

Polen Global Emerging Markets Growth

Portfolio Manager Commentary – September 2022

Summary

- During the third quarter of 2022, the Polen Global Emerging Markets Growth Composite Portfolio (the "Portfolio") returned -9.60% gross and -9.94% net of fees, respectively, versus the -11.57% return for the MSCI Emerging Markets Index (the "Index").
- Heightened geopolitical uncertainty, persistent inflation, rising rates, U.S. dollar strength, and concerns about slower global growth continued to be the primary sources of volatility.
- The top absolute contributors to returns over the third quarter included Titan Company, MercadoLibre, and Karooooo, all of which appeared in the bottom three in the prior quarter. The top absolute detractors included Mobile World Investment Corp, Autohome, and Alibaba.
- We didn't make any trades over the quarter, comfortable with our current positioning.
- While we believe that share prices do not always reflect business fundamentals in the near term, we are confident in our Portfolio holdings' long-term prospects and excited about the opportunities we see in emerging markets.
- Despite the market's short-term preferences and gyrations, we remain focused on finding companies with competitive advantages that we believe can compound earnings and cash flows over the long term.

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



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

Global stock indices declined precipitously in the third quarter, and emerging markets were no exception. Our strategy declined along with the market, modestly outperforming into the selling.

The dip in global markets represents a return of "risk-off" appetite among investors. To some extent, this is to be expected. For twelve years or so, global economies have benefited from an unparalleled period of cheap money. Low-interest rates and money printing have boosted liquidity and pushed up the price of relatively all financial assets, in our opinion.

For many investors, the ride has been an enjoyable one, but the eventual cost of all this free money is inflation, and the return of inflation means rising interest rates. To some extent, one can substitute the words "rising rates" for "rising risk," and as rates have ticked up so too has investor attention on long forgotten risk parameters such as valuation, business model sustainability, balance sheet health, and cash flow generation.

Though a sharpening of investors' lenses may imply some broad-based declines in asset values, in our opinion, it is a development to be welcomed. As is becoming increasingly clear, over the last decade, capital has been allocated to companies with unproven business models and at sky-high valuations.

Our investment philosophy emphasizes the importance of investing in leading businesses with sustainable business models, attractive unit economics, strong cash flow generation, and robust balance sheets that make them the masters of their destiny rather than relying on (what may prove fickle) suppliers of external capital. Additionally, we stress the importance of a disciplined approach to valuation, investing in businesses only where we can see a clear path for long-term value creation and paying a price that we consider reasonable given our expectations.

As markets become more discrete, we expect a return to fundamentals to reward our style of investing.

We invest in businesses that have, and we continue to expect to, compound earnings at healthy double-digit rates. The more rational that markets become, the more the returns of our strategy should converge with the robust underlying performance of our companies.

By our calculations, using consensus earnings estimates, the Portfolio is set to deliver 33% earnings per share growth¹ in 2022 and another 28% in 2023. Priced on those 2023 earnings, we estimate that our Emerging Markets Growth strategy is currently trading at approximately 14x earnings.

In our opinion, the current environment is the cheapest we have seen for a portfolio of quality growth emerging market business since the financial crisis in 2008/9.

Though we do think that market volatility could well persist for some time, we believe that the current environment represents a fantastic time to invest in high-quality emerging market growth companies, particularly relative to the wider universe.

We own a concentrated portfolio of businesses that we believe will continue to compound their intrinsic value at double digit rates year after year, through to the end of the decade at least. If global economic conditions were to weaken, we expect our holdings should further separate themselves from the pack.

Portfolio Performance & Attribution

Over the third quarter of 2022, the Polen Global Emerging Markets Growth Composite Portfolio (the "Portfolio") returned -9.60% gross and -9.94% net of fees, respectively, outperforming the MSCI Emerging Markets Index (the "Index"), which returned -11.57%.

Outperformance was primarily driven by superior stock selection in the Consumer Discretionary and Information Technology sectors, which outweighed weaker selection in Communication Services. The main detractor from relative performance was due to sector allocation, as our overweight to Consumer Discretionary and underweight to the Financials sector detracted from relative returns. As a reminder, our sector positioning is driven entirely by bottom-up stock selection decisions.

From an absolute returns perspective, our most significant contributors to performance over the third quarter were **Titan Company**, **MercadoLibre**, and **Karooooo**.

Titan is the leading jewelry retailer in India. With valuations under the limelight, the stock sold off sharply through April and May last quarter. The stock has subsequently recovered all these second-quarter losses, prompted by a good quarterly earnings report. The company's jewelry business, its largest revenue contributor, saw robust year-on-year growth, while its watch business posted its highest-ever quarterly revenue. Though we remain confident in the company's long-term structural growth story, we remain watchful over the price getting ahead of fundamentals.

¹ Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock.

MercadoLibre was another name that was punished in the second quarter, partly because of the sector it operates in. Like Titan, the stock rallied in the third quarter after reporting solid results; growing sales and improving margins, with its fintech division performing notably well. Given its robust cash flow generation, we believe MercadoLibre is well-poised to continue delivering solid cash flows that will enable it to support its operations fully. We were able to meet the company in their offices this quarter and came away expecting the business to continue growing and providing value-added services to its customers across the continent.

Karoo is a leading South African and Southeast Asian provider of highly precise vehicle tracking services that help its customers improve their logistics operations' efficiency, safety, and security. The company reported record quarterly revenues and earnings, despite a challenging backdrop. The company saw a notable improvement in its Southeast Asia business as COVID-19 disruptions eased. After meeting the CEO this quarter, we remain very impressed with the company's strategy, quality of management, and ability to continue compounding cash flows for many years.

The most significant absolute detractors from performance over the quarter were **Mobile World Investment Corp**, **Autohome**, and **Alibaba**.

Mobile World is the largest retailer in Vietnam. It sells mobile phones, consumer electronics, and groceries. The stock was volatile over the quarter, driven mostly by macroeconomic data, including concerns that a stronger U.S. dollar and rising interest rates could weigh down on Vietnamese equity markets. We continue to think that the company is moving in the right direction, and valuations remain attractive. While earnings growth has been slower than expected due to the restructuring of the grocery business, this is well aligned with management's sensible approach to expansion. During the quarter, the company announced that they are exploring the sale of a stake in the grocery business, which we believe still has the potential to grow within the fragmented Vietnamese market.

Autohome is China's leading online car classified company. The stock performed well in the second quarter; however, it has continued to be hindered by reaction to a combination of macro factors, irrespective of the actual direct impact. The company posted satisfactory quarterly revenues and earnings, which were below the same period last year. While earnings have softened as the global chip shortage weighed on new car sales, we expect the company to return to the earnings growth levels it has historically delivered. The share price weakness has left it trading at levels we consider very attractive.

Alibaba is the leading e-commerce company in China. The stock was weak over the quarter as they reported a quarterly revenue decline. The company has been heavily impacted by the continued COVID-19 lockdowns throughout China and the aggressive rate increases and deteriorating outlook for China's economy have weighed heavily on the stock. The share price has also been under pressure due to the U.S. Securities and Exchange Commission's plans to delist Chinese tech stocks in 2024 if they do not provide access to audit files.

Portfolio Activity

During the quarter, we made no adjustments to our holdings. We made several trades in the previous quarter and have conviction in our bottom-up stock picks.

Outlook

As investors, we focus our attention on long-term fundamentals rather than market gyrations which can either work for or against the Portfolio in the short term. This is particularly true in emerging markets, where unique risks arise from time to time that can create bumps in the road. These headwinds are often difficult to predict in both timing and scale, so we focus our research on long-term structural themes that have the potential to prevail over multiple years, regardless of the near-term backdrop.

Our conviction in our businesses' competitive advantages, sustainability, and durability remains high, and we believe the Portfolio is well-positioned to navigate the future. Looking ahead, we remain dedicated to 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. Given the power of compounding over time, we think that once we invest in great businesses, the best path forward is to stay the course through a long-term approach.

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

Experience in High Quality Growth Investing



Damian Bird, CFA

Head of Team, Portfolio Manager & Analyst
14 years of experience



Dafydd Lewis, CFA

Portfolio Manager & Analyst
17 years of experience

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 (%)
2021	82,789	28,884	53,905	2.28	1	-8.97	-9.87	-2.53	N/A	N/A	N/A
2020	59,161	20,662	38,499	2.51	1	16.05	14.90	18.33	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 Global Emerging Markets Growth (Gross)	-8.97	-	-	2.78
Polen Global Emerging Markets Growth (Net)	-9.87	-	-	1.76
MSCI Emerging Markets (Net)	-2.53	-	-	7.37

¹A 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 Global Emerging Markets Growth Composite created and inceptioned 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. Effective January 2022, fully discretionary equity accounts managed as part of our Global Emerging Markets 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 Global Emerging Markets 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 portfolios, calculating investments, 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 Global Emerging Markets Growth Fund, which is included in the Global Emerging Markets Growth Composite, is 100 basis points (1.00%). The total annual fund operating expenses are up to 150 basis points (1.50%). As of 4/30/2022, the mutual fund expense ratio goes up to 1.50%. 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. Portfolio returns are net of all foreign non-reclaimable withholding taxes. Reclaimable withholding taxes are reflected as income if and when received. 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.

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