Polen U.S. SMID Company Growth

Portfolio Manager Commentary – June 2020

Summary

- The Polen U.S. SMID Company Growth strategy launched April 1, 2020, and is supported by the same team that oversees our U.S Small Company Growth strategy.

- The investment philosophy of the U.S. SMID Company Growth strategy is consistent with all Polen strategies. We seek to construct a concentrated portfolio of high-quality small- and mid-sized companies with repeatable and sustainable growth prospects and own them for the long term.

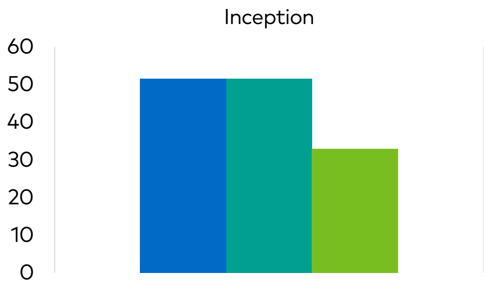
- The U.S. SMID Company Growth Composite Portfolio (the "Portfolio") had a positive inception quarter, up 51.55% on an absolute basis gross of fees.

- The Portfolio outperformed the Russell 2500 Growth Index (the "Index") return of 32.87% by nearly 1900 basis points on a relative basis for the quarter.

- The Portfolio's relative results in the second quarter adhere to what we would expect to see in a growth-driven recovery market. We also believe our strategy is positioned to protect capital in tougher market conditions.

- We are thrilled to extend our investment capabilities to include mid-cap companies and to offer a solution to clients seeking many of the positive attributes of small companies, including the potential for faster growth and higher returns, while blending in larger companies that may help to lower volatility.

Seeks Growth & Capital Preservation (Performance (%) as of 6-30-2020)



	Qtr	Inception
U.S. SMID Company Growth (Gross)	51.55	51.55
U.S. SMID Company Growth (Net)	51.55	51.55
Russell 2500 Growth	32.87	32.87

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.

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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Portfolio Overview

This is the inaugural quarter for the Polen U.S. SMID Company Growth strategy, which we launched April 1, 2020, and is supported by the same team, the Small Company Growth Team, that oversees our U.S Small Company Growth Strategy. The investment philosophy of the U.S. SMID Company Growth strategy is consistent with all Polen strategies. We seek to invest in exceptional high-quality small- and mid-sized companies. These businesses must be uniquely positioned, exhibit repeatable growth, have robust business models, and have exceptional management teams who consistently invest to drive sustainable growth at persistently high returns on capital for many years. These companies must each have the potential to compound their value at a low-to-mid teens level throughout an economic cycle. Like all Polen strategies, the U.S. SMID Company Growth strategy is concentrated. We launched the strategy with 29 companies, and we expect the holdings to range from 25 to 35 companies over time.

A U.S. SMID strategy has been in the long-term plans for the Small Company Growth Team for some time. A client request, along with the opportunity to own great businesses temporarily dislocated by the pandemic, led us to target the April 2020 launch.

We are thrilled to extend our investment capabilities to include U.S. mid-cap companies.

Most of the team has significant experience researching and investing what we view as the highest-quality companies in the mid-cap universe today, having covered and/or invested in many of these companies in the past. We were also excited to launch the U.S. SMID Company Growth strategy because we believe that it: 1) provides us the opportunity to hold our U.S. small-cap winners for longer as their market caps grow; 2) allows us to access high-quality companies becoming public as mid-sized companies; and 3) offers a solution to clients seeking the higher risk/reward profile of small caps while blending in larger companies to potentially help lower the volatility of their portfolio. We believe this combination of small and mid-cap companies may provide a balance between stability and growth that could be a better fit for some clients than our pure small cap U.S. Small Company Growth strategy.

The U.S. SMID Company Growth strategy has ~60% overlap with our U.S. Small Company Growth strategy. We constructed the new strategy from a small-cap point of view, and then added what we believe are the best mid-cap companies in the investable universe. For the small-cap portion of the Portfolio, we included companies from our U.S. Small Company Growth strategy that were both larger in market cap and, with our intention to construct a balanced portfolio, included both "safety" businesses and faster-growing businesses.

For the new mid-cap companies that did not overlap with existing holdings in the U.S. Small Company Growth strategy, our team utilized the same process we use for all our strategies based on our flywheel investment criteria and robust decision-making process. We had the added benefit of already being very familiar with many of the companies in the mid-cap universe and leveraged that expertise to quickly narrow our focus on the best businesses we felt we could find. Then, as always, we ran these businesses through our rigorous shallow and deep-dive research process, narrowing the list even further to the companies we wanted to own to launch the Portfolio.

The resulting Portfolio included 19 companies that we own in the U.S. Small Company Growth strategy and 11 distinct companies from the mid-cap universe. The overall portfolio characteristics are very similar to that of our U.S. Small Company Growth strategy including, high ROIC, high revenue growth, and reasonable financial leverage. Weighted average market cap is the key difference between the two strategies. The U.S. Small and U.S. SMID Company Growth strategies are extensions of one another—the decision to own one over the other is purely a matter of what is the best fit for our clients.

We believe the high-quality companies we seek to own in the U.S. SMID Company Growth strategy can compound their value significantly over time. The companies must meet all our flywheel conditions for high-quality compounding, which is depicted below.

We see our Portfolio comparing favorably to the Russell 2500 Growth when considering the financial manifestations of these factors. We project that the long-term revenue growth of the Portfolio is in the low to mid-teens. This estimation includes slower growth "safety" companies and faster growth companies. The weighted average ROIC of the Portfolio is ~19%, with cash flow returns that are even higher. All the companies we own in the Portfolio produce attractive cash flow and have strong balance sheets based on our research.

We view them all as being well-positioned to self-fund their growth and having skilled management teams who thoughtfully make investments that we think should help them sustain growth with high returns in the future.

Our research shows that nearly 30% of companies in the small- to- mid market cap range are unprofitable and do not produce cash flow, which leads us to conclude that our companies are of a higher quality relative to their peer group.

Our largest sector exposures in the Portfolio are within the information technology, consumer discretionary, and industrial sectors. As a residual of our bottom-up process, these sectors tend to be where we are most likely to find high-quality companies that meet our flywheel conditions. Currently, these sectors make up ~80% of the Portfolio. The remaining 20% of the Portfolio is in healthcare, financials, and communications services. Our investment criteria helps us to avoid cyclical companies and companies that are materially impacted by commodity prices and/or interest rates which often do not meet our flywheel conditions. As a result, the Portfolio typically does not have exposure to the energy, materials, real estate, and utilities sectors.

Commentary

The market action year-to-date has been unparalleled, particularly the rapid nature of the selloff in the first quarter and the rapid recovery in equity prices in the second quarter. In hindsight, the end of the first quarter was an opportune time to start a new strategy given the severe stock price dislocation of many outstanding businesses. In the first quarter, the severity of the COVID-19 pandemic likely took investors by surprise. In the second quarter, investors appeared to be more hopeful that the effect of the pandemic on some businesses was not as bad as originally thought and global markets responded. Stimulus actions by Central Banks likely had a large impact on risk tolerance in the period as well, accelerating the pace of the bounce back.

While the volatility has been unique, this crisis has similarities to those we have invested through before. An early sorting out of winners and losers usually occurs after most sharp selloffs. During periods where there is still a high degree of underlying uncertainty, the payoff for doing solid research and making smart decisions goes up. Times like these can often reward skilled active managers who are disciplined, patient, and perform deep research, especially in the small-cap category where the dispersion of returns among equities can be even greater. We feel we have met these criteria, and as a result, have enjoyed positive relative results.

The Portfolio's relative results in the second quarter largely reflect what we would expect to see in a growth-driven recovery market. We also believe our strategy is positioned to protect capital in tougher market conditions, like that of the first quarter. We have high standards for the companies we own in the Portfolio, and we always strive to maintain a balance between slower "safety" companies that we find tend to better weather market downturns and faster growth companies that tend perform well during periods of market strength. We are intentional about maintaining this balance, and we believe it is an advantage across different market conditions.

Portfolio Performance

The U.S. SMID Company Growth Composite Portfolio (the "Portfolio") had a positive inception quarter, up 51.55% on an absolute basis gross of fees. The Portfolio outperformed the Russell 2500 Growth Index (the "Index") return of 32.87% by nearly 1900 basis points on a relative basis in the quarter. Every single company in the Portfolio produced positive returns during the quarter, and the Portfolio, in aggregate, outperformed the Index each month of the quarter.

Our strongest absolute and relative performance came from the information technology and consumer discretionary sectors, where we also have our greatest exposure. Sector allocation was a contributor to the Portfolio's relative return, but stock selection drove most of the outperformance. Overall, our fastest growth companies performed better than our slower growth "safety" companies, although the slower growth safety companies provided ballast for the Portfolio during weaker periods, driving strength on days when the market was down.

A common theme amongst some of the strongest companies in the Portfolio this quarter is the accelerating shift to digital.

This has manifested itself in a couple of different ways. Companies like **Etsy** and **Match Group** continue to benefit from consumers adopting more digital behaviors from shopping to dating. **The Trade Desk**, **Globant**, **Dynatrace** and **Paycom** benefit from customers accelerating digital transformation. These secular trends were strong before COVID-19 and have only strengthened because of the pandemic. We expect these trends to remain strong no matter what happens next with COVID-19.

The Portfolio also benefitted from owning companies like **Ollie's Bargain Outlet** and **Wingstop**, which have been direct beneficiaries of changing consumer behavior during this crisis. These companies took market share from retailers and restaurants that had to temporarily shut down as a result of the pandemic. Against this backdrop, it is possible that these companies are over earning, and we remain mindful of this possibility as the crisis evolves. In part, this awareness drove our decision to sell Ollie's Bargain Outlet, which we discuss later in this letter.

During the quarter, the leading contributors to the Portfolio were **Etsy**, **The Trade Desk**, and **Fox Factory Holdings** based on Bloomberg's total attribution.

Etsy was the top contributor. Etsy is a marketplace business and the leader in the $100B+ global market for unique and creative goods. It operates a scaled two-sided marketplace and fits all our flywheel investment criteria. We also believe that the company has a particularly effective management team and culture. Solid fundamentals drove the outperformance during the quarter. Etsy had an effective response to the pandemic and was able to help customers and sellers by supporting a ramp-up in mask production. This certainly led to some short-term benefits. However, Etsy showed strength across much of its marketplace during the pandemic and continued to adopt new customers, which we think bodes well for the both the long-term and short-term.

The Trade Desk was another top contributor. The Trade Desk operates the largest programmatic advertising platform globally. The company's platform allows advertisers to buy digital media in an automated fashion and purchase the impressions (how the ad is displayed) they want, which drives reach and scale. Through The Trade Desk, brands can reach more consumers and engage with them across different touchpoints with more relevant ads. While the impact from COVID-19 was mixed for The Trade Desk initially, it was also a catalyst for advertisers to move in the company's direction. We believe that data-driven advertising will continue to gain traction over time and that The Trade Desk's competitive position is being enhanced in this environment as its competitors struggle. The Trade Desk management's commentary during the quarter, in our opinion, was indicative of this belief.

Fox Factory Holdings was also a top contributor in the second quarter. The company designs, manufactures, and sells high-performance products for bicycles and on-road and off-road vehicles. The positive performance this quarter follows a decline last quarter due to concerns about the coronavirus's effect on short-term demand. This appeared to be somewhat overblown given the uniqueness of Fox Factory products—the company continued to see solid demand and announced sales increased 14% year over year in the first quarter 2020 despite the pandemic. Management also took several actions that we believe are consistent with sound, long-term decision making, including seeking to maintain a solid balance sheet while continuing to invest for the future. With our long-term view, we continue to believe that Fox Factory's prospects remain favorable given the strength of its brand, quality of its products, and skill of its management team.

During the quarter the largest detractors, based on Bloomberg's total attribution, were **Euronet Worldwide**, **Exponent**, and **Copart**. All contributed positively on an absolute basis.

Exponent was a detractor during the quarter. Exponent is a consulting firm with a uniquely consistent business model. The company performs high-profile, scientifically technical investigations. These investigations usually involve litigation and include plane crashes, car recalls and natural disasters. We believe the company has a repeatable business model that will hold up well, no matter the macroeconomic backdrop. We would characterize the company's underperformance in the quarter as being related to its role as a slow and steady "safety" business for us. Slower growth safety businesses tended to be laggards relative to higher growth businesses during the quarter. This is a function of style, not a fundamental issue in our view.

Euronet Worldwide was another detractor from the Portfolio on a relative basis. COVID-19 has significantly impacted the company's ATM business, the largest of the company's three segments. This segment of the business relies on people traveling, mostly in Europe. Other segments of Euronet's business have fared much better and some have even benefitted from the current situation. We have been analyzing the actions of management and believe that the company will not only weather this current situation, but potentially emerge stronger. They are committed to using their $1b+ cash balance to make life difficult for smaller competitors. Mike Brown, Founder and CEO, has stated that the company intends to be aggressive in the marketplace to gain share in this period, a strategy he followed successfully during the Global Financial Crisis. It is possible for travel activity to rebound sooner, but even without a rebound travel in the near term, we believe the return profile from current levels is attractive.

Copart was also a detractor, although the stock was up nearly 22% in the second quarter. Copart operates online vehicle auctions and is a successful, high return business. Our research indicates that the company, which is the global leader in online vehicle auctions, operates a resilient business with high barriers to entry. In our view, the company remains well positioned for the long-term. The impact from COVID-19 on their business and management's ability to navigate through this difficult environment has, in our opinion, been better than expected. Furthermore, management's most recent commentary suggests that visibility into the company continues to improve with both volumes and average selling price on the rise. We remain very excited about the long-term prospects for Copart.

Portfolio Activity

We made a few changes to the portfolio towards the end of the quarter including the addition of **WD-40 Company**, sale of **Ollie's Bargain Outlet** and rebalances given the attractive gains in the quarter. Rebalancing is unusual for us but warranted in this case.

We added **WD-40 Company** to the Portfolio. Americans will likely be familiar with its primary product—the blue and yellow can with a red top found in most homes that might be used to fix a squeaky door. WD-40 branded products account for an overwhelming majority of sales.

Management has rightly focused their efforts on growing this brand globally and enhancing the value proposition to customers with consistent product improvements over the past 20 years. We believe they can continue to execute this strategy for many years to come. In our view, the company's competitive advantage is derived from their brand value that the current management team has carefully cultivated over the past 33 years and previous management for an additional 35 years. The product category itself has unique attributes that have enabled the brand to endure while facing minimal competition. Ultimately, we expect the company to compound its value at a low-to-mid-teens rate for the foreseeable future.

We sold our investment in **Ollie's Bargain Outlet**. Ollie's provides a differentiated customer experience and unique value proposition by selling a wide assortment of brand name products at drastically reduced prices. Ollie's low-priced model is built off an opportunistic buying strategy whereby the company purchases excess inventory from manufacturers and then shares the cost savings with its customers. More recently, the company has shown signs of challenges in scaling this unique strategy even after years of success. Ollie's has also experienced greater-than-expected store cannibalization. While Ollie's has had tremendous success, this leaves future growth in doubt in our view. Ollie's has been a holding in the Portfolio since inception and has been a solid investment, but we simply believe its path forward will be difficult. We question the repeatability of its sales process, a violation of a key component of our flywheel, and we felt it was prudent to sell.

We also executed a series of trades that included trimming **Fox Factory Holding Corp**, **Paycom**, **The Trade Desk**, **Etsy** and **Five Below**, which meaningfully outperformed the portfolio during the quarter. We used the proceeds from these trades to add to **Exponent**, **Generac**, **Tyler Technologies**, **Euronet Worldwide**, and **CDW Corp**, which underperformed the Portfolio.

The goal of these trades was to help reestablish the balance between what we consider slower growth "safety" companies and faster growth companies that we had intended at the inception of the Portfolio. It is unlikely that we will perform rebalancing trades like this often. With the strong market performance, Portfolio performance, and high dispersion in performance across companies, we thought it prudent to reestablish this balance that we consistently seek to have in the Portfolio. This is an important driver of the downside protection we aim to deliver in difficult market conditions.

Outlook

The outlook is not clear, and it could be that way for some time given the twists and turns that COVID-19 has already presented. We expect that most companies will report uneven results for the next several quarters and that some of the traditional metrics used by fundamental investors will be less relevant. The question is: how will we be able to analyze the results and know if the company is on track? We will be carefully listening to management teams and observing their actions and decisions.

We aim to discern whether management is acting in a consistent and disciplined manner, updating their views and adjusting their strategies based on changes in their markets. We also want to see long-term decision making that we think reflects the best interest of all stakeholders. During this period, we believe these signals will be the most important for long-term investors.

Skilled and effective management is a critical aspect of our investment flywheel and, in our view, a key driver of long-term value creation and long-term business resiliency.

The market may look through short term uneven results for a period. But we think the companies that can navigate and maneuver their businesses into a stronger position during this uncertain time will continue to separate themselves from the pack, potentially driving long-term outperformance. We believe we own these types of companies today, and we will continue our search for these types of business tomorrow and well into the future no matter the economic environment.

We are still in a period of uncertainty, and the market could remain volatile. Rather than trying to predict what will happen next, we continue to focus on owning the best businesses that we can find and that we believe are well-prepared for whatever happens next. Leaders of the types of companies we seek view challenge as an opportunity, just as we view volatility as an opportunity, rather than risk. We are always actively researching and searching for outstanding high-quality companies, and we will be ready to take advantage of opportunities as they present themselves, no matter what the market backdrop.

Team Update

The entire U.S. Small Company Growth Team, Tucker Walsh, Troy Renauld, Shane Smith, Whitney Crawford, and our newest team member, Christopher Ballard, each support the U.S. SMID Company Growth strategy, and I, Rayna Lesser Hannaway, am Lead Portfolio Manager. We functionally operate the same way that we do on the U.S. Small Company Growth strategy for which I am co-portfolio manager, working collaboratively to eliminate bias, encourage unorthodox thinking, and create the best possible decision-making environment. The team is diverse with decades of small and mid-cap investing experience.

We prioritized culture while building the team, and each team member brings a special passion and temperament for long-term investing in high-quality companies. We value humility, continuous learning, and continuous improvement. Each team member functions as a research analyst, first and foremost, with me doing deep company work alongside the research analysts. We operate in a very flat and highly collaborative structure, and we each function as generalists while leveraging the deep domain expertise on the team. To uncover blind spots, encourage different perspectives, and generate better discussions, we have multiple team members work concurrently on the same idea. When we do this, we embrace different perspectives and constructive disagreement. We believe analyzing companies this way keeps us honest and accountable in exploring all sides of an issue to get to the truth.

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

Sincerely,
Rayna Lesser Hannaway

Experience in High Quality Growth Investing

Rayna Lesser Hannaway
Portfolio Manager & Analyst
24 years of experience

Historical Performance

	Polen (Gross) (%)	Polen (Net) (%)	Russell 2500 Growth Index (%)
3 Months	51.55	51.55	32.87
Since Inception (04-01-2020)	51.55	51.55	32.87

Returns are trailing through 6-30-2020. Annualized returns are presented for periods greater than one-year.
Source: Archer.

Past performance is not indicative of future results. Returns are presented gross and net of management fees and include the reinvestment of all income.

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 portfolio or that the securities sold will not be repurchased. 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 information performance of the securities discussed herein. A complete list of our past specific recommendations is available upon request.

The Russell 2500 Growth Index measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.