Polen Global Growth

Portfolio Manager Commentary – September 2021

Summary

- During the third quarter of 2021, the Polen Global Growth Composite Portfolio (the "Portfolio") returned -3.03% gross of fees versus the MSCI All-Country World Index (the "Index") return of -1.06%. Year to date, the Portfolio has returned 8.52% gross of fees versus 11.13% for the Index.

- Since inception on January 1, 2015, the Portfolio has delivered an annualized return of 16.55% gross of fees compared to a 10.26% annualized return for the Index. Cumulative returns since inception are 181.08% for the Portfolio gross of fees vs. 93.49% for the Index.

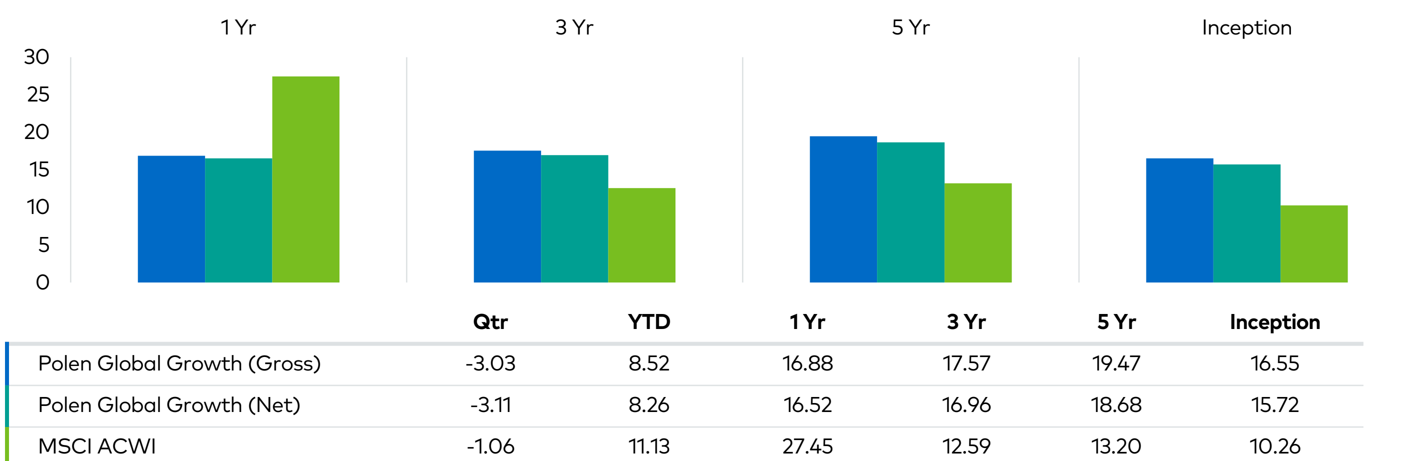
- A series of headwinds—including supply chain disruptions, signs of higher inflation, hawkish signals from central banks, and policy uncertainty from China—appeared to weigh on the market during the quarter.

- The Portfolio trailed the Index primarily due to the performance of Tencent and Alibaba, which we sold.

- Portfolio activity increased during the third quarter. In aggregate, we were able to increase expected earnings growth while reducing risk and the overall portfolio valuation.

- While an increase in interest rates in the coming years is likely to weigh broadly on equity valuations, we think favorable earnings growth will help the Portfolio overcome any challenges and make it less exposed to changes in the overall market valuation over the longer term.

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



	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
Polen Global Growth (Gross)	-3.03	8.52	16.88	17.57	19.47	16.55
Polen Global Growth (Net)	-3.11	8.26	16.52	16.96	18.68	15.72
MSCI ACWI	-1.06	11.13	27.45	12.59	13.20	10.26

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.

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Commentary

After experiencing positive momentum in the first half of the year, global equities faced a series of crosscurrents during the third quarter, which weighed on market performance. Mounting COVID-19-related dislocations remained a headwind for businesses worldwide, as global supply chain disruptions and other production bottlenecks seemingly led to a relative surge in consumer prices. Meanwhile, signs that inflation could prove "stickier" than expected sent U.S. Treasury bond yields to multi-month highs. Rising yields also reflected a growing consensus that the Federal Reserve and other central banks could normalize monetary policy and lift interest rates sooner than anticipated. Still, the spread of the COVID-19 Delta variant remained a threat to the global recovery, with labor market conditions generally softer across countries with lower vaccination rates. Additionally, China's ongoing policy shifts, and regulatory efforts intensified, creating ripples across global markets and within China itself.

While we address each of these headwinds below, it is worth highlighting that our focus remains centered on driving mid-teens earnings growth by investing only in what we believe to be the highest-quality businesses in the world. To deliver that level of performance, the companies that we invest in must, in our view, be competitively advantaged, provide differentiated products or value-added services and deliver value to all key stakeholders.

We believe we are well-positioned for the future, regardless of whether some of the risks currently clouding the investment landscape materialize or prove to be short-term noise.

Looking first at inflation, the U.S. Labor Department's consumer-price Index (CPI) increased more than 5% in the 12 months through August, close to the highest mark recorded in 12 years.[1] In our view, many of the factors responsible for the bulk of this year's surge—including labor market shortages, post-vaccine spending surges, and specific supply-side issues—are likely to be temporary. Thus, we do not expect persistently higher inflation, though it may take a while to work through current supply chain issues. We'd also acknowledge that the longer that inflation lingers, the more likely the expectation for higher inflation sets in, and it becomes self-fulfilling. We will continue to monitor the situation closely.

Inflation is unequivocally bad news for a commoditized business as higher input costs cannot be passed through, but an advantaged business selling differentiated products or value-added services can often raise prices if needed. If a commoditized business raises prices, then customers simply buy an identical good or service from a lower-priced competitor. The expected result is either lower sales, lower margins, or both. In contrast, differentiated products or value-added services are not as readily substitutable.

[1] Source: U.S. Bureau of Labor Statistics.

We think the Portfolio is well-positioned to manage through any inflationary pressures. We own only what we believe to be the most competitively advantaged companies offering differentiated products and value-added services, which grants them a degree of pricing power. When you combine that with the fact that our companies are generally not very resource-intensive and tend to create additional demand through innovation, we believe our high-quality growth portfolio is an effective way to combat inflation.

Regardless of whether we have more sustained inflation going forward, we do expect that interest rates will eventually rise from historically low levels. This makes intuitive sense based on history. Moreover, we recognize that central banks appear to be approaching policy shifts. Higher bond yields make owning fixed income securities relatively more attractive and have the opposite effect on equities. The higher interest rates climb, the lower the present value of a business' future earnings, which tends to lower equity valuations or P/E (price-to-earnings) ratios. That said, we believe favorable earnings growth can overcome any adjustment to market level valuations.

At the current valuation of the Portfolio, aggregate prices could fall by 30% and our Portfolio would still deliver a double-digit investment return over the next five years provided our mid-teens estimated earnings per share growth materializes. Of course, owning the right businesses is critical as earnings power today might not translate into earnings power tomorrow (under an inflationary environment) for all businesses. Asset-heavy and capital-intensive businesses must continually reinvest to maintain sales and their competitive position in the marketplace. In other words, not all earnings power is equally resilient. This is a concept we have embraced for more than 30 years. While we ensure that the companies in our Portfolio are competitively advantaged, our businesses also tend to be asset-light and not capital intensive.

From an international perspective, China's latest policy upheavals elevated earnings growth uncertainty for many companies domiciled in the world's second-largest economy. Though we do not perceive Chinese markets to be uninvestable, we decided to step aside for the time being. Given the elevated uncertainty, we took advantage of the broad opportunity set available to global investors to reallocate capital into similarly priced businesses outside China that have greater potential around earnings power.

We always prefer to achieve our outcome in the most accessible and least risky way.

Portfolio Performance & Attribution:

Our top relative contributors in the third quarter were **Aon**, **Alphabet**, and **Accenture**. Our top relative detractors in the third quarter were **Tencent**, **Alibaba**, and **Adidas**.

Shares of **Aon** rallied following reports of its agreement with Willis Towers Watson to end plans for a proposed $30 billion merger, which would have created the largest global insurance brokerage firm. While the merger offered the potential to create an even more dominant business, it would have taken years of integration work. With that overhang removed and Aon still possessing formidable competitive advantages, the company's shares rebounded sharply.

Alphabet and **Accenture** continue to perform well as both businesses have grown through the pandemic. Alphabet has benefited as more people spend more time online and advertisers continued to shift towards digital ads. Accenture has benefited as businesses around the world have sought a trusted partner to enable their digital transformation. Those leading in the new world are accelerating investment, while those lagging are investing to close the gap. These are two great examples of the pandemic accelerating trends that were already in motion, making leaders more resilient.

Looking at the main detractors for the quarter, Chinese companies **Tencent** and **Alibaba** experienced selling pressure as policymakers enacted a slew of regulations across several industries. The elimination of the $100 billion for-profit, after-school tutoring industry sent shockwaves through the market. The appetite for Chinese shares deteriorated further in response to reports that real estate development firm Evergrande Group was facing liquidity issues and could face bankruptcy. We share additional thoughts on Tencent and Alibaba below.

Adidas shares declined during the quarter as COVID-19 related factory closures in Asia led to supply chain dislocations and inventory backlogs, which constricted production. Despite these near-term challenges, we continue to think the company is well-positioned for the long term.

Portfolio Activity

After modest Portfolio activity during the second quarter of 2021, activity increased during the third quarter. We would broadly characterize the various trades into two objectives: 1) managing risk, and 2) managing valuation. In both cases, we aimed to maintain the Portfolio's growth profile.

> **In aggregate, we believe we were able to increase expected earnings growth while reducing risk and the overall portfolio valuation.**

First, on managing risk. We have held positions in **Alibaba** and **Tencent** since the inception of the Polen Global Growth Portfolio in 2015, and they have performed very well during that period. We invested via the variable interest entity (VIE) structure, given that it is the only channel for foreign capital to invest in each company. Investing in a VIE involves a contract for ownership in a business (that cannot be owned by non-Chinese investors), rather than direct equity ownership, as we have in all other businesses in the Portfolio. The Chinese government has never explicitly endorsed nor condemned the VIE structure, so a certain amount of risk remains.

From our point of view, China has always had the capability to appropriate businesses from foreign owners but had not demonstrated the will to do so. We felt that changed when the Chinese government enacted a series of regulatory policies that turned for-profit, after-school tutoring companies into non-profit entities. While a logical argument could be made that such actions are not likely to bleed over into China's tech sector, we think increased regulation and the potential for government-directed capital allocation from these businesses could lead to lower-than-expected earnings growth.

To be clear, we are not "making a call" on China. We believe that the risk of such draconian regulation of China's tech sector is unlikely. That said, given our global opportunity set, we decided to reallocate capital into businesses likely to produce similar earnings growth over the next five years with a greater degree of certainty. We still believe that Alibaba and Tencent are great businesses and could be owners of one or both in the future, but we felt there were easier ways to achieve our objective at the present time.

We also trimmed **Microsoft**, which had grown to nearly 10% of the Portfolio. At an 8% weighting, it still represents one of our largest positions. We used the proceeds from these sales to initiate a new position in **ICON**, which we address in detail below, and to increase our positions in some existing holdings, including **Aon**, **Adidas**, and **Siemens Healthineers**.

To address the second objective of managing valuation, we made several additional adjustments during the quarter. Most notably, we sold our positions in **Zoetis** and **Estee Lauder** and trimmed **Abbott Laboratories** and **Accenture** to fund additions to **Mastercard** and **Visa**. We also raised our new position in ICON.

We have long held Mastercard and Visa, which are both dominant franchises. Given attractive valuations on depressed earnings, we decided to increase both positions. While the move to more online payments is a net benefit in the long term, both companies have been negatively impacted by lower cross-border activity, which has yet to return to pre-pandemic levels. While cross border only represents roughly 10% of Visa and Mastercard's volumes, it drives approximately 25% of both company's gross revenues. Though the businesses are already delivering solid results, we expect cross-border consumer travel to resume at some point and expect earnings to rebound when it does.

We initiated a new position in ICON and then made it a conviction weighting relatively quickly. We believe it has growth potential, an attractive risk profile, and a very reasonable valuation, allowing us to achieve multiple Portfolio objectives simultaneously. After its recent acquisition of PRA Health Sciences, ICON is now the leading Clinical Research Organization (CRO) globally. Pharma and biotech companies continue to spend more on R&D and outsource more of their clinical trial work.

ICON has been growing faster than its peers, and we think it will be even more advantaged given how the world of clinical trials is evolving.

We believe this business is positioned to deliver mid to high-teens earnings per share growth for the next several years.

Finally, exiting our positions in Estee Lauder and Zoetis were purely a function of valuation. With both businesses trading for up to 45x forward earnings, we felt we had more attractive alternatives. We maintain high conviction in these companies and their competitive advantages and hope to be owners again, at a more attractive valuation. In short, we sold what we believe to be very high-quality businesses at relatively high valuations to fund the purchase of equally high-quality businesses trading at lower valuations and even better long-term earnings growth prospects. While we are certainly not tactical in approach, we do aim to make prudent adjustments over time.

Outlook

While markets faced a wave of headline risks and compounding uncertainties during the third quarter, we remain confident in the long-term prospects for our Portfolio and each of our holdings. We own some of the most competitively advantaged businesses in the world, selling high-demand products and services and delivering for all key stakeholders. While inflation and interest rates have grabbed headlines during recent months, we believe the Portfolio is well-positioned to perform under any economic scenario.

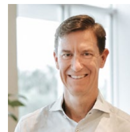
Although an increase in interest rates in coming years would likely weigh broadly on equity valuations, we think favorable earnings growth positions the Portfolio to overcome any challenges. With an aim for and expectation that the Polen Global Growth Portfolio will deliver mid-teens earnings per share growth during the next five years, we think the earnings growth of the Portfolio will make it less exposed to changes in the overall market valuation over the longer term.

As always, we thank you for your interest in Polen Capital and the Global Growth strategy. Please feel free to contact us with questions.

Sincerely,

Damon Ficklin & Jeff Mueller

Experience in High Quality Growth Investing



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

Jeff Mueller
Portfolio Manager & Analyst
7 years of experience

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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 (%)**
2020	59,161	20,662	38,499	281.01	4	23.70	23.25	16.27	N/A	16.08	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	31.56	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 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 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. 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 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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