporary in nature and that the company will ultimately grow into and leverage its recent bolus of capital expenditures. Although e-commerce growth has slowed recently, e-commerce is still only roughly 13% of U.S. retail sales. We believe there is a long runway left to grow over time. Based on our research, Amazon remains one of the most competitively advantaged businesses in the world, and we increased our weighting in this compelling business at what we believe is an attractive price.

Finally, we increased our weight in **Siemens Healthineers**. The company continues to compound at attractive levels with the business executing well. In the most recent quarter, the company grew organic revenue and earnings per share at 16% and 12%, respectively. Robust growth from the core imaging business has been helped by a bolus of revenues from COVID-19 testing. While organic revenue grew at a solid mid-teens rate, total revenues grew over 37% due to the acquisition of Varian, which management believes is strategically complementary and has a significant margin expansion opportunity as well. Demand appears to be robust across all business lines today. The business creates value for its multiple stakeholders by providing necessary equipment to best treat patients and diagnose issues, and we think management is executing well. The company continues to be a global leader in imaging and diagnostics medical equipment. It is a stable, dominant business with a durable brand. At 4.5% of the Portfolio, it is now an above-average position size within the Portfolio.

Outlook

If the last few years have taught us anything, it has been a good reminder of just how hard it is to predict the near-term direction of the market. None of us would have predicted a pandemic in late 2019, few would have predicted that markets would perform so well during the pandemic, and few would have predicted the dramatic change that we've seen in the environment during the last six months. We will not try to make a call on the market. What we can say, however, is that we remain confident in the Portfolio's ongoing earnings growth potential. When we combine our ongoing expectation for mid-teens earnings per share growth from the Portfolio with what we believe are now very reasonable valuations, we are optimistic about the next 3-5 years despite the many exogenous factors that are weighing on the market today.

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

Sincerely,

Damon Ficklin and Jeff Mueller

Experience in High Quality Growth Investing

Damon Ficklin
Head of Team, Portfolio Manager & Analyst
20 years of experience

Jeff Mueller
Portfolio Manager & Analyst
9 years of experience

GIPS Report

Polen Capital Management
Global 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 ACWI (%)	Composite Dispersion (%)	Polen Gross (%)	MSCI ACWI (%)
2021	82,789	28,884	53,905	138.08	7	17.90	17.07	18.54	0.3	15.08	16.84
2020	59,161	20,662	38,499	39.14	3	25.01	24.13	16.27	N/A	16.16	18.13
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	N/A	N/A
2015	7,451	2,125	5,326	0.33	1	10.07	9.14	-2.36	N/A	N/A	N/A

[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 GIPS Composite Report.
N/A - There are five or fewer accounts in the composite the entire year.
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 Growth Composite created and incepted 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. 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 December 31, 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 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 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. Portfolio returns are net of all foreign non-reclaimable withholding taxes. Reclaimable withholding taxes are reflected as income if and when received. 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 equity index that measures the performance of large and mid-cap segments across developed and emerging market countries. The 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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