Polen International Growth Q1 2022 Portfolio Manager Commentary

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Summary

- Polen Capital is a high-conviction growth investment manager. We scour the globe in search of the highest quality, sustainable companies to invest in.
- Over the first quarter of 2022, the Polen International Growth Composite Portfolio returned -13.94% gross and -14.17% net of fees, respectively, versus the -5.45% return of the MSCI All Country World ex-USA Index.
- The top absolute contributors to the Portfolio's performance during the first quarter included Aon, Medtronic, and Wal-Mart de México.
- The most significant detractors from performance included ICON, Evolution AB, and Sage Group.
- We initiated a position in Shenzhou International Group, while exiting Nestlé . during the quarter.

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Seeks Growth & Capital Preservation (Performance (%) as of 3-31-2022)

	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
Polen International Growth (Gross)	-13.94	-13.94	-6.77	5.71	9.16	10.80
Polen International Growth (Net)	-14.17	-14.17	-7.30	5.02	8.36	9.98
MSCI ACWI (ex-USA)	-5.45	-5.45	-1.49	7.51	6.76	7.98

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

Global equity market conditions deteriorated over the first quarter of 2022, as higher inflation increased the possibility of tighter-than-expected monetary policies by global central banks. This triggered an equity market selloff amid fears that a less accommodative monetary backdrop could lead to slower global economic growth. The likelihood of a higher interest-rate environment weighed on growth stocks, which trailed their cyclical and value counterparts. The war in Ukraine resulted in additional market volatility and uncertainty, and intensified investors' "risk- off" sentiment. The valuations of long-duration assets fell, while commodity-oriented, industrials and utility companies were strong performers during the period.

> Short-term rotations have no bearing on how we invest – except to offer us opportunities to buy our favored companies when we believe they are attractively priced.

We believe the Polen International Growth Composite Portfolio's (the "Portfolio") returns will ultimately reflect the consistent cash flow and earnings growth of our holdings over longer periods of time. As such, we remain focused on seeking out competitively advantaged companies that we believe will continue to grow well into the future. Short-term market shifts do not impact our long-term thinking, and we can experience periods where we look "wrong" as a result. But therein lies what we believe is our value to our clients.

> Looking different from the benchmark in the short term can potentially lead to better outcomes for our clients over the long term.

Portfolio Performance & Attribution

Over the first quarter of 2022, the Portfolio returned -13.94% gross and -14.17% net of fees, respectively, versus the -5.45% return for the MSCI All Country World ex-USA Index (the "Index"). The Portfolio's underweight position in the energy sector detracted from performance, as did our positions within the information technology and health care sectors. Energy companies typically do not meet our investment criteria, which is why we tend to be underweight that sector. The Portfolio was also challenged from a style perspective, with investors generally focused more on value than growth during the quarter.

While we monitor daily stock-price movements, we maintain a long-term view and believe we own a concentrated collection of high-quality businesses that can stand the test of time.

Regardless of what happens in a given quarter, we will continue to adhere to our time-tested investment approach.

Our most significant contributors to performance on an absolute basis over the first quarter were **Aon (AON)**, **Medtronic (MDT)**, and **Walmart de México (OTCPK:WMMVF)**.

A world-leading insurance brokerage **Aon** has continued to execute well and has exhibited attractive growth through the pandemic. The Ireland-based company tends to benefit from inflation through a data-centric approach to selling and distributing insurance solutions on a recurring basis. By scouring policy data flows across its business, Aon offers insights that intelligently match buyers and sellers of protection. As an asset- light and cash-generative business Aon has the ability to return capital to shareholders regularly. In the fourth quarter alone, it repurchased more than 4% of shares outstanding. Over the last decade, the company has repurchased a third of all shares outstanding.

Ireland-based **Medtronic** is a leading health care company focused on supplying many important life-saving devices like pacemakers, defibrillators, and insulin pumps. This is another company with attractive pricing power and a business model that can hold up well during inflationary periods. Medtronic has increased market share across almost 70% of its portfolio since the start of the pandemic, which is a higher percentage than even before the pandemic. With growth-oriented companies falling out of favor over the quarter, the stock’s relatively discounted valuation (at approximately 19x earnings) also bolstered its performance.

Walmart de México is Central America’s leading retailer. As the largest scaled seller of consumer goods in Central America, Wal-Mex offers a compelling value proposition for consumers increasingly impacted by rising household costs. Scale and a commitment to deliver everyday low prices help customers seeking branded goods find the lowest available cost while more cost-sensitive customers can switch to Wal-Mex’s private-labeled goods. Wal-Mex’s chain of value-oriented bodegas in Mexico, lower-priced stores that make up nearly half of Wal-Mex’s store base, further extend the company’s cost advantage across the region.

Our most significant absolute detractors from performance over the quarter were **ICON (ICLR)**, **Evolution AB (OTCPK:EVGGF),** and **Sage Group (OTCPK:SGGEF)**.

One of our largest Portfolio positions, and one of the top performers in 2021, **ICON** is an Ireland-based contract research organization that provides outsourced drug trial services to the pharmaceutical and biotech industries. ICON delivered positive results during the quarter and continues to build on its track record of above-market growth and exemplary profit margins. The company reported that new orders were exceeding current revenues, implying future organic growth at above market rates. During the quarter, the company addressed concerns regarding a potential slowdown in biotech funding, which it has seen no indication of. Short-term stock price volatility aside, we believe ICON will continue to compound earnings growth at a mid- to high-teens rate for the foreseeable future.

Evolution AB is a service provider to the online gambling industry based in Sweden. For the full year 2021, Evolution grew its earnings by more than 70% year over year. We remain optimistic about the long-term opportunities in gaming with the adoption of digitization, which is in the early innings of a decades-long transition, and believe Evolution can grow its earnings in the mid-20% range for many years. Considered a higher-growth stock, Evolution seemingly got swept up in the market's tilt to value in the first quarter.

UK-based small business accounting software company **Sage Group** reported favorable quarterly results and has been successfully growing recurring revenue in the high single-digit range as it transitions to a cloud-first business model. We are excited about the company's future as we think management did a sound job investing in product and sales channel growth initiatives over recent years. With the cloud transition largely wrapped, we believe Sage Group is poised to increase earnings at a mid-teens rate as its margins move higher in the coming years.

Portfolio Activity

During the quarter, we initiated a position in **Shenzhou (OTCPK:SHZHY)**. We increased our positions in **Shopify Inc. (SHOP)** and **adidas AG (OTCQX:ADDDF)** and exited **Nestlé (OTCPK:NSRGY)**. We reduced our position in **CSL Ltd (OTCPK:CSLLY)**.

We initiated a position in **Shenzhou**, a global, vertically integrated manufacturer of cotton knitwear, during the quarter. Large customers, including Nike, Inc., adidas and PUMA SE, comprise over 85% of the company's revenue. Shenzhou also has relationships with fast-growing brands like Lululemon Athletica Inc., Li Ning Co., Ltd. and ANTA Sports Products Limited. We view Shenzhou as a services business with significant scale advantages and a long track record of success. Similar to our investments in other high-value service providers like ICON, we believe Shenzhou is so critical to its customers' operations that it is able to retain both their business and high margins. The company also currently benefits from structural trends like growing participation in sports and the flourishing athleisure market. We believe Shenzhou has the potential to compound earnings at a mid-teens rate over time.

We added to the Portfolio's position in e-commerce company **Shopify** in the first quarter after a sharp share-price decline. This brought the Portfolio's weighting in the company to 2%. We believe Shopify provides a uniquely positioned platform, and we like the company's strategy of continuing to invest in its business in an effort to strengthen its competitive advantages. The market's affinity for businesses like Shopify may have changed, which created an opportunity for us to build our position in the company at what we believed to be compelling valuations.

We added to the Portfolio's position in **adidas AG** as we believe the company's management team is making strides in positioning the company for faster growth. Innovative product development, along with interesting design and marketing collaboration initiatives, have been unlocking the company's growth potential.

We also believe the continuing shift away from wholesale distribution to direct-to-consumer sales should drive steady margin progress. We estimate that adidas will grow earnings in the high teens annually over the next five years.

We exited the Portfolio's position in **Nestlé** in favor of what we believed to be a more compelling investment idea. Nestlé continues to enjoy competitive advantages related to its scale, distribution, and brand equity. We think the management team has positioned the business for success in recent years, with several divestitures along the way and believe the company is still likely to deliver consistent results. That said, our research indicates that returns may be at the lower end of our expected range and other opportunities appear more attractive.

We trimmed our position in **CSL Ltd.** The company's recent update indicated that the worst COVID-19 impacts on the business are likely past, with plasma collections now snapping back. CSL's core business continues to enjoy significant competitive advantages, in our view, and, as collected plasma is processed into finished products, we believe sales will return to their pre-COVID-19 levels. We expect the company to grow its earnings in the low double-digit range over the next five years.

Outlook

Our perspective is that enduring, double-digit earnings growth is the primary driver of intrinsic value and long-term stock appreciation. For investors worried about inflation, we believe the Portfolio offers an alternative to commodities and cyclical exposures that, in our minds, carry inherent and outsized investment risk. Our goal is to own high-quality companies that have scale and pricing power, but that also ensure their customers can derive good value from these companies' products and services.

Combined with consistent earnings and profit growth, no matter the market environment, we believe the types of companies we seek offers our clients an inflation hedge, as well as the opportunity to own a collection of businesses that can prosper well into the future.

While market swings may at times favor or not favor our investment style, we believe that our consistent approach and ability to stay the course will lead to compounding growth for our clients in the long run.

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

Sincerely,

Todd Morris, Portfolio Manager & Analyst

Daniel Fields, CFA, Portfolio Manager & Analyst

GIPS Report

Polen Capital Management International Growth Composite—GIPS Composite Report

	UMA	Firm	Composite Assets	Annual Pe

Year End	Total ($Millions)	Assets ($Millions)	Assets ($Millions)	U.S.Dollars ($Millions)	Number of Accounts	Composite Gross (%)	Composite Net(%)	MSCI USA (
2021	82,789	28,884	53,905	60.41	2	7.10	6.67	7.82
2020	59,161	20,662	38,499	54.63	2	12.75	12.02	10.66
2019	34,784	12,681	22,104	0.41	1	27.88	26.81	21.50
2018	20,591	7,862	12,729	0.32	1	-4.60	-5.42	-14.19
2017	17,422	6,957	10,466	0.34	1	35.06	33.94	27.19

[1]A 3 Year Standard Deviation is not available for 2017 and 2018 due to 36 monthly returns are not available. Total assets and UMA assets are supplemental information to the GIPS Composite Report. N/A - There are five or fewer accounts in the composite the entire year. While pitch books are updated quarterly to include composite performance through the most recent quarter, we use the GIPS Report that includes annual returns only. To minimize the risk of error we update the GIPS Report annually. This is typically updated by the end of the first quarter.

Original Post

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