Polen U.S. SMID Company Growth

Portfolio Manager Commentary – June 2022

Summary

- In the second quarter, the Polen U.S. SMID Company Growth Composite Portfolio (the "Portfolio") returned -28.26% gross and -28.35% net of fees, respectively, underperforming the -19.55% return of the Russell 2500 Growth Index (the "Index").

- The top absolute contributors to the Portfolio's performance in the second quarter were Aspen Technology and Hamilton Lane. The most significant absolute detractors from performance were Revolve Group, Inc., Warby Parker and Globant.

- One of the key tenets of our Flywheel investment criteria is identifying businesses with strong balance sheets that can self-fund growth. We believe the underlying health of our businesses remains robust, even amidst a worsening economic outlook.

- With a long-term view, we believe opportunities in our investment universe are better than they have been in several years and offer attractive prospects for long-term investors.

Seeks Growth & Capital Preservation (Performance (%) as of 6-30-2022)

	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
Polen US SMID Company Growth (Gross)	-28.26	-45.34	-41.83	-	-	14.99
Polen US SMID Company Growth (Net)	-28.35	-45.56	-42.39	-	-	13.81
Russell 2500 Growth	-19.55	-29.45	-31.81	-	-	14.49

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

The Polen U.S. SMID Company Growth Portfolio performance was disappointing in the second quarter, on both an absolute and relative basis. Amidst higher inflation, slowing economic growth, tightening monetary policy, and widespread uncertainty, the Russell 2500 Growth Index delivered its worst first-half performance in its more than 40-year history. There was nowhere to hide with most of the Index constituents delivering negative returns, and growth stocks faced the greatest pressure. While we own a range of businesses on a growth-to-safety spectrum within an overall growth-oriented framework, our longer duration, higher multiple investments along with our consumer discretionary holdings were particularly hard hit. We generally avoid cyclical and commodity businesses like energy for several reasons including our core Flywheel investment criteria, ESG (Environmental, Social, and Governance) considerations, and our need for strong balance sheets. It is important to acknowledge that while being underexposed to these segments hurt us, we do not intend to change our core discipline.

The underlying health of our businesses remains robust, even amidst a worsening economic outlook. As a reminder, in good times and in bad, one of the key tenets of our Flywheel is investing in businesses with strong balance sheets that can self-fund growth. We believe this allows them to invest and grow during challenging economic and funding environments, positioning them to emerge stronger following them. However, this does not mean we sit idle. We have been working hard all year to leverage our distinctive collaborative team approach to look at our investments from all angles and perspectives. We are unafraid to update our views and we've made some adjustments to manage the evolving risk landscape as detailed later in this note. We are still pleased with the balance and ballast in our Portfolio as it stands today.

While we believe our clients are aligned with our long-term investment horizon, we never like to underperform for any period as has been the case so far this year. We recognize that sometimes macroeconomic factors weigh more heavily on stock prices than fundamental company results and, there are some steps we could have taken to buffer the impact such as reducing some exposure to consumer discretionary.

However, our North Star is to remain focused on long-term intrinsic value creation, and we believe our ability to see through the noise and act with the conviction of our disciplined research process will ultimately drive significant long-term returns.

There remains a lot of uncertainty around how long this period of elevated inflation will last, whether it will trigger a recession, how bad it will be, and how high rates will need to go. While it's tempting to make predictions, it's far more prudent to recognize that the answers are unknowable.

Instead, we stay focused on what we can understand: the quality of a business, the robustness and repeatability of the business model, the quality of a management team and the team's experience navigating difficult environments, and the investments a company can make to solidify and expand its competitive advantages. Changing macroeconomic and pandemic conditions have had the biggest impact on stock prices over the short term. However, over the long term, the value of a business is a function of the compounding of earnings, free cash flow, and high returns on capital. By these metrics, we believe opportunities in our investment universe are better than they've been in several years and offer attractive prospects for long-term investors. We are using this factor-driven stock market volatility to our advantage, adding new opportunities in companies in our library that previously did not meet our expected IRR hurdles. We are selling or trimming companies that have held up well but may be more vulnerable to the changing market conditions. With respect to risk management, we have been selling companies with less financial flexibility and focusing on adding more sector breadth where applicable.

We are mindful that in more challenging environments, it can be tempting to sell investments that aren't working and extrapolate continued weakness into the future. Sometimes this is the best time to own these investments or buy more from a fundamental perspective. With any changes that we make, our goal is to enhance quality and expected risk-adjusted returns.

It is often good to buy SMID -cap growth stocks during challenging times like these. Our focus continues to be on finding what we believe to be high-quality companies that benefit from long-term secular trends, are well-positioned in their respective markets, have robust, cash-generative business models, and are run by talented management teams. We believe these qualities provide businesses with the ability to grow in any market environment and are important drivers of long-term performance. We have not changed our view that the stocks in our Portfolio have the potential to at least double in value over a five-year period, with some offering far more upside especially after the recent drawdown. We believe that maintaining our focus on high-quality growth companies with the best risk-reward tradeoff that are well positioned to drive cash flow and earnings growth over the next 5 years will generate long-term performance for the Portfolio, regardless of the volatility in the underlying economy and shorter-term rotations in the market.

Portfolio Performance & Attribution

Over the second quarter, Polen U.S. SMID Company Growth Composite Portfolio (the "Portfolio") returned -28.26% gross and -28.35% net of fees, respectively, compared to the -19.55% return of the Russell 2500 Growth Index (the "Index"). Challenging stock selection in consumer discretionary and financials, where we believe there is a disconnect between the performance of the underlying businesses and their stock prices, drove Portfolio underperformance.

Cyclical sectors (energy, materials) on one end of the spectrum and defensives (consumer staples, utilities) on the other were the only sectors that materially outperformed the benchmark. Except for consumer staples, our focus on high-quality, sustainable growth makes it easier to steer away from most of these sectors. Our above-benchmark exposure to growth also detracted from performance over the quarter, as did our below-benchmark exposures to the value and dividend yield factors.

The top absolute contributors to the Portfolio's performance over the quarter included **Aspen Technology** and **Hamilton Lane**.

Aspen Technology is a global leader in asset optimization software helping companies run their operations more safely, efficiently and reliably. Its customers are largely in the energy, chemicals, metals, and other cyclical or commodity-based industries. Given some of its end market exposures, the company reported an improving demand environment after working through a more challenging backdrop during the pandemic. Longer term, the company's growth is driven by the imperative to adopt more efficient technologies and innovation in their end markets, and we see a continued tailwind from that looking ahead.

Hamilton Lane is a leading private markets investment management firm providing innovative solutions to institutional and private wealth investors, was a new addition to the portfolio in the quarter. While the stock was down in the quarter, much of the weakness came ahead of our purchase. Stepping back, this is a very stable underlying business that continues to benefit from secular tailwinds around growing private equity allocations.

The most significant absolute detractors from the Portfolio's performance over the quarter included **Revolve Group**, **Warby Parker** and **Globant**.

Revolve Group is an e-commerce fashion company we believe is executing well. The stock weakness during the period was more sentiment-driven as the market grew increasingly concerned about consumer spending a recession.

We acknowledge that there could be some softness in the company's near-term results as consumers tighten their purse strings, but we believe there remains tremendous long-term potential for this business. We have also observed that Revolve's management team is exceptional when it comes to navigating unprecedented challenges, as they did during the pandemic and have a long history of doing so since being founded in 2003 and bootstrapped by their founders. Management preparedness is an important marker we are looking for during this challenging time and Revolve's management team unquestionably passes the test in this area. We added to our position on this weakness.

Warby Parker is an omnichannel retailer of prescription glasses, contacts, and sunglasses. The market's rapid shift toward favoring profitable companies posed challenges for the company in the quarter as did weaker results which were pandemic-related. Warby Parker is less profitable at this stage of its lifecycle as it invests in building out its retail footprint. We expect the company to be cash-flow positive within a year as it continues to benefit from scale and as retail foot traffic and productivity of the company's retail stores return to normal as pandemic conditions ease. We may have had the opportunity to add this holding at a more ideal price. However, we remain excited about the long-term growth potential of the business, and the expected IRR.

Globant is a leading IT consulting company based in Argentina. In particular, Globant's expertise comes in helping companies digitally transform utilizing artificial intelligence, AR/VR, and blockchain. It has leveraged this expertise, and success with notable clients like Google and Disney, into faster than market growth. In the current environment, where businesses everywhere need help digitally transforming, Globant is seeing very strong demand for its services. The stock price reaction this quarter was related to broad market weakness on concerns around a slowdown in IT spend amidst global recession. In our view, while there's always the possibility of a moderation in demand in the short term, the secular tailwinds from digital transformation make it likely that strong demand should persist for years to come, supporting strong earnings growth over the long term.

Portfolio Activity

We had more trading activity than usual in the quarter. We are using the stock market volatility to enhance the Portfolio's quality and expected risk-adjusted returns while remaining well positioned for the long-term.

We took advantage of drawdowns in existing holdings' stock prices over the quarter to add to our positions in cloud-based, e-commerce restaurant brand platform **Olo**; e-commerce fashion company **Revolve Group**; insurance brokerage company, **Goosehead Insurance**; digital advertising platform, **The Trade Desk**; and value-retailer, **Five Below**.

We have taken advantage of new opportunities in companies in our library that previously didn't meet our expected IRR hurdles, initiating new positions in **Hamilton Lane**, **Doximity**, and **Charles River Laboratories**.

Hamilton Lane is a leading private markets investment management firm providing innovative solutions to institutional and private wealth investors. The main revenue driver of the business is charging recurring management and advisory fees, which gives the company a predictable revenue stream. The company has significant long-term opportunities and is benefitting from secular trends driving higher private market allocations. Even if those secular trends abate, Hamilton will continue to create attractive specialized funds where it has a competitive advantage.

With the combination of great business fundamentals, a great management team, and the ability to leverage existing assets and competitive strengths in new categories, Hamilton Lane is a compelling long-term opportunity.

Doximity is a productivity and professional network app for doctors that derives its revenues primarily from advertising dollars spent by biopharma companies on its platform. Its unique value proposition lies in its targeted physician list desired by drug companies. Doximity is an attractive alternative or supplement to an industry that has historically focused its ad spend on sales reps. Doximity is uniquely high growth and already a very profitable business with a 33% operating margin. It has attractive software-like economics without having to spend much to acquire users or customers. While the company clearly had some benefits from the pandemic, it is still early in tapping into a growing, $8B market with multiple avenues for growth. The sell-off in recent IPOs has created an attractive risk-reward opportunity to start a position.

Charles River Laboratories provides essential products and services to the biopharmaceutical industry, government agencies and leading academic institutions to improve and accelerate drug development and manufacturing. Charles River is a contract research organization (CRO) focused on non-clinical drug development. The company has been in business for over 70 years providing the research models for pre-clinical trials and early drug development. Over time, they expanded on core competencies to move into attractive adjacencies such as drug discovery, safety assessment, laboratory practices, and biologic-related manufacturing services. The company is uniquely positioned to benefit from secular growth in the pharmaceutical and biotechnology industry with a strong business model and leadership that meets our flywheel investment criteria. We believe the current market turmoil gives us an opportunity to own a great business with a long-term track record for consistent compounding at an attractive price.

In the quarter, we reduced our existing positions in **Etsy** and **RH**. In both cases, we felt it was prudent to reduce the size of the positions given a wider range of potential outcomes over the next year. It is tougher to build confidence around near-term results given rapidly changing consumer behavior related to changing pandemic conditions and economic pressures. With the improving opportunity set in our universe, we feel we have superior alternatives to redeploy the proceeds into businesses with equal or better returns for less risk and with better visibility into near-to-medium results.

We've fully eliminated our positions in companies that we believe may be more vulnerable to the changing market conditions and those with less financial flexibility including **Trupanion** and **AppFolio**.

We sold **Trupanion** because we are concerned about the deteriorating unit economics of the business. Changes in how vets operated during COVID disrupted Trupanion's strategic advantage for onboarding new pets at vet offices. This forced Trupanion to compete in undifferentiated DTC ("direct-to-consumer") sales channels with other pet insurers and increase experimentation for pet acquisition. This marks a significant increase in per pet acquisition costs and a move away from the discipline we had seen from management historically. This is a key variable in the unit economics and FCF (free cash flow) generation that Trupanion would be able to earn from each of its covered pets. While the veterinary community has largely overcome the challenges of COVID, we lack confidence that management can curb pet acquisition spend in the intermediate term while also investing in future growth channels. This can both hamper growth and is a major obstacle to generating FCF. This is a clear and likely persistent Flywheel violation. Management may be making correct and rational decisions to ensure the multi-decade success of the business, but the declining unit economics of the business and lack of FCF makes it less compelling in the current environment and over our investment horizon.

With **Appfolio**, a provider of cloud-based property management software to the real estate industry, we eliminated the position to redeploy the capital into what we believe are superior alternatives. We have been positively surprised that Appfolio's stock has held up relatively well this year despite its lack of profitability and high multiple in a market environment that has tended to penalize those dynamics. While the business continues to deliver strong revenue growth, we did not expect heavy investments in sales & marketing, R&D, and G&A to pressure margins to the extent it has. The lack of visibility into when profitability might improve ultimately led us to move on.

Outlook

The macroeconomic environment is complex and unpredictable. This unpredictability stems from interplay between macroeconomic data points, external shocks or their reversal, the Fed's actions, and how consumers and businesses react. This creates a series of junctures in which multiple scenarios are possible. What we are observing in many companies we follow is a natural reaction to uncertainty, which is a slowdown in the front edge of consumer discretionary, a lengthening of sales cycles, and more caution around building inventory. There may be tougher times ahead, and we are prepared for it. We are expecting growth to slow in the face of difficult comparisons and the weakening outlook. This compounds uncertainty around near-term predictions and valuation multiples. Companies that benefited from the pandemic may look particularly volatile with a short-term view.

This is exactly why we stay focused on the long-term. While it may be hard to believe with short-term lens influenced by fear and uncertainty, the long-term picture is far clearer than the market would suggest, and by and large, our long-term view and conviction in our portfolio companies is unchanged. This allows us to confidently sift through the noise and take advantage of price dislocations.

This also highlights the benefit of owning Flywheel companies as we define them: long-term secular winners, still in the early innings of their growth, with durable businesses models and balance sheets that are built to keep them robust when others are weak. Time and patience are required for the fundamentals to play out. We cannot predict the short-term even though we believe significant bad news is priced in.

Despite all the challenges, the opportunity set in SMID caps is attractive.

High quality SMID-cap companies have greater latent potential for growth relative to more mature businesses. The best small-cap growth companies can quicky reduce spending and inflect profitability if needed given their high starting levels of investment. We believe the best-of-the-best SMID-cap companies will take advantage of adjacencies and have a better potential opportunity set for value-added acquisitions. Of course, many companies do not meet this high hurdle, which is why we hold a concentrated portfolio of companies that do not just offer growth and high returns, but also durability, robust financial models, the ability to self-fund growth, and what we believe to be superior management teams.

We believe great investing requires a clear and proven philosophy, a disciplined process and conviction. It also requires great humility and a willingness to change your view when the evidence requires it. We look forward to keeping you updated on our views in future commentary.

Thank you for your interest in Polen Capital and the U.S. SMID Company Growth Portfolio. Please contact us with any questions.

Sincerely,

Rayna Lesser Hannaway

Experience in High Quality Growth Investing

Rayna Lesser Hannaway, CFA
Head of Team, Portfolio Manager & Analyst
26 years of experience

GIPS Report

Polen Capital Management
U.S. SMID Company Growth Composite—GIPS Composite Report

		UMA	Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation[2]	
Year End	**Total ($Millions)**	**Assets ($Millions)**	**Assets ($Millions)**	**U.S. Dollars ($Millions)**	**Number of Accounts**	**Composite Gross (%)**	**Composite Net (%)**	**Russell 2500 Growth (%)**	**Composite Dispersion (%)**	**Polen Gross (%)**	**Russell 2500 Growth (%)**
2021	82,789	28,884	53,905	4.95	7	22.03	20.64	5.05	0.0	N/A	N/A
2020[1]	59,161	20,662	38,499	0.51	1	105.23	103.70	82.91	N/A	N/A	N/A

[1]Performance represents partial period (April 1, 2020 through December 31, 2020), assets and accounts are as of December 31, 2020.
[2]A 3 Year Standard Deviation is not available for 2020 and 2021 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 U.S. SMID Company Growth Composite created and incepted on April 1, 2020 contains fully discretionary small and mid-cap company equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against the Russell 2500 Growth 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 December 31, 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 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 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 Russell 2500® Growth Index is a market capitalization weighted index that measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes Russell 2500® companies with higher price-to-book ratios and higher forecasted growth values. The index is maintained by the FTSE Russell, a subsidiary of the London Stock Exchange Group.

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.
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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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