Polen Global SMID Company Growth

Portfolio Manager Commentary – September 2022

Summary

- Over the third quarter of 2022, the Polen Global SMID Company Growth Composite Portfolio (the "Portfolio") returned –8.60% gross and -8.88% net of fees, respectively, versus the -6.04% return of the MSCI ACWI SMID Capitalization Index (the "Index").

- Heightened geopolitical uncertainty, persistently higher inflation, rising rates, U.S. dollar strength, and concerns about slower global growth continued to be the main sources of volatility.

- The top absolute contributors to the Portfolio's performance over the third quarter included Paycom Software, Tecan Group and Five Below. The most significant absolute detractors from performance included Netcompany, Azenta, and Euronext.

- We didn't initiate any new positions, nor sell out of any holdings, but used the volatility to opportunistically adjust some positions.

- We remain focused on the long-term value propositions, competitive advantages, growth opportunities, and potential earnings power of our Portfolio companies.

- We continue to research and own companies where we believe our flywheel framework is intact and risk-adjusted returns are compelling.

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

	Qtr	YTD	1 Yr	Inception
Polen Global SMID Company Growth (Gross)	-8.60	-46.85	-47.53	-37.66
Polen Global SMID Company Growth (Net)	-8.88	-47.12	-48.05	-38.16
MSCI ACWI SMID Net	-6.04	-26.85	-24.44	-20.80

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.

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 of 2022 echoed themes that started earlier this year. Our Portfolio companies' fundamentals remain on track, but high inflation, rising interest rates, and a general "risk-off" mentality have created some difficulty for our investing style. In response to rising inflation, the U.S. Federal Reserve Board (the "Fed") has ramped up its tightening of interest rates, prioritizing curtailing rising prices over the risk of tipping the economy into a recession. Whether the Fed's strategy proves successful remains to be seen.

Among other macro developments, the absence of a resolution to the Ukraine-Russia conflict as well as China's zero-COVID policy contributed to persistent inflation and rising energy prices. Investor sentiment has become increasingly negative as a result, and while broad multiple compression has slowed, companies have started to revise earnings expectations in anticipation of growing recessionary pressures.

Certain market segments, including consumer discretionary, are under more acute selling pressure given fears about consumer weakness in recessionary periods, however some of these more cyclical areas have also experienced modest bear market bounces. This is also reflected in the fact that small caps outperformed large caps over the quarter. Another notable feature of the investment backdrop has been the outperformance of lower quality cyclical sectors, energy being the best example. With our focus on what we believe to be high-quality compounders over the long term, companies in this space tend not to fit our investment criteria.

As expected, during periods of heightened volatility and a shifting economic environment, we are refining the Portfolio opportunistically.

This includes adding to companies that have been unfairly punished and taking profits by trimming companies that have held up well that we believe have lower return expectations going forward.

Portfolio Performance & Attribution

Over the third quarter, the Portfolio returned -8.60% gross and -8.88% net of fees, respectively, versus the -6.04% return for the Index.

Portfolio underperformance was driven primarily by security selection, as positive selection in communication services and consumer discretionary sectors was outweighed by negative selection in financials and information technology. Sector allocation also detracted from relative performance, primarily due to our zero weight in energy and underweight to industrials. As a reminder, the outcome of our sector positioning is entirely driven by bottom-up stock picking.

The Portfolio style was also challenged by growth and quality underperforming the benchmark once again. Sectors we typically have less exposure to, including cyclical stocks such as Energy have continued to perform relatively well. We remain focused on finding companies with competitive advantages that we believe can compound earnings and cash flows over the long-term independent of commodity swings or economic cycles.

Our most significant absolute contributors to performance over the second quarter were **Paycom Software, Tecan Group** and **Five Below.**

Paycom, a high quality, high-growth leader in human capital management and payroll software, was the top contributor to returns over the quarter. The company posted a solid second quarter, with revenue and earnings both ahead of expectations, and raised its full-year forecast. The numbers highlight the continued demand for Paycom's software as well as successful execution. The company continues to take market share from long-standing incumbents, and we believe the business has a long runway with only circa 5% market share and a growing total addressable market.

Tecan Group, a Swiss-based healthcare technology company, also recovered from recent weakness. We initiated a position in the stock in the last quarter, ahead of first half-year earnings. The company reported strong growth of organic non-COVID-related sales, which largely offset a substantial decline in COVID-related revenues recorded in 2021 and raised its full year sales outlook based on positive momentum in the first six months of 2022. We believe this is a high-quality company with a favorable growth outlook and a narrow range of outcomes.

Five Below is a leading, high-growth, value retailer in the United States. The stock outperformed, in part due to a relief in selling pressure across retail stocks, but also as the company reported second quarter earnings. While revenues and earnings for the quarter were marginally below expectations, in a backdrop of slowing retail demand Five Below is seen to have an attractive value proposition with products that deliver on value as the customer wallet shrinks. We believe the company can compound its value over the next five years, driven by a combination of mid-teens new store expansion, comparable store growth, and modest margin expansion off its fixed cost leverage.

Our most significant absolute detractors from performance included **Netcompany, Azenta,** and **Euronext.**

Netcompany, a Danish IT consulting business, reported second quarter earnings that missed analyst estimates due to higher sickness levels, employee costs and project adjustments. The company also continues to digest its acquisition of Intrasoft from late last year. While the acquisition may cause some short-term headwinds, we believe it will support the long-term growth story for the company. We continue to believe that the company has a robust competitive position, and the long-term growth opportunity remains intact.

Life science sample management business, **Azenta**, which is a relatively new position, missed on revenues for the quarter. The business was negatively impacted by FX headwinds due to a strong U.S. dollar and the COVID shutdown in China. The company has been transparent about how they benefited from COVID revenues; however the decline was larger and quicker than expected. While the results were disappointing, we believe the company is a secular winner in a growing industry where their services are needed in an increasingly complex drug discovery world.

Finally, **Euronext**, which held up well in the previous quarter, underperformed despite positing satisfactory quarterly results amid a turbulent time for European equities. The leading European trading exchange showed durability despite the challenging market environment and promising signs that the Borsa Italiana acquisition made last year will be accretive to returns. We continue to believe they are an industry-leading, volume-based business than can thrive and survive in any market environment and the shares are trading at an attractive valuation.

Portfolio Activity

During the quarter we initiated no new positions, nor sold out of any existing holdings. We added to our position in **Azenta**, which we started at the end of the prior quarter. We also used the volatility to add to several positions, including, **Goosehead Insurance,** after an outsized drawdown in the stock price, **Revolve Group,** which has come down significantly due to some near-term uncertainties, and **Keywords Studios,** where fundamentals remain strong but the stock has come down about 25% year to date. To fund these trades we trimmed **FICO,** which was up nearly 10% over the year, **TMX Group**, in the context of other opportunities, and **Pro Medicus,** due to valuations, despite the quality of the company.

Outlook

We continue to stay focused on the long-term value propositions, competitive advantages, ongoing initiatives, growth opportunities, and potential earnings power of our Portfolio companies. In challenging periods like these, we believe the strong get stronger. In other words, we believe businesses with robust balance sheets that can self-fund growth are poised to withstand a potential recession, maintain resilience, and gain market share while their competition retreats.

> **We believe the opportunity for long-term investors like us is more favorable than it has been in years.**

Thank you for your interest in Polen Capital and the Global SMID Company Growth strategy. Please feel free to contact us with any questions.

Sincerely,

Rob Forker

Experience in High Quality Growth Investing

Rob Forker
Portfolio Manager & Analyst
21 years of experience