

Polen U.S. SMID Company Growth

Portfolio Manager Commentary – September 2022

Summary

- Over the third quarter, Polen U.S. SMID Company Growth Composite Portfolio (the "Portfolio") returned 1.74% gross and 1.44% net of fees, respectively, compared to the -0.12% return of the Russell 2500 Growth Index (the "Index").
- Consistent with what we've seen for the better part of this year, high inflation, slowing economic growth, tightening monetary policy, and widespread uncertainty have been the dominant narratives driving small- and -mid cap stocks while company fundamentals have largely been ignored.
- The top absolute contributors to the Portfolio's performance over the third quarter included Wingstop, The Trade Desk, and Paycom. The most significant absolute detractors from performance included Yeti, Goosehead Insurance, and Azenta.
- We initiated two new positions—Euronet Worldwide and Bumble—and did not eliminate any holdings. In addition, we opportunistically added and trimmed some existing positions.
- We believe that maintaining our focus on high-quality growth companies that in our opinion, are well-positioned to drive cash flow and earnings growth over the next five years will generate robust long-term performance for the Portfolio, regardless of the volatility in the underlying economy and shorter-term rotations in the market.

Seeks Growth & Capital Preservation (Performance (%) as of 9-30-2022)



	Qtr	YTD	1 Yr	Inception
Polen US SMID Company Growth (Gross)	1.74	-44.39	-41.81	14.16
Polen US SMID Company Growth (Net)	1.44	-44.78	-42.38	12.98
Russell 2500 Growth	-0.12	-29.54	-29.39	12.89

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. Performance figures are presented gross and net of fees and have been calculated after the deduction of all transaction costs and commissions, and include the reinvestment of all income. 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. Opinions and views expressed constitute the judgment of Polen Capital as of the date herein, may involve a number of assumptions and estimates which are not guaranteed, and are subject to change.

All company-specific information has been sourced from company financials as of the relevant period discussed.

Commentary

The third quarter was marked by extreme volatility, with broad market strength at the start of the quarter giving way to renewed concern over macro headwinds and higher interest rates in the second half of the quarter. With this backdrop, U.S. smid cap growth equities ended the period flat.

Consistent with what we've seen for the better part of this year, high inflation, slowing economic growth, tightening monetary policy, and widespread uncertainty have been the dominant narratives driving small/mid cap stocks while company fundamentals have largely been ignored. This has led to a year-to-date (YTD) 9-month period that has been the worst on record for the smid cap markets.

The underlying fundamentals of the businesses we own are far stronger than their stocks would suggest. In the most recent quarter, the Portfolio companies, in aggregate, delivered 26% year-over-year revenue growth and over +500bps of gross margin expansion, with trailing 12 months (TTM) return on invested capital (ROIC) of nearly 16%. By all measures, our companies are healthy.

While the outlook is uncertain, we believe our businesses remain well-positioned to thrive, having the financial flexibility to withstand the current economic pressures and seize profitable opportunities that help lay the foundation for future growth and sustainability.

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 have leaned into the heightened volatility this year to upgrade the quality of the Portfolio without limiting our ability to participate in a recovery. We do not believe now is the time to retreat to safety.

While we can't predict when markets will recover, we believe that maintaining our focus on high-quality growth companies that are well-positioned to drive cash flow and earnings

growth over the next five years will generate superior long-term performance for the Portfolio, regardless of the volatility in the underlying economy and shorter-term rotations in the market.

This is an exciting time to be investing in the smid-cap markets for those of us that are long-term, patient, and discerning. Absolute and relative valuations for smid caps are attractive, sentiment is weak, earnings estimates are being adjusted lower, and most market participants are engaging in very short-term behaviors leaving stocks mispriced and misunderstood. We believe the companies in our Portfolio have the potential to at least double in value over a five-year period, with many offering far more upside especially after the recent drawdown, and we continue to uncover exciting opportunities during this ongoing equity market dislocation.

Portfolio Performance & Attribution

Over the third quarter, Polen U.S. SMID Company Growth Composite Portfolio (the "Portfolio") returned 1.74% gross and 1.44% net of fees, respectively, compared to the -0.12% return of the Russell 2500 Growth Index (the "Index").

Stock selection was the primary driver of outperformance in the quarter coming in communication services, IT, and consumer discretionary, partially offset by style headwinds largely coming from an underweight exposure to momentum and relative sector positioning overweight IT; underweight health care and energy.

The most significant absolute detractors from the Portfolio's performance over the quarter included **Yeti, Goosehead Insurance, and Dynatrace.**

Yeti, a maker of premium outdoor/lifestyle products, reported weaker-than-expected results driven by channel and product mix shifts in the period that pressured margins, and an uncertain macro environment led the company to reduce its outlook for the remainder of the year as it works through inventory challenges. We remain positive on the long-term outlook for Yeti and have maintained our position amidst these shorter-term headwinds.

Goosehead Insurance, a personal line insurance brokerage focused primarily on homeowner and auto insurance, remains on track and the underlying business remains strong. However, the stock came under pressure during in the quarter due to an unfavorable corporate governance development. After visiting the company's headquarters in Texas, exploring the issue in detail, and sharing our feedback, we remain confident in our long-term view of the company.

Finally, **Dynatrace**, a software provider of intelligence platform solutions that allow customers to modernize and automate IT operations, traded down in the quarter as the company provided cautious guidance given the uncertainty around the macro picture. We think this is reasonable considering the wider range of outcomes in this market environment, and the underlying results spoke to a company that continues to execute at a high level.

The top absolute contributors to the Portfolio's performance over the quarter included **Wingstop, The Trade Desk, and Paycom**.

Wingstop, a franchised chicken wing restaurant chain, was the best performer in the period. The company reported better-than-expected results, highlighted exciting progress around international growth, and announced its intention to launch a chicken sandwich nationally. After a recent headquarter visit, we believe there are many favorable tailwinds for the business despite the worsening consumer outlook.

The Trade Desk, the leading independent demand-side platform for programmatic advertising, delivered very strong results in the quarter which were especially impressive given the difficult year-over-year growth comparisons and the weakness that many of its ad tech peers had been experiencing more recently. This is a business that benefits from solid secular tailwinds amidst a difficult macro backdrop and we believe the company has a particularly long runway ahead of it with the ability to compound sales and EPS(earnings per share) at >25-30% for many years.

Paycom, a leading provider of cloud-based payroll and Human Capital Management (HCM) software, continued to benefit from a strong demand environment and delivered better-than-expected results, raising its full-year guidance. PAYC continues to be an emerging leader in this \$20B+ industry and we believe they are only just scratching the surface.

Portfolio Activity

The activity this quarter included two new initiations along with modest adds and trims to existing positions. During this period, we initiated new positions in **Euronet Worldwide** and **Bumble**.

Euronet is a technology company in the financial services space. It is an industry leader in providing secure electronic financial transaction solutions through ATM operations and outsourcing, the second largest global money transfer business, and digital payment solutions. We previously owned the company and sold it during the pandemic due to acute concerns that drove a wider range of outcomes. Those concerns have been resolved and we believe the company remains extremely well-positioned for the long term. While macro uncertainties and currency fluctuations create a near-term headwind reflected in the depressed valuation, we believe Euronet should be able to deliver low double-digit top-line growth and sustain solid margins and cash flow while continuing to buy back stock and do accretive M&A.

Bumble is an online dating platform with top-ranking apps including Bumble, Badoo, and Fruitz. We are excited about the market potential for online dating, which has been growing in popularity but is still underpenetrated in many markets. It's still early days for Bumble to benefit from the category growth and expand internationally. Bumble is competitively advantaged because the company empowers women to make the first move, driving a strong brand and compelling customer unit economics. Longer term, we are excited about the opportunity for Bumble to take a share in dating and leverage its brand in other categories.

During the quarter, we also added to some of our existing holdings including **Doximity, Duck Creek Technology, and Goosehead Insurance**. We maintain our long-term conviction in the fundamentals of these businesses and used weakness in the period to lean into a very attractive long-term expected return and favorable risk/reward tradeoffs.

We trimmed our positions in **Wingstop, Paycom, and FICO**. While these remain high-quality businesses that continue to deliver great fundamental results, we right-sized the positions and used the proceeds to fund new opportunities.

Outlook

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 in the short-term view.

This underscores why we stay focused on the long term. While the short-term view is heavily 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 business 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 as attractive as ever. High-quality smid-cap companies have greater latent potential for growth relative to more mature businesses.

The best smid-cap growth companies can quickly 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, CFA

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

Year End	UMA		Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation ²	
	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

Performance % as of 12-31-2021:

(Annualized returns are presented for periods greater than one year)

	1 Yr	5 Yr	10 Yr	Inception
Polen US SMID Company Growth (Gross)	22.03	-	-	68.83
Polen US SMID Company Growth (Net)	20.64	-	-	67.01
Russell 2500 Growth	5.04	-	-	45.14

¹Performance represents partial period (April 1, 2020 through December 31, 2020), assets and accounts are as of December 31, 2020.

²A 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 inception 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. Effective January 2022, fully discretionary SMID company equity accounts managed as part of our U.S. SMID Company Growth strategy that adhere to the rules and regulations applicable to registered investment companies subject to the U.S. Investment Company Act of 1940 were included into the U.S. SMID Company Growth Composite. The accounts comprising the portfolios are highly concentrated and are not constrained by EU diversification regulations.

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. Polen Capital Management invests exclusively in equity portfolios consisting of high-quality companies but also has a subsidiary, Polen Capital Credit, LLC, that specializes in high yield securities and special situations investing. 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.

Effective January 1, 2022, composite policy requires the temporary removal of any portfolio incurring a client initiated significant net cash inflow or outflow of 10% or greater of portfolio assets. 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 either actual management fees or highest fees for fund structures. 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 separate account management fee schedule is as follows:

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

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. HNWI: 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.

The per annum fee schedule for managing the Polen U.S. SMID Company Growth Fund, which is included in the U.S. SMID Company Growth Composite, is 100 basis points (1.00%). The total annual fund operating expenses are up to 130 basis points (1.30%). As of 4/30/2022, the mutual fund expense ratio goes up to 1.30%. This figure may vary from year to year.

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. 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.

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