

Polen Focus Growth

Portfolio Manager Commentary – June 2021

Summary

- During the second quarter of 2021, the Polen Focus Growth Composite Portfolio (the "Portfolio") returned 13.25% gross of fees versus 11.93% for the Russell 1000 Growth Index (the "Index") and 8.55% for the S&P 500. Year to date, the Portfolio has surged 15.30%, gross of fees, versus 12.99% and 15.25% for the Index and S&P 500, respectively.
- The "reopening/reflation trade" seems to have already run its course as statements from the Federal Reserve Board (the "Fed") and the market's Fed Funds rate expectations may indicate that the U.S. central bank is unlikely to let inflation run too hot.
- Most of our companies grew during the pandemic despite the challenging economic backdrop and have continued to report revenue and earnings growth above our expectations.
- While this makes for more difficult comparisons going forward, growth rates in early 2021 for several companies in the Portfolio, including Alphabet, Facebook, and Adobe, have remained resilient.
- We had limited trading activity in the second quarter outside of a small trim of Gartner. Most of our companies performed at or above the levels expected, and we did not otherwise see better uses of capital in the second quarter.
- Given recent headlines around possible regulatory changes for big tech companies, we examined the difference between exposure to risks such as antitrust complaints and the actual risks we see based on our assessments of these businesses.

Seeks Growth & Capital Preservation (Performance (%) as of 06-30-2021)



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.

Commentary

During the second quarter of 2021, the Polen Focus Growth Composite Portfolio (the "Portfolio") returned 13.25% gross of fees versus 11.93% for the Russell 1000 Growth Index (the "Index") and 8.55% for the S&P 500. Year to date, the Portfolio has appreciated 15.30% gross of fees versus 12.99% and 15.25% for the Index and S&P 500, respectively.

The Reopening Trade?

Last quarter we discussed the "reopening/reflation trade" and the robust performance of cyclical versus secular growth businesses that were catalyzed by rising inflation, rising long-term interest rates and a steepening of the yield curve. We also discussed that we believe it is very difficult to consistently predict the direction of these types of macro factors. These factors are mostly noise in our view because we invest for the long-term in what we believe are competitively advantaged businesses that are so well-positioned that they have the potential to grow significantly despite more temporary macro headwinds that could surface along the way. Our investment philosophy is that, in the long run, corporate earnings drive returns. So, we much prefer aligning our clients with businesses that we believe have favorable long-term earnings power rather than getting wrapped up in short-term "trades" that are often driven by difficult macro and/or stock momentum predictions.

Just three months following the "reopening/value trade" idea that had become popular, it seems this narrative might have already run its course. Statements from the Fed and the future path of the Fed Funds rate imply to us that the central bank is unlikely to let inflation run too hot. As such, 10-year Treasury yields fell back below the 1.5% mark recently, and the shape of the yield curve appears to be flattening again. While the bond market adjusts to the outlook for inflation and Fed action, the companies in our Portfolio have been announcing revenue and earnings growth that has been above our expectations, in most cases.

Most of our companies grew during the pandemic despite difficult economic times.

This makes for more difficult comparisons this year, but growth rates for several companies in the Portfolio in early 2021, including **Alphabet**, **Facebook**, and **Adobe**, have remained resilient. Aligning ourselves with these types of businesses—those we consider compounding machines—has enabled us to generate compelling returns for clients over more than three decades despite macro and market headwinds coming and going along the way.

Portfolio Performance and Attribution

Our top absolute performers in the second quarter of 2021 were **Alphabet**, **Facebook**, and **Adobe**. For absolute detractors, **Abbott Laboratories** was the only holding to post a negative return in the quarter, while **Netflix** and **Starbucks** had slightly positive contributions in the quarter.

Facebook and **Alphabet** were the top contributors to our return for the second consecutive quarter. Both companies have over \$1 trillion market capitalizations. Yet, based on first quarter 2021 results, both are currently still growing revenue at over 30% organically! In fact, last quarter Facebook grew revenue 48% year over year. Facebook and Alphabet have generated earnings and intrinsic value growth for many years, driven largely by the mostly free services these companies provide to people who can easily choose to stop using them and spend their time elsewhere.

That said, we are regularly asked about the perceived high regulatory risk around Alphabet and Facebook. We examine risks to businesses and, in particular, regulatory risks through a lens of risk exposure versus actual risk. For instance, the antitrust complaints globally against Alphabet and Facebook based on their size, influence, and strong competitive positioning, definitionally exposes these companies to more regulatory risk than much smaller businesses. However, we do not believe risk exposure is the same as actual risk.

Actual Risk vs. Exposure Risk

Actual risk, to us, depends on many factors. In the case of U.S. antitrust complaints against **Alphabet** and **Facebook**, the question is whether these companies are harming consumers and/or stifling innovation under applicable U.S. antitrust laws. Antitrust complaints against a company, in and of themselves, do not necessarily mean the company has committed antitrust violations and therefore has actual antitrust risk. In these situations, assessing whether Alphabet or Facebook have high actual regulatory risk requires, in our view, a deep understanding of these businesses, their value propositions, their products, and the competitive landscape, which are key areas of focus for us as business analysts.

We believe Alphabet and Facebook have grown to their current size by recognizing their users, a key stakeholder, were missing out on experiences they would value such as searching for information more easily online or connecting with friends and family digitally, and then figuring out how to deliver on those experiences in a unique way. Following these innovations, we believe Alphabet and Facebook have generally executed well, despite certain mistakes along the way, by continuing to innovate and focusing on other initiatives that have amplified the value stakeholders see. The experiences these companies have developed have come at no out-of-pocket cost to users and with no required commitment to continue using these products.

Users are not the only stakeholders these businesses have served effectively in our view. Advertisers are another key stakeholder and customers of these businesses. Our research shows that most advertisers would indicate they get a better return on investment using Google Ad Words or Facebook News Feed ads versus Bing, Twitter, legacy TV, radio, or print.

We believe many advertisers would also cite the convenience these platforms offer through their ad serving, reporting, and measurement capabilities. In addition, these platforms have democratized advertising, allowing small businesses to find and market to customers more easily. This democratized advertising has catalyzed small business creation and success, which has several implications for the broader economy.

Despite their large size, each of Facebook's and Alphabet's platforms still has fairly low market share of the total global advertising market and direct competitors across their products. Most products are free to use, and each of these platforms pours billions of dollars annually into its respective innovation efforts. Nonetheless, we see these companies being lumped in with the monopolists of yesteryear, which have historically gouged consumers through monopolist pricing, often for products and services that are essential and cannot be substituted.

We view the antitrust complaints against these companies by governments and regulatory agencies that we have seen to date as being more about the frustrations that some have that these businesses are difficult to compete with and their ubiquity rather than being the result of a careful assessment of whether these companies are actually harming consumers and/or stifling innovation as we believe is required under existing antitrust laws.

We believe this is because regulators realize it will be very difficult to make a compelling antitrust case under applicable laws for the reasons discussed above. In fact, in the recent dismissal of the Federal Trade Commission's ("FTC") antitrust complaint against Facebook, the U.S. District Court judge noted the FTC failed to even describe how Facebook has high market share within an appropriately defined market.

So, when looking at an example like the FTC's dismissed antitrust complaint, did the complaint itself mean Facebook had high actual regulatory risk? The answer is no in our view—it simply means the company is exposed to antitrust complaints.

Determining actual risk requires a fundamental understanding of the business and the issues at hand.

Antitrust complaints or threats of regulation are not actual regulation. Surveys suggesting users are unhappy does not necessarily mean users are actually unhappy or will stop using the service. Headlines that some employees might be unhappy does not necessarily mean many employees are actually unhappy. Through our research, we assess actual risks to businesses based on what we think is reasonably likely to happen and our understanding of these businesses and their key stakeholders.

If Congress rewrote and approved U.S. antitrust law to allow large, competitively advantaged companies to be broken up despite not harming consumers or stifling innovation (which we think would have all sorts of negative implications for capitalism as a whole), we would, of course, reassess the risk profiles of these businesses. But today, these issues are mostly headlines and not likely actual risks in our opinion.

As such, the businesses and their results are currently driving attractive investment returns, as they have been for many years. It is not unusual for the businesses that we seek, which tend to have high market share within the new industries that they create in many cases, to one day find themselves becoming the target of regulatory scrutiny. However, in our experience, they rarely have had their business models or growth trajectories impacted as a result. In a capitalist system, antitrust laws are generally designed to protect consumers and are not generally designed to protect competing companies offering inferior products to consumers. That being the case, we continue to believe the actual regulatory risks for Alphabet, Facebook and Amazon are quite low today.

For top contributor **Adobe**, during the past quarter, the company continued to execute at a high level and remained a beneficiary of an accelerated digital landscape.

Abbott Laboratories was the lone detractor in the quarter as the company preannounced that revenue and earnings this year would be below their previous guidance. We still expect the company to grow earnings more than 20% this year and continue double-digit earnings growth in the years to come. However, weakness in COVID-19 testing revenue is primarily responsible for the guidance reduction. Abbott is a leader in multiple types of COVID-19 diagnostic tests, and the largely successful vaccine rollout globally is leading to less COVID testing than the company expected. Two years ago, these tests obviously accounted for \$0 in revenue but recently accounted for nearly \$10 billion in annualized revenues as of the fourth quarter of 2020. We have expected COVID testing revenues to decline sequentially every quarter and eventually level out at less than \$1 billion per year. We are not surprised by the current reality, but the decline has been more rapid than what management had expected.

Abbott is a diversified medical products company with likely strong growth to come from its core businesses outside of COVID testing—our investment thesis was not dependent on pandemic related revenue. While the reduction in guidance is atypical for Abbott's conservative management team, we do not believe it changes our long-term growth assumptions or the investment case in Abbott.

For **Starbucks** and **Netflix**, we believe the underlying businesses for both companies remain strong. Starbucks has grappled with the impact of the pandemic, but results have continued to show an ongoing post-pandemic recovery.

With **Netflix**, we anticipate content spending to moderate as subscriber growth continues, which we believe should result in attractive double-digit earnings and cashflow growth over the next five years and beyond.

Portfolio Activity

We had limited activity in the second quarter of 2021 outside of a small trim of **Gartner**. Trading activity is simply an output of our research process and how businesses in the Portfolio are executing overall and relative to other companies we have been studying closely. We prefer to have little to no Portfolio activity as it likely means that we see our companies are executing well and that we are not finding acceptable or superior alternative uses of capital.

Outlook

The first and second quarters, back-to-back, are a good reminder that predicting macroeconomic or market movements are very difficult. Identifying competitively advantaged businesses with wide open growth potential is a more repeatable and sustainable investment strategy, in our opinion. Our companies are generally executing very well. As such, there has been little need for activity as of late. That said, we are always looking for the next great businesses that can compound returns at high levels for the next ten years.

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

Sincerely,

Dan Davidowitz and Brandon Ladoff

Experience in High Quality Growth Investing



Dan Davidowitz, CFA
Portfolio Manager & Analyst
22 years of experience



Brandon Ladoff
Portfolio Manager & Director of Research
8 years of experience

GIPS Report

Polen Capital Management
Focus Growth Composite—GIPS Composite Report

Year End	UMA		Firm	Composite Assets		Annual Performance Results					3 Year Standard Deviation		
	Total (\$Millions)	Assets (\$Millions)	Assets (\$Millions)	U.S. Dollars (\$Millions)	Number of Accounts	Composite Gross (%)	Composite Net (%)	S&P 500 (%)	Russell 1000 G (%)	Composite Dispersion (%)	Composite Gross (%)	S&P 500 (%)	Russell 1000 G (%)
2020	59,161	20,662	38,499	12,257	1903	34.64	34.00	18.40	38.49	0.4	18.16	18.53	19.64
2019	34,784	12,681	22,104	8,831	939	38.80	38.16	31.49	36.40	0.3	12.13	11.93	13.07
2018	20,591	7,862	12,729	6,146	705	8.99	8.48	-4.38	-1.51	0.2	11.90	10.95	12.12
2017	17,422	6,957	10,466	5,310	513	27.74	27.14	21.83	30.22	0.3	10.66	10.07	10.54
2016	11,251	4,697	6,554	3,212	426	1.72	1.22	11.96	7.09	0.2	11.31	10.74	11.31
2015	7,451	2,125	5,326	2,239	321	15.89	15.27	1.38	5.68	0.1	10.92	10.62	10.85
2014	5,328	1,335	3,993	1,990	237	17.60	16.95	13.69	13.06	0.2	10.66	9.10	9.73
2013	5,015	1,197	3,818	1,834	245	23.77	23.07	32.39	33.49	0.3	11.91	12.11	12.35
2012	4,527	889	3,638	1,495	325	12.43	11.75	16.00	15.26	0.1	16.01	15.30	15.88
2011	2,374	561	1,812	556	171	9.04	8.25	2.11	2.63	0.2	15.98	18.97	18.01
2010	1,181	322	860	316	120	15.65	14.70	15.06	16.72	0.2	20.16	22.16	22.42
2009	626	131	494	225	120	39.71	38.50	26.46	37.21	0.3	16.99	19.91	20.01
2008	266	10	256	137	112	-27.81	-28.42	-37.00	-38.44	0.3	15.26	15.29	16.63
2007	682	-	682	491	149	10.78	9.86	5.49	11.81	0.2	8.36	7.79	8.66
2006	730	-	730	524	219	15.00	14.04	15.80	9.07	0.1	7.25	6.92	8.43
2005	1,849	-	1,849	945	419	-0.53	-1.43	4.91	5.26	0.2	8.08	9.17	9.67
2004	2,017	-	2,017	1,124	665	8.72	7.76	10.88	6.30	0.2	10.08	15.07	15.66
2003	1,617	-	1,617	907	513	17.73	16.67	28.68	29.75	0.7	12.98	18.32	22.98
2002	970	-	970	518	407	-6.69	-7.53	-22.10	-27.88	0.9	13.15	18.81	25.58
2001	703	-	703	408	289	-4.61	-5.50	-11.89	-20.42	1.0	13.58	16.94	25.56
2000	622	-	622	359	236	-3.50	-4.44	-9.10	-22.42	0.7	16.52	17.67	23.11
1999	640	-	640	377	228	23.89	22.65	21.04	33.16	0.6	18.27	16.76	19.27
1998	418	-	418	257	202	31.61	30.19	28.58	38.71	0.7	17.95	16.23	18.15
1997	252	-	252	145	158	37.14	35.63	33.36	30.49	0.9	13.17	11.30	12.79
1996	140	-	140	89	118	31.94	30.40	22.96	23.12	0.7	10.61	9.72	10.49
1995	70	-	70	45	61	48.07	46.33	37.58	37.18	1.0	9.72	8.34	9.26
1994	32	-	32	17	27	10.13	8.96	1.32	2.62	1.6	-	-	-
1993	24	-	24	16	26	13.07	11.85	10.08	2.87	2.9	-	-	-

Total assets and UMA assets are supplemental information to the GIPS Composite Report.

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 Focus Growth Composite created on January 1, 2006 with inception date April 1, 1992 contains fully discretionary large cap equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against the S&P 500 and the Russell 1000 Growth indices. Prior to March 22, 2021, the composite was named Large Capitalization Equity Composite. The accounts are highly concentrated and unconstrained with regard to the number of the highest-conviction positions (i.e., positions of greater than 5%) comprising the portfolios. Polen Capital invests exclusively in a portfolio of high-quality companies.

Polen Capital Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Polen Capital Management has been independently verified for the periods April 1, 1992 through December 31, 2020. 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. The Focus Growth Composite has had a performance examination for the periods April 1, 1992 through December 31, 2020. The verification and performance examination reports are available upon request.

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. From July 1, 2002 through April 30, 2016, composite policy required the temporary removal of any portfolio incurring a client initiated significant cash outflow of 10% or greater of portfolio assets. The temporary removal of such an account occurred at the beginning of the month in which the significant cash flow occurred and the account re-entered the composite the first full month after the cash flow. The U.S. Dollar is the currency used to express performance. Certain accounts included in the composite may participate in a zero-commission program. 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 75 basis points (.75%) on the first \$50 Million and 55 basis points (.55%) on all assets above \$50 Million of assets under management. HNW: Per annum fees for managing

accounts are 150 basis points (1.5%) of the first \$500,000 of assets under management and 100 basis points (1.0%) 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 S&P 500® Index is a widely recognized, unmanaged index of 500 common stocks which are generally representative of the U.S. stock market as a whole. The Russell 1000® Growth Index is an unmanaged index that measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

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 composites' 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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