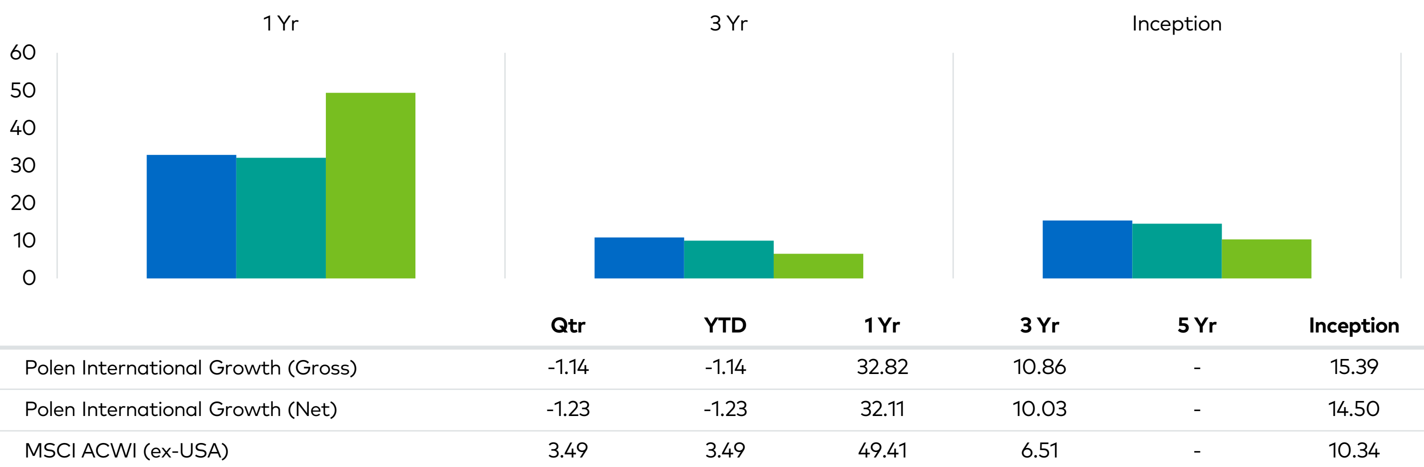
Polen International Growth

Portfolio Manager Commentary – March 2021

Summary

- During the first quarter of 2021, the Polen International Growth Composite Portfolio (the "Portfolio") returned -1.14% gross of fees. The MSCI All Country World Index (ex-US) (the "Index") returned 3.49%.
- International markets saw a continuation of trends that took hold in November 2020. These trends seemed to benefit cyclical companies in industries to which we have less exposure.
- In the first quarter, as markets appeared to anticipate inflation and the impact that could have on equities, we found they were less interested in growth equities.
- We strived to tune the Portfolio for higher, long-term earnings growth than what we think the Index can deliver.
- We exited our investments in Coloplast and Check Point Software during the quarter and initiated new positions in Kering and Evolution Gaming. We added to our investments in Aon, ICON, and New Oriental Education; and we trimmed our positions in Tencent, Nestle, Unilever, and SAP.

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



	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
Polen International Growth (Gross)	-1.14	-1.14	32.82	10.86	-	15.39
Polen International Growth (Net)	-1.23	-1.23	32.11	10.03	-	14.50
MSCI ACWI (ex-USA)	3.49	3.49	49.41	6.51	-	10.34

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

During the first quarter of 2021, the Polen International Growth Composite Portfolio ("the Portfolio") returned -1.14% gross of fees, and the MSCI All Country World Index (ex-US) (the "Index") returned 3.49%.

A confluence of factors drove confidence in an economic recovery and increasing inflation expectations appeared to benefit cyclical shares in the quarter. Sectors to which the Portfolio is underweight are often perceived to benefit from inflationary pressures. Examples of these sectors include banks, industrials, and energy. Factors that seem to be driving inflationary thinking among many investors include lapping last year's deeply negative, shut-down related business results, optimism around global vaccine rollouts, and record fiscal and monetary stimulus. We share confidence about the recovery, but we are not convinced of the prospects for lasting inflation.

In recent years, there have been other such periods of anticipation that inflation is coming, like in the fourth quarter of 2016 or after May 2013's Taper Tantrum. In both cases, economic gravity in the form of demographics, technologically derived deflation, large debt loads, and slow economic growth won out. Demographics are hard to change and are a true long-term force that drives economics. Research shows the developed world is getting older and more apt to draw down on savings. Technology has been a deflationary factor for decades, and one that we expect to continue in the years to come. Debt loads, looking across economies, continue to move higher, with a pronounced uptick post-pandemic. Beyond an already encumbered level of debt, incremental debt issues tend to bring diminishing marginal benefit. Finally, we believe once the economy laps 2020's second quarter pandemic nadir, the year-over-year growth comparisons will begin to normalize, reflecting a return to a slower-growing economic reality.

Markets seem to always be looking forward. At present, we see pundits that are focused on lapping mid-2020's low points, and foresee inflation and higher rates. However, once the sugar high of the next few months wears off, we think the market will focus on what comes next. The reality of deflationary pulls from aging boomers, technology proliferation, high debts, and lower growth all seem likely to us.

Despite these talking points, we continue to focus our efforts on refining the Portfolio for faster full-cycle growth in earnings. To this end, we made more changes to the Portfolio than usual during the quarter.

An adage in sailing advises that when the wind dies in a distance race, you set your sails for winds coming from your most desired direction. In the first quarter of 2021, as markets appeared to anticipate inflation and the impact that it could have on equities, we found they were less interested in growth equities.

We strived to tune the Portfolio for higher, long-term earnings growth than what we think the Index can deliver.

We feel these changes leave the Portfolio well-positioned for growth and anticipate that the winds will, once again, fill the sails as markets awaken to a post-sugar high economic reality. This reality, in our opinion, will look more like the years preceding the pandemic than any inflationary scenario foretells.

Portfolio Performance & Attribution

During the first quarter, the leading contributors to performance were **Tencent**, **Aon**, and **Sage Group**.

Chinese platform **Tencent** was a leading contributor to returns in the quarter as the company reported strong fourth quarter and full-year business results. Tencent serves more than 1 billion users globally with a variety of utilities, and it is the largest video game platform in the world. Beyond communications and gaming, Tencent offers users numerous other valuable services, from social media to varied digital content and digital payments to transact online and offline. Mobile gaming now accounts for roughly 30% of Tencent's $70 billion in annual revenues. We find Tencent's gaming business to be a juggernaut, which we estimate serves nearly 550 million Chinese users and another 200 million outside of China.

Gaming globally is a category we find interesting.

Gamers invest time, effort, and money in developing characters or teaming up with friends to achieve the games' objectives on screen. Interesting video game content, especially with more social overlays, enjoys wide-ranging adoption globally.

As a leading global content producer and a distributor of both its own and third-party content within China, Tencent plays a large role in this fascinating market. We marvel at the idea that, in the years to come, families may sit on the couch on Sunday afternoons and tune into the latest e-sports competition, not a live football game, to see the best gamers in the world compete. Though it contributes tens of billions in sales to Tencent, we believe this rapidly growing category is poised to continue growing well into the future. We believe Tencent is reasonably valued and could grow earnings greater than 20% annually for the next five years.

Ireland-based professional services firm **Aon** contributed positively as well. Aon derives 70% of its revenues from services around the property and casualty insurance market, with the remaining 30% of sales split evenly between health and retirement solutions.

In short, Aon's representatives help clients manage business risks and employee benefits. Although the pandemic disrupted businesses everywhere, more than 80% of Aon's revenues come from recurring sources. We think this lends a measure of stability to the business.

Beyond Aon's core recurring business, other potential avenues of growth exist.

First, the ability to comb troves of risk data lets Aon develop insights. These insights can further benefit partners in its ecosystem, either those underwriting risk or those purchasing protection, in ways that empower stakeholders. Second, risks from issues like pandemics, cybersecurity, and climate change are becoming more evident, and companies are generally not well protected. Aon enables the provision of better protection from these risks. Third, Aon's agreement to acquire Willis Towers Watson (WTW), the number three player in the industry, is expected to close in the first half of 2021. The acquisition would make Aon the number one player in the industry, which we anticipate will enhance its scale and analytics advantages. With a track record of solid acquisition integration, we believe Aon management will exceed their planned merger integration objectives devised in consultation with WTW management.

We think Aon is a steady grower with a sharp management team focused on efficiency gains and increasing their already significant free cash flow generation. We feel Aon can continue to grow its earnings at a low to mid-teens rate for the coming five years.

Shares of **Sage Group**, a UK-based small business accounting software company, appreciated during the quarter as management reported results in line with prior guidance. Sage Group was a lagging contributor to the Portfolio last quarter as sluggish growth trends, prompted by the COVID-crisis, impacted the group. We give credit to management for continuing to focus on the long term by working to transition the business to a cloud-first, cloud-native orientation. This requires time and investment in customer acquisition and product development, two areas of spending that hit profits last quarter. Due to their software products' stickiness and the tailwinds behind digitization, management determined that driving strong organic revenue growth was paramount and that the increased investment seems likely to generate attractive long-term returns on capital and profits. Core business operations in western Europe and North America continue to remain a focus of these expenditures.

For further signs of long-term minded management, we turn to Sage Group's capital allocation practices. Recent announcements that divestitures of non-core operations, such as those in Asia, Australia, Poland, and Switzerland, will free up capital to be returned to shareholders via share repurchases. To us, this indicates a disciplined approach to capital allocation. In our view, these divestitures also freed up another extremely valuable source of capital—management's time and attention—to be reallocated to higher-value core markets where Sage Group's leadership position and competitive advantages are significant.

We support these moves and believe Sage Group shares are compellingly valued. As the business transitions more to the cloud, we believe earnings per share will steadily compound at a low double-digit to mid-teens rate.

The leading detractors from performance for the first quarter were **New Oriental Education**, **Adidas**, and **CSL**.

New Oriental Education shares declined in the quarter, seemingly on account of two notable drivers. First, Chinese online education is currently under a regulatory microscope, although the online tutoring area is not central to New Oriental's business. We continue to believe that, as a large player in a highly fragmented market, New Oriental is well-positioned to manage regulatory change and offers regulators an easier touchpoint to regulate and monitor than individual mom & pop operators.

As regulatory fears hit the after-school tutoring market, we think New Oriental, a leading player in brick-and-mortar after-school tutoring, could gain strength. We think the long-term backdrop for after-school tutoring remains quite favorable. Significant scale advantages and a highly cash generative model with just approximately 5% market share indicate that New Oriental has potential to grow at a high rate, in our opinion. Further, movements by another investor in New Oriental in late March 2021 prompted indiscriminate selling of shares. Those sales left shares trading at a compelling valuation, in our opinion, so we acted by adding to our position. We think New Oriental remains poised to grow earnings at approximately 25% annual rate in the coming years.

Shares of **Adidas**, the German athletic footwear and apparel maker, lagged in the quarter. COVID-19 impacted Adidas's business as consumers stayed home and tightened their purse strings. As the most recent virus wave rolled across Europe, certain countries extended lockdowns, and Adidas shares underperformed. Despite these points, we are optimistic about ongoing progress at Adidas.

As one of the only two athletic footwear and apparel companies that has been able to scale its business globally, Adidas has the breadth of operations and marketing to potentially win. A recent investor day laid out management's forward-looking, five-year strategy called "Own the Game." Plans include a focus on core areas of football, running, training, outdoor, and lifestyle as well as continued emphasis on direct-to-consumer (DTC) channels, including Adidas-operated stores, websites, and apps. These important channels could bring higher growth rates and better profitability to the company, in our opinion. They also drive stronger consumer connectivity.

Wholesale channel partners, who used to be critical to distributing Adidas wares to consumers, could be displaced by Adidas's people and technology. As DTC grows from contributing 33% of sales to potentially 50% of sales, overall company margins and profits will likely benefit.

We think continued success in these high-growth, high-profit channels will contribute meaningfully to earnings growth. Adidas could grow earnings at a high-teens rate from 2021-2025 after normalizing for the extremes of COVID.

Australian biotechnology company **CSL** specializes in developing vaccines and life-saving therapies that stem from blood donated by healthy humans.

Within blood-derived therapies, which are created by isolating blood proteins, CSL excels at collecting, transporting, and separating blood into its component parts. This must be done with strict adherence to regulatory guidelines. We believe CSL is the best among just a few companies in the world capable of operating in this category. We think CSL operates at scale with efficiency, enabling a low-cost advantage that propels the business by funding further innovative therapies. COVID-19 disrupted CSL's normal steady flow of blood donors visiting plasma centers. Thus, we anticipate lower collections over the last year will tighten supplies of finished and sellable goods in the coming half year and dent profit margins.

We believe CSL is well-capitalized and focused on growing the business over the long term.

CSL's most recently reported half-year results indicated that donations, though still down from pre-COVID levels, are ticking up again. Flu vaccine results were favorable, but we note that demand typically follows seasonal virus patterns. So, second-half flu results will not likely be as successful. Despite the pandemic, CSL managed to open 17 new collection centers to bring its global collection infrastructure to more than 280 facilities. While we expect short-term COVID-related impacts to CSL's profits in the second half of the current fiscal year, we remain confident CSL can grow its earnings at a low double-digit to mid-teens rate over the next five years.

Portfolio Activity

During the quarter, we exited our investments in **Coloplast** and **Check Point Software** and initiated new positions in **Kering** and **Evolution Gaming**. We added to our investments in **Aon**, **ICON**, and **New Oriental Education**, and we trimmed our positions in **Tencent**, **Nestle**, **Unilever**, and **SAP**.

Coloplast remains a competitively advantaged med-tech business with steady low double-digit earnings growth prospects in our view. However, we used our remaining interest in Coloplast to fund a larger stake in **ICON** after ICON shares sold off during the quarter—we believe ICON is a better alternative.

ICON, a leading Contract Research Organization (CRO), offers significant growth potential at a compelling valuation in our view. ICON recently announced solid full-year results and anticipates between 24-30% earnings growth for 2021.

Further, the company announced an acquisition of US-based CRO provider PRA Health Sciences. The combined company will be run by ICON management from its Dublin, Ireland headquarters. The acquisition is expected to close in the third quarter of 2021. PRA Health is similarly sized to ICON, making the combined company the largest CRO provider, measured by CRO revenue, in the world.

We believe good synergies and a low (Irish) tax rate will drive significant accretion in the coming years. We expect the combined company to compound earnings at a high-teens rate. The market's reaction to the announcement offered us an opportunity to add to our existing ICON position at an approximately 20x forward earnings multiple.

We also exited **Check Point Software** because we believe we found a better investment alternative. Check Point continues to perform in line with expectations and has delivered approximately 10% earnings per share growth. The company's intensive focus on maintaining its position in on-premise firewall security, a corner of the market that we think offers slower growth prospects, means the wave innovation and growth hitting security software is not driving Check Point's business.

Check Point innovated firewall architectures in the 1990s, and we believe it continues to orient its business for leadership in the data center. Security software is rapidly evolving as changes to the enterprise computing architecture alter the way companies position their IT infrastructure. As infrastructures change, security demands shift, and new companies come to market with innovative ways to protect distributed networks. We believe Check Point's legacy of technology leadership, though robust, may be preventing the company from evolving fast enough to capture these changes. We feel Check Point will continue to lead in on-premise security systems and grow in line with its recent past. Therefore, we elected to sell our position and allocate capital to an exciting new growth opportunity, **Evolution Gaming**.

Evolution Gaming is a Swedish company offering Live Casino Games B2B. The company enables casino operators to serve customers with an interactive 'brick-and-mortar'-like casino experience on a cell phone, computer, or another streaming device. Evolution is an outsourced services provider in the entertainment category, but its scalability and financial characteristics appear more like a software company. Gamers digitally engage in real-time with live human dealers who work in Evolution's studios. Gamers can also stream games through casino websites.

While Evolution runs the online games, casino operators, like Caesar's, Draft Kings, or Borgata online, are the face and financial operators that manage the casino. Live gaming includes table games like blackjack, poker, and roulette.

It also includes proprietary game show style games like Crazy Time and Live Monopoly in addition to random number generator games like slots. This highly interactive entertainment experience is rapidly growing as several governments worldwide move to regulate online gaming and entertainment, a positive tailwind benefitting Evolution's market-leading business.

Evolution Gaming aims to be the self-evident partner for land-based casinos seeking to expand online.

Today, Evolution dominates the European and U.S. markets for live casinos (called iGaming) with over 60% market share. We believe this dominant scale gives it a strong competitive advantage over peers, underpinning its ability to invest more in new game development, security, and opening new studios.

This market's barriers to entry can be high due to regulation and the trust required from its casino partners. In the coming years, we expect iGaming to gain regulatory approvals from state governments in the U.S. Fewer than five states allow iGaming today. However, we believe the recession is driving increased openness to accelerate regulation to generate tax revenue. U.S. markets could rival the EU market's size.

Another potential growth avenue for Evolution is in Asia. In time, Asian markets could be up to 20x the size of EU markets. We feel Evolution could grow earnings per share north of 25% annually for the next five years.

We trimmed our **Tencent** position because rapid share price appreciation early in the quarter brought the stock to our 10% position size limit. We feel confident that Tencent's platform will continue to serve a variety of consumers in China and see the company's valuation as compelling given the growth runway ahead. After the trim, Tencent remains our largest position.

Our increased weighting in **Aon** stemmed from our continued confidence in the company and optimism around the announced forthcoming merger with Willis Towers Watson. Please refer to the prior section for an update on the company.

We trimmed **Nestle** and **Unilever** to fund a new investment in **Kering**. Both Nestle and Unilever operate globally scaled consumer businesses comprised of well-known brands with well-defined distribution capabilities. However, the growth of the consumer-packaged goods industry has been lackluster in recent years, impacting both companies' ability to grow at a faster rate. Furthermore, both companies have recently increased operating margins to the high-teens level, reaching a point where we think further gains will be more difficult to come by. Despite the headwinds to growth, we continue to own both companies, albeit at lower weights within the Portfolio as we believe they are solid safety companies.

We expect both to continue to compound earnings over time at a consistent and steady rate, independent of economic swings. Given these growth expectations, we felt that reducing our weightings in favor of a potentially faster-growing business with similar quality and valuations made sense.

Paris-based **Kering** is one of the world's largest luxury companies. Like its peer and fellow Portfolio holding **LVMH**, Kering is family-controlled with a strong owner/executive in Francois-Henri Pinault. It also has a multi-brand conglomerate approach in an effort to drive value for shareholders. Kering owns and operates 12 brands across its portfolio, including its largest brands Gucci, Yves Saint Laurent, and Bottega Veneta. Its largest brands currently have high profitability and strong cash flows, which support a range of other brands at various development stages. Unlike LVMH, Kering is more concentrated in leather goods (55% of revenues) and ready-to-wear fashion (15%), two of the fastest-growing luxury categories.

The entire luxury goods industry is currently benefitting from tailwinds.

These tailwinds include rising incomes in emerging markets, greater spending power among women, and a consumer trend toward quality goods. We believe these could provide strong support to Kering's growth. Further, we think Kering is benefitting from a clear trend of the largest luxury brands outgrowing the smaller ones due to the ability to outspend competition on sales and marketing while also securing attractive retail locations. Over the past five years, the largest luxury companies like LVMH, Hermes, and Kering have significantly outperformed their peers. Barriers to entry into luxury goods can be high because of the longer time horizon and significant investments needed to develop brand heritage. We believe Kering could grow revenues at a high-single-digit pace, increase margins slightly over time, and drive significant free cash flow. This may allow Kering the potential to make further acquisitions, buy back shares, and continue to pay a dividend. We feel total shareholder returns could be in the range of low to mid-teens annually.

Finally, we trimmed **SAP** and added to our position in **New Oriental Education**. SAP remains a high conviction investment for the Portfolio. Late last year, SAP announced a business transition that will likely stymie earnings growth for the next two calendar years. Although we believe in SAP and its potential to affect this transition, we used our position as a source of funds to increase our weighting in New Oriental Education when New Oriental shares sold off. This trade was a shifting of capital from one position to another that became more compelling after fundamentally unwarranted selling, in our view.

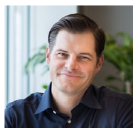
Outlook

A variety of factors can impact share price movements on a short-term basis. However, we believe earnings growth drives share prices over the long run. With that in mind, we remain focused on finding and investing in only what we believe are the most durable, financially sound international growth companies and nothing less. While markets will often react to shorter-term events, we always seek to understand the underlying business drivers and secular tailwinds to consistently point our sails toward long-term growth.

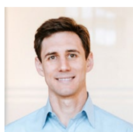
Thank you for your interest in Polen Capital and the International Growth strategy. Please feel free to contact us with any questions or comments.

Sincerely,
Todd Morris and Daniel Fields

Experience in High Quality Growth Investing



Todd Morris
Portfolio Manager & Analyst
11 years of experience



Daniel Fields, CFA
Portfolio Manager & Analyst
14 years of experience

GIPS Report

Polen Capital Management
International Growth Composite—GIPS Composite Report

		UMA	Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation	
Year End	Total ($Millions)	Assets ($Millions)	Assets ($Millions)	U.S. Dollars ($Millions)	Number of Accounts	Composite Gross (%)	Composite Net (%)	MSCI ACWI ex USA (%)	Composite Dispersion (%)	Polen Gross (%)	MSCI ACWI ex USA (%)
2020	59,161	20,662	38,499	54.63	2	12.75	12.02	10.66	N/A	14.55	17.94
2019	34,784	12,681	22,104	0.41	1	27.88	26.81	21.50	N/A	10.92	11.34
2018	20,591	7,862	12,729	0.32	1	-4.60	-5.42	-14.19	N/A	N/A	N/A
2017	17,422	6,957	10,466	0.34	1	35.06	33.94	27.19	N/A	N/A	N/A

[1]A 3 Year Standard Deviation is not available for 2017 and 2018 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 International Growth Composite created and incepted on January 1, 2017 contains fully discretionary international growth accounts that are not managed within a wrap fee structure and for comparison purposes is measured against MSCI ACWI (ex-USA). The accounts are highly concentrated and unconstrained with regard to the number of the highest-conviction positions (i.e., positions of greater than 5%) comprising the portfolios. Polen Capital invests exclusively in a portfolio of high-quality companies.

Polen Capital Management claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Polen Capital Management has been independently verified for the periods April 1, 1992 through June 30, 2020. 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 (ex-USA) Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world (excluding the United States). The MSCI ACWI (ex-USA) 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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