POLEN | CAPITAL

POLEN INTERNATIONAL GROWTH STRATEGY

Summary

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- During the third quarter of 2019, the Polen International Growth Composite Portfolio (the "Portfolio") returned -1.63% gross of fees. The MSCI All Country World Index ex-US (the "Index") returned -1.80%.

- Over the trailing twelve-month period, the Portfolio returned 2.76% gross of fees while the Index returned -1.23%.

- Market trends toward defensive sectors, which we discussed in last quarter's commentary letter, continued in the third quarter.

- During the third quarter of 2019, our holdings in the healthcare and consumer staples sectors contributed most to Portfolio returns. Holdings in the information technology and communication services sectors were a headwind.

Commentary

During the third quarter of 2019, the Polen International Growth Composite Portfolio (the "Portfolio") returned -1.63% gross of fees. The MSCI All Country World Index (ex-US) (the "Index") returned -1.80%. Market trends toward defensive sectors, which we discussed in last quarter's commentary letter, continued in the third quarter as holdings in the healthcare and consumer staples sectors led performance while information technology and communications services were laggards.

Economist Hyman Minsky's financial instability-hypothesis said that stability is destabilizing. The past decade's environment of low interest rates and low volatility affected markets through greater risk appetites and greater slack for weak fundamentals. We wonder what Minsky would think today. We observe that more than $15 trillion of credit instruments with negative yields exist globally and that pre-IPO businesses we believe lack competitive differentiation are commanding astounding valuations in private markets.

Please do not mistake our Minsky reference as a predictive call. These conditions could very well persist. With low volatility, malinvestment – and the instability it sows – could be rising. Case in point, when investors perceive certainty or use low-cost capital, they stomach higher risk. It seems to us that buyers of negative yielding debt, other than those whose hands are tied by regulatory requirements established in another era, are opting into capital destruction or assuming they can sell to a greater fool at still-lower yields. Private market investments often come with a captivating story. Typically crafted around a need to win a race for scale, private market investments could be another area in which capital gets destroyed.

In opposition to these practices, however, we see benefits to being boring. Today's news flows, whether about negative interest rates, failed IPOs, or what's said on Twitter, can excite onlookers. However, amidst this noise, we maintain our fundamental focus on Polen Capital's investment guardrails. They force us to seek investments in competitively advantaged businesses producing consistent cash flows. At a glance, our Portfolio may appear boring, but it is comprised of steady defensive growth businesses. We view our guardrails as a source of robustness that steer us clear of investments careening toward capital destruction. We believe our Portfolio is positioned to deliver steady double-digit earnings per share growth which should drive long term investor returns.

Portfolio Performance & Activity

As of September 30, 2019, the Portfolio held 24 companies. During the third quarter, the leading contributors to performance were **Medtronic plc** (0.52%), **Compass Group plc** (0.24%), and **Experian plc** (0.23%).

Shares of Ireland-based medical technology company Medtronic contributed to returns as the company sees a pathway to accelerating revenue and earnings growth. Each year, Medtronic products help more than 70 million patients globally and generate over $30B in sales. Recently, sales benefitted from greater demand for several Medtronic products including: valves for a minimally invasive heart procedure known as Transcathetar Aeortic Valve Replacement (TAVR), an anti-bacterial sleeve which surrounds medical devices implanted in patients called TYRX, and robotic procedures for spinal implants and neurosurgery utilizing the Mazor X robot. Results in emerging markets, which represent 15% of company sales, also remained strong.

UK-based Compass Group is the world's leading contract catering services company. It operates customer dining facilities spanning corporate cafeterias, college dining complexes, hospital and senior living facility cafeterias and even sports stadium concession stands in nearly 50 countries. Compass Group saw robust revenue growth of 6.5% through the first nine months of its fiscal year.

With roughly 600,000 employees, Compass Group is a vast global business. We like outsourced services providers with scale because they seek to offer clients a better outcome at a lower cost. In Compass Group's case, food services are best provided by a category leader. Compass Group sources food inputs with unmatched scale. For example, its Foodbuy procurement business spends roughly $20 billion purchasing food in North America each year. This enables the company to keep costs low for the produce, meats and other ingredients Compass Group prepares in its kitchens. Long-term contracts and a partnership mentality establish lasting ties between Compass Group and its customers, a fact proven by its greater than 90% retention rate on contact renewals. Case in point, we'd note that most of Silicon Valley – an area known for showering employees with perquisites – uses Compass Group for dining facility management. Though Compass Group is large, it still holds just 10% share of food services globally. In our view, bringing scale in a services niche to a fragmented marketplace sets up an attractive long-term growth runway. We believe Compass Group can grow its total returns to shareholders at a double-digit rate for the next three to five years.

Shares of Ireland-based Experian contributed to performance in the quarter. Experian is the leading operator of credit services in the world. Credit bureaus inform underwriting decisions for businesses wishing to extend credit. Experian maintains an unmatched array of consumer data which it uses to help organizations lend fairly, consistently and responsibly. It also offers analytics which provide critical insights on risk, a line of services which tends to grow rapidly whenever economies tip into recession. Lastly, Experian's Consumer Services business includes identity theft protection, credit education and lead generation – a new area of focus which could prove important for connecting the right consumer to the right lender.

Roughly 80% of Experian's revenues come from its credit data and analytics services. The remaining 20% of sales stem from consumer services. Experian continually improves its data sets by acquiring an additional ~$250 million of new information each year. Despite delivering high value services, the costs Experian charges customers are quite low. This combination makes this information services business critical to its customers and a great value. Furthermore, alongside the scale that comes with being the largest player in its industry, Experian enjoys high margins on incremental business wins. As such, we see Experian's business offering consistent revenue growth with potential for steady long-term profit margin expansion. We expect Experian can grow its total returns to shareholders at a double-digit rate for the next five years.

The three bottom contributors for the quarter were **SAP SE** (-0.91%), **Sage Group Plc** (-0.68%), and **Tencent Ltd.** (-0.46%).

Shares of German software giant SAP traded lower after the company reported its latest quarterly results in July. Two issues impacted SAP in the second quarter, resulting in slower-than-expected revenue growth. First, the company is pushing infrastructure-as-a-service clients and prospects toward hyper-scaled cloud service providers. Simply stated, this means SAP is backing out of the massive datacenter business and ceding this costly, lower margined opportunity to other players. This is a sound initiative, in our view, as many IAAS customers will still use SAP applications, but third parties will assume the cost of hosting workloads in non-SAP datacenters.

Second, SAP noted 6% declines in license growth of its legacy on-premise software business. SAP fully offset weakness in on-premise licenses with on-premise maintenance revenue growth. Given our long-term view, we are not discouraged by these developments. On-premise license growth is seasonally weak at this point in the year and can be lumpy at times. More strategically, though, we note that SAP's business transition emphasizes cloud-delivered software applications. Thus, in our view, slower growth in the legacy business makes the best part of SAP, cloud software, grow faster. SAP's cloud business continues to hum and saw significant margin expansion in the key software-as-a-service and platform-as-a-service areas. We believe SAP's business is well positioned to continue compounding total shareholder returns at a low to mid-teens rate over the next 5 years.

UK-based software company Sage Group also detracted from performance in the quarter. Sage Group makes business management software and, like SAP, is transitioning its business to emphasize more cloud-based sales. This transition will simplify Sage Group's product lineup, enable more consistent user experiences by ensuring all clients employ the most capable and current software products, and provide better economics to Sage. Cloud-based software also lowers monthly costs to clients, thereby enhancing Sage Group's value proposition. Business transitions take time and focus. Management is carefully rolling out cloud products in new markets and encouraging legacy product users to convert to the cloud. We expect the added focus applied to salesforce monitoring, new business development, and customer relationship management should benefit the company in time but are an increased cost burden today.

We are seeing positive effects from Sage Group's business transition, but we know patience is required. Through the first nine months of the fiscal year, cloud subscriptions grew at a robust at a 28% rate. Conversely, slower growing non-core products are not growing. Sage Group shares declined in the quarter over concerns that its non-cloud business was not performing and an uptick in expenses would stymie profitability. We are encouraged by management's commitment to invest for growth in the cloud, and to run the legacy businesses for cash or prepare them to be sold. While a drag on near-term prospects, we think these changes position Sage Group for revenue growth and higher profit margins in the coming years. We believe Sage Group can compound total shareholder returns at a low to mid-teens rate over the next 5 years.

Chinese internet giant Tencent was a drag on Portfolio performance in the quarter. Tencent serves its users as a portal that is essential for much of daily life in China. Everything from gaming, messaging, chat and social media, video content and payments falls within the confines of Tencent's application, and that is just within its proprietary offerings. Third party applications extend Tencent's utility to countless corners of the online and offline world in China.

In the latest quarter, Tencent's gaming business appeared to be back on its feet and poised for growth. In 2018, gaming revenue growth suffered through a rocky stretch following Chinese regulatory changes. New mobile games launched this year are seeing rapid user adoption with monetization expected to soon follow. Based on our expectations, a pipeline of further launches later this year may propel mobile gaming's sales growth.

One new feature for gamers is the rollout of a "season pass" program, which allows gamers to buy and redeem credits earned in one game on any title within Tencent's platform. The season pass should encourage ongoing spending from gamers who already spend and also encourage spending for gamers who are not spending today with higher levels of engagement. The season pass is an interesting way to drive engagement and loyalty for Tencent's market-leading gaming platform.

Gaming (PC + mobile) today contributes just over one-third of revenues and half of profits for Tencent. Advertising is another growth opportunity, contributing just under 20% of sales today, but we believe this should grow meaningfully higher over time. By our estimates today, Tencent serves its users less than 10% of the ad-load that Western competitor Facebook serves its users. Tencent believes Weixin ads per user per day could match Facebook in time. We share management's belief that the Weixin platform has a significant runway for growth in the coming years. Serving ads in social media is a powerful business opportunity and just one of Tencent's many future growth drivers. We are confident in our view that Tencent can drive greater than 20% earnings growth for the next five years.

We did not make any changes to the Portfolio in the quarter.

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 & Daniel Fields

Historical Performance

International Growth SMA Composite as of Sep-30-2019			
	Polen (Gross)	Polen (Net)	ACWIxUS
Sep-19	-0.45	-0.45	2.57
3 Month	-1.64	-1.84	-1.80
YTD	16.16	15.44	11.55
1 Year	2.76	1.88	-1.23
Since Inception (Jan 3, 2017)	15.81	14.84	7.43

Returns are trailing through September-30-2019

Annualized returns are presented for periods greater than 1 year.

Source: Archer

GIPS Disclosure

Polen Capital Management
International Growth Composite-Annual Disclosure Presentation

		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 US	Composite Dispersion	Polen Gross	MSCI ACWI ex USA
2018	20,591	7,862	12,729	0.3	1	-4.60%	-5.41%	-14.19%	N/A	-	11.54
2017	17,422	6,957	10,466	0.3	1	35.06%	33.94%	27.19%	N/A	-	12.04

Note: N/A - There are five or fewer accounts in the composite the entire year.

Total assets and UMA assets are supplemental information to the Annual Disclosure Presentation.

GIPS Disclosure

The International Growth Composite created 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). Polen Capital invests exclusively in a portfolio of high-quality companies.

Polen Capital Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Polen Capital Management has been independently verified by ACA Performance Services, LLC for the periods January 1, 2016 through December 31, 2018. A verification covering the periods from April 1, 1992 through December 31, 2015 was performed by Ashland Partners & Company LLP, which was acquired by ACA Performance Services, LLC, whose report expressed an unqualified opinion thereon. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Polen Capital Management is an independent registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request. In July 2007, the firm was reorganized from an S-corporation into an LLC and changed names from Polen Capital Management, Inc. to Polen Capital Management, LLC.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. Effective January 1, 2018, accounts must be fully invested at the market open on the first business day of the month, in order to be included in that month's composite.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The management fee schedule is as follows:
Institutional: Per annum fees for managing accounts are 85 basis points (0.85%) on the first $50 Million and 65 basis points (0.65%) on all assets above $50 Million of assets under management. HNW: Per annum fees for managing accounts are 160 basis points (1.60%) of the first $500,000 of assets under management and 110 basis points (1.10%) of amounts above $500,000 of assets under management. Actual investment advisory fees incurred by clients may vary.

Past performance does not guarantee future results and future accuracy and profitable results cannot be guaranteed. Performance figures are presented gross and net of management fees and have been calculated after the deduction of all transaction costs and commissions. Polen Capital is an SEC registered investment advisor and its investment advisory fees are described in its Form ADV Part 2A. The advisory fees will reduce clients' returns. The chart below depicts the effect of a 1% management fee on the growth of one dollar over a 10 year period at 10% (9% after fees) and 20% (19% after fees) assumed rates of return.

The MSCI ACWI (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 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%	1.1	1.21	1.33	1.46	1.61	1.71	1.95	2.14	2.36	2.59
9%	1.09	1.19	1.3	1.41	1.54	1.68	1.83	1.99	2.17	2.39
20%	1.2	1.44	1.73	2.07	2.49	2.99	3.58	4.3	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