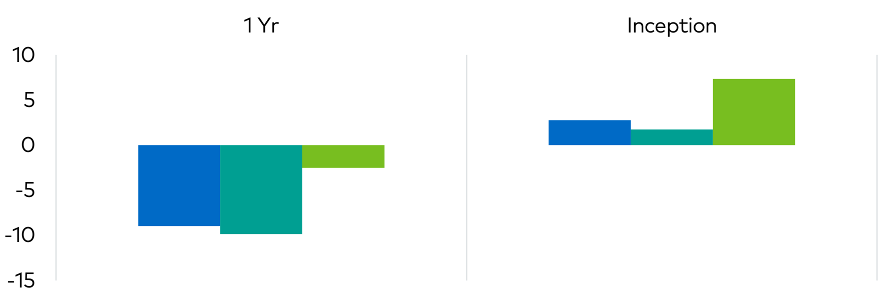
Polen Global Emerging Markets Growth

Portfolio Manager Commentary – December 2021

Summary

- The emergence of the Omicron variant has once again put COVID back on investors' radars. As with previous waves, the impact of the virus is likely to vary across the world.
- With expectations for higher interest rates, we maintain our focus on companies that can self-fund their own growth rather than relying on equity or debt markets.
- The top absolute contributors to returns during the quarter were Karooooo, Titan, and Zhejiang. For the full year, the top contributors were Mobile World, Titan, and United Spirits.
- The top absolute detractors for the quarter were Yandex, VK (formerly Mail.ru), and Anta Sports. For the full year, the top detractors were Alibaba Group Holdings, VK, and Ping An Healthcare.
- Whilst many factors can impact share price moves in the short term, in the long run, we believe that it is the fundamental performance of businesses—particularly earnings growth and cash flows—that ultimately drive investment returns.

Seeks Growth & Capital Preservation (Performance (%) as of 12-31-2021)



	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
Polen Emerging Markets Growth (Gross)	-4.77	-8.97	-8.97	-	-	2.78
Polen Emerging Markets Growth (Net)	-5.00	-9.87	-9.87	-	-	1.76
MSCI Emerging Markets (Net)	-1.31	-2.53	-2.53	-	-	7.37

Past performance does not guarantee future results and profitable results cannot be guaranteed. Returns are presented gross and net of management fees and have been calculated after the deduction of all transaction costs and commissions, and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. 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

The MSCI Emerging Markets Index (the "Index') declined by 1.31% in the quarter as tightening global money markets, the discovery of the Omicron variant, and rising geopolitical tensions weighed on risk appetite worldwide. The Polen Global Emerging Markets Growth Composite Portfolio (the "Portfolio") returned -4.77% gross and -5.00% net of fees for the period. For the full year, the Portfolio returned -8.97% gross and -9.87% net of fees compared to -2.53% for the benchmark.

Omicron in Emerging Markets

The emergence of the Omicron variant has once again put COVID back on investors' radars. As with previous waves, the impact of the virus is likely to vary across the world. For most emerging market countries, we don't expect the Omicron variant to be as disruptive to economies as previous waves. Many developing nations have accepted that the costs of attempting to control COVID outstrip national resources and are attempting to live with the virus. Policy emphasis instead has shifted from lockdowns to vaccination programs. For example, Cambodia passed through 2020 with barely any COVID cases and limited lockdowns. The Delta variant caused a spike in cases, pushing Cambodia into a strict lockdown. Thanks to a highly effective vaccination program, the country has been able to shift its policy to a "live with the virus" approach. As we move into 2022, Cambodia sits as one of the most vaccinated nations in the world.

In our opinion, the greatest uncertainty with the Omicron variant lies in China, given the country's zero COVID approach. At the time of writing, China has been able to contain the outbreak, but whether it can continue to do so is an open question. As ever, predicting the path of the pandemic remains a fools' game, but we do think it is wise to stay aware of the potential risks. Accordingly, we have stress-tested our Portfolio against the risk of future mass lockdowns in China and Hong Kong. We are comfortable that our holdings of what we see as highly dynamic, competitively advantaged businesses can effectively adapt and continue to thrive should the risk play out.

The end of cheap money?

Rising inflation rates around the world have the potential to slow the gears of money printing presses, and subsequently push up interest rates. Should this come to pass, investors can expect the cost of debt and equity to increase in 2022 and beyond. What might this mean for our investment approach?

As we outline in our investment philosophy, one of our criteria for what we define as a great company (businesses we call "Compounding Machines") is the ability to self-finance its growth and not to be reliant on external sources of financing. When we talk about "external sources of capital" we do so with respect to equity as well as to debt.

We make this distinction because we think one feature of recent times is the increasing use of cheap equity by fast-growing businesses to fund ambitious growth objectives. These companies, on the surface, may look fairly stable because they can appear to run sound cash balance sheets. However, these balance sheets may not be as robust as first assumed. Though these companies may not hold much debt, and consequently are not so exposed to the rising cost of credit, they are very much dependent on the goodwill of the equity markets to support their frequent demands for additional capital. This works when economic times are good and money is cheap. In down markets, equity funding can be even more fickle than credit.

We have a healthy skepticism about businesses that are too reliant on outsiders to fund their capital needs.

Instead, we seek to invest in companies that have the ability to internally fund their own growth and the durability to prosper through different market cycles. After all, what would happen if this cheap capital were to go away?

SEA vs. MercadoLibre[1]

One of the most frequent questions we get asked is: as quality growth investors, "Why don't you own ASEAN's e-commerce and gaming champion SEA Limited (SE US)?" The crux of the answer lies in this very point about external equity financing. There is no doubting that SEA has delivered some incredible outcomes, growing revenues by a factor of 10x from 2017 to 2020, in addition to providing guidance that growth will exceed 100% in 2021. Along the way, it has delivered outsized returns for its shareholders, a compounded annual growth rate (CAGR) of 90% from its listing on October 2017 to year-end 2021. This is despite some hefty losses: SEA lost a cumulative USD $4.6 billion in the period 2017-2020, reporting yearly net margins of -142%, -117%, -68%, and -37%.

The majority of these losses come from its e-commerce business Shopee, for which the business strategy is to pursue aggressive growth and customer acquisition ambitions, supported by generous consumer subsidies. Though part of its customer acquisition budget has been financed by cash flows from its hit game video game Free Fire, a great deal of this growth capital has also come from equity markets.

[1] All data presented is this section is sourced from Bloomberg as of December 31, 2021.

Our chief concerns on SEA are rooted in the following questions:

- What would happen to the business if this cheap equity capital were to go away?
- How would growth look without significant spending on subsidies and marketing?
- How willing would subsequent providers of equity capital be to stump up further cash at such high prices if growth were to decline?

We worry that such a dynamic has the potential to unleash a self-fulfilling negative cycle that may be hard to break. Though we don't know for certain that rising rates and a higher cost of capital would perpetuate this outcome, it is the primary risk that keeps us away as investors.

An interesting comparison for SEA is our e-commerce portfolio holding MercadoLibre. Like SEA, MercadoLibre has also grown rapidly, expanding revenues by 46x since listing in 2007 to the end of 2020. Where it differs from SEA is that its operations are heavily cash flow positive. This has meant that it has been able to fund its growth almost entirely with its internally generated cash.

As Figure 1 shows, over the last five years, SEA shareholders have been diluted significantly almost every year, with the total share count rising by over 200% during the period. That means that an investor's percentage ownership of the company has been cut by over two-thirds over this period.

In contrast, MercadoLibre's strong cash flows have meant that it has not needed to tap equity markets nearly to the same extent. Over the same period, the company's share count only increased by 14%, meaning that MercardoLibre investors' percentage ownership only declined by 13%.

Both SEA and MercadoLibre have fared very well over the last five years. However, we believe that SEA's far heavier reliance on external sources of capital make it much more vulnerable to whims of equity markets than MercadoLibre. We believe that MercadoLibre's robust cash flow generation will be able to fully support its operations, allowing the business to continue to advance its growth aspirations independent of the market conditions.

Figure 1: Percentage share dilution (annual increase in share count)

	2017	2018	2019	2020	2021	Cumulative	Dilution
SEA	90%	2%	35%	19%	8%	213%	68%
Mercado Libre	0%	2%	9%	0%	2%	14%	13%

Source: Bloomberg as of December 31, 2021.

Portfolio Performance & Attribution

The Portfolio underperformed the Index for the quarter and the full year, primarily due to allocation effects. Our underweight to the information technology sector weighed on relative performance. Our structural underweight to areas like energy and materials were a headwind during the year, but this pattern reversed course in the fourth quarter, supporting relative performance.

The top absolute contributors to returns during the quarter were **Karooooo**, **Titan**, and **Zhejiang Supor**. For the full year, the top absolute contributors were **Mobile World**, **Titan**, and **United Spirits**.

Karooooo, known as Cartrack, offers highly precise vehicle tracking services helping its customers improve the efficiency, safety, and security of their logistics operations. While the global telematics market remains highly fragmented, Cartrack is rapidly growing its presence in international markets, with a particular emphasis on Southeast Asia. In the fourth quarter, the company reported a 20% increase in total revenue and a 16% increase in subscription revenues.

Indian jewelry company **Titan** performed well in 2021, which might be surprising given that they have been through one of the harshest pandemics this year. Unlike many industries where lockdowns lead to a permanent loss of business, this demand was more delayed than lost in the jewelry segment. As such, we are and expect to continue seeing earnings at Titan recover from the pandemic.

Zhejiang Supor, or more commonly Supor, is China's leading cookware brand and a growing player in the small home electric appliances sector. Supor remains proactive, reallocating its marketing budget towards online channels and appealing to the millennial consumer. Further, it continues to drive product innovation, introducing versatile products like high-speed blenders aimed at improving customers' day-to-day lives.

Mobile World, one of Vietnam's largest retailers, performed well during the year despite tightening restrictions in response to the nation's strongest wave of COVID-19. We expect it to continue to do so as Vietnam makes progress in fighting the coronavirus and health conditions improve.

Indian alcohol spirits company **United Spirits** has continued to perform well throughout the year, and we remain confident in its long-term growth opportunity. It remains well-positioned in the underpenetrated, fast-growing segment of premium spirits.

The top absolute detractors for the quarter were **Yandex**, **VK** (formerly Mail.ru), and **Anta Sports**. For the full year, the top detractors were **Alibaba Group Holdings**, **VK**, and **Ping An Healthcare**.

For **Yandex**, the "Google" of Russia, and **VK**, which dominates social media and gaming platforms, performance may have come under pressure, along with the rest of the Russian market, on geopolitical concerns related to Ukraine.

Despite delivering an increase in revenues, Chinese sportswear company **Anta Sports** may have been impacted by softening Chinese consumption data and potential lockdowns related to the Omicron variant.

China's leading telemedicine provider **Ping An Healthcare** remains a business that could grow into multiples of its current size. That said, we continue to monitor changes at the management level, which cloud the backdrop for the company's vision.

We continue to believe **Alibaba** is an attractive business with a dominant market position and robust cash generation and that it is currently undervalued. However, we see evidence that it is having its core competitive moat eroded, and this is impairing its ability to compound shareholder returns at a sufficiently attractive rate. We continue to monitor the situation.

Portfolio Activity

There was limited portfolio activity during the quarter, with one addition and one trim. We added to Chinese music streaming business **Tencent Music**, which saw significant share price weakness during the quarter. We believe this share price movement is partly due to the recent softness in Tencent Music's social entertainment and live-streaming business, which still accounts for a meaningful portion of company revenues.

However, in our view, the real value of the company lies in its music business. Tencent Music has over 600 million users, but to date, just 11% of customers pay for its services. The ratio of paying users is rapidly increasing but remains well short of the 20-30% we expect it to reach in the coming years, or even the 45% of Spotify. We expect that Tencent Music's streaming revenues will rise rapidly in the next three to five years supported by: (1) a rise in paying users; (2) an increase in the monthly subscription price (today is only just over one US Dollar); and (3) a rising share of the music advertising market.

We financed this activity by trimming **Titan**, our Indian jewelry retailer, which was one of our best-performing companies over the year. By trimming the holding to 3% we simply returned the position size to its original target weight.

Outlook

While many factors can impact share price moves in the short term, in the long run, we believe that it is the fundamental performance of businesses, particularly earnings growth and cash flows that ultimately drive investment returns.

From that perspective, we believe it is a healthy exercise to track the fundamental financial performance of our underlying holdings.

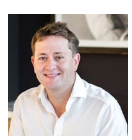
As it stands, we calculate that the Portfolio grew its earnings per share (EPS) by 19% in USD terms in 2021, which comes on the back of 9% growth in 2020. Since its launch in 2020, the Portfolio has grown its EPS by approximately 30% (or 14% on an annualized basis). This figure falls somewhat short of the 15%-20% range we would expect in an average year, but we see it as a satisfactory outcome, particularly given the COVID-related disruptions.

To date, we believe the Portfolio's earnings growth of 30% remains compelling, but this growth has not been accurately reflected in the Portfolio's returns. We estimate the Portfolio is currently valued at approximately 26x 2021 earnings. Looking ahead, Bloomberg estimates that the Portfolio's companies, collectively, will deliver 55% earnings growth in 2022 as many of them continue their bounce back from COVID. Taken together, this implies that the Portfolio's valuation on a forward P/E multiple is considerably lower and that valuations for emerging markets are currently attractive.

Thank you for your interest in Polen Capital and the Global Emerging Markets Growth strategy. Please contact us with any questions you may have.

Sincerely,
Damian Bird and Dafydd Lewis

Experience in High Quality Growth Investing



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12 years of experience

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GIPS Report

Polen Capital Management
Global Emerging Markets Growth Composite—GIPS Composite Report

		UMA	Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation[1]	
Year End	Total ($Millions)	Assets ($Millions)	Assets ($Millions)	U.S. Dollars ($Millions)	Number of Accounts	Composite Gross (%)	Composite Net (%)	MSCI Emerging Markets (%)	Composite Dispersion (%)	Polen Gross (%)	MSCI Emerging Markets (%)
2020	59,161	20,662	38,499	2.51	1	16.05	14.90	18.33	N/A	N/A	N/A

[1]A 3 Year Standard Deviation is not available for 2020 due to 36 monthly returns are not available.
N/A - There are five or fewer accounts in the composite the entire year. 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 Global Emerging Markets Growth Composite created and incepted on January 1, 2020 contains fully discretionary emerging markets growth equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against the MSCI Emerging Markets Index. The accounts are highly concentrated and unconstrained with regard to the number of the highest-conviction positions (i.e., positions of greater than 5%) comprising the portfolios. Polen Capital invests exclusively in a portfolio of high-quality companies.

Polen Capital Management claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Polen Capital Management has been independently verified for the periods April 1, 1992 through June 30, 2021. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Polen Capital Management is an independent registered investment adviser. A list of all composite and pooled fund investment strategies offered by the firm, with a description of each strategy, is available upon request. In July 2007, the firm was reorganized from an S-corporation into an LLC and changed names from Polen Capital Management, Inc. to Polen Capital Management, LLC.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of fees and include the reinvestment of all income. Net of fee performance was calculated using actual 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 portfolios, calculating investments, and preparing GIPS Reports are available upon request.

The management fee schedule is as follows:
Institutional: Per annum fees for managing accounts are 100 basis points (1.00%) on the first $50 Million and 85 basis points (0.85%) on all assets above $50 Million of assets under management. HNW: Per annum fees for managing accounts are 175 basis points (1.75%) of the first $500,000 of assets under management and 125 basis points (1.25%) 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 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 Emerging Markets Index is a market capitalization weighted equity index that measures the performance of the large and mid-cap segments across emerging market countries. The index is maintained by Morgan Stanley Capital International.

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