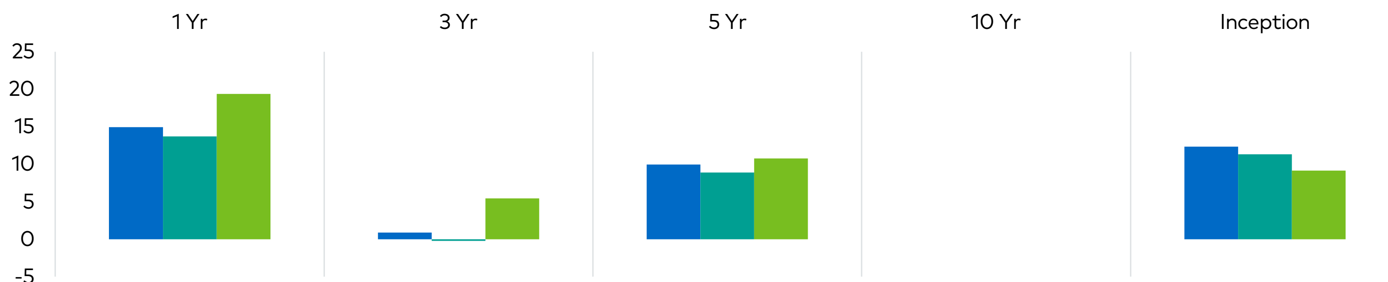
Polen Global Growth

Portfolio Manager Commentary – As of June 30, 2024

Summary

- In the second quarter, AI (artificial intelligence) remained the dominant narrative in markets with narrow market leadership from companies perceived to be AI beneficiaries.
- It appears to us that increasing uncertainty around the macro backdrop has led to a "crowding" into secular growth wherever it can be had now, ostensibly AI. It also seems that this uncertainty has contributed to the outperformance of lower volatility, lower growth businesses with high earnings stability.
- In the second quarter, the top relative contributors to the Global Growth Composite Portfolio's ("the Portfolio") performance were Alphabet, Adobe, and Amazon. The top absolute contributors were Alphabet, Amazon, and Adobe.
- The largest relative detractors in the quarter were NVIDIA, Workday, and Paycom Software. The largest absolute detractors were Workday, Paycom Software, and Aon.
- In the second quarter, we purchased new positions in Zoetis and Shopify and eliminated our position in Autodesk. In addition to that, we trimmed our positions in Microsoft, ServiceNow, Amazon, and LVMH, and we added to our existing position in MSCI.
- During theme-driven market environments, it's helpful not to lose sight of our goal: to pay a fair price for a small group of great businesses that can grow earnings per share at a mid-teens rate or higher over time. In our experience, a methodical approach to compounding earnings growth is what leads to compelling, long-term compounding return potential for our clients.

Seeks Growth & Capital Preservation (Performance (%) as of 6-30-2024)



	Qtr	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Polen Global Growth (Gross)	-1.63	6.34	14.95	0.86	9.93	-	12.33
Polen Global Growth (Net)	-1.91	5.76	13.69	-0.22	8.90	-	11.33
MSCI ACWI	2.87	11.30	19.38	5.44	10.74	-	9.12

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.

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Commentary

In the second quarter, AI remained the dominant narrative in markets. Companies perceived to be AI beneficiaries have seen their share prices markedly outperform those where the benefit appears less clear in the immediate term. Nowhere is this more evident than in the Semiconductor industry, which rose 19% in the quarter and accounted for more than 50% of the MSCI ACWI Index return. Add in the Technology Hardware industry, and that figure increases to 80%. NVIDIA alone has contributed 40% and 24% of the Index return over the quarter and year-to-date periods, respectively.

This is not unprecedented. Markets go through periods where a single theme can drive performance to the exclusion of almost everything else. For example, in the lead-up to the dot-com bubble, we saw certain types of companies experience tremendous stock market gains, like Corning, which then had a monopoly on the production of fiber optic cable, and Cisco Systems, the era's dominant supplier of routers and switches to move data across the internet.[1]

What we find interesting in today's markets are the crosscurrents contributing to this narrow leadership.

Heading into the year, it was generally expected that the Fed would taper rates several times into the end of the year. Amid higher-than-expected inflation readings and a tight labor market, interest rates have remained higher for longer. The Fed recently signaled the potential for just one rate cut this year. On the one hand, it appears to us that increasing uncertainty around the macro backdrop has led to a "crowding" into secular growth wherever it can be had now, ostensibly AI. On the other hand, it also seems that this uncertainty has contributed to the outperformance of lower volatility, lower growth businesses with a high degree of earnings stability (downside protection/safety trade).

As a quality growth manager investing for the long-term, we can readily admit that environments like these come with their undue share of frustration. But by having a long-term mentality, we must be willing to have the discipline and mental fortitude to look wrong, foolish, or out of touch for periods of time. By definition, if we as long-term managers are trying to chase the latest fad, we may look out of touch. But it's important to emphasize that quality, growth, and predictability are all important aspects of what we seek in businesses. This means that it's hard for us to underwrite or get enthused by 1) businesses with extremely high growth yet extremely low levels of predictability or 2) paying high valuations for quality businesses with strong balance sheets and cash flows yet little to no growth. Based on our philosophy, allocating capital to these two "zones" will lead to poor outcomes over the long term, regardless of short-term stock price movements in a given quarter.

During narrative-driven periods like today, it's helpful to take a step back to not lose sight of our goal—pay a fair price for a small group of great businesses that can grow earnings per share at a mid-teens rate or higher over time.

In our experience, a methodical approach to compounding earnings growth is what leads to compelling, long-term compounding return potential for our clients. Our approach is more tortoise than hare. But it's this sort of durable mid-teens earnings growth, which is ~2-3x the Index's long-term average earnings growth despite its now elevated levels, that has led to the strong track record that can be observed in our U.S. approach over 35 years. Emphasizing durable earnings growth has been our unwavering focus since the inception of Polen Capital in 1979, and it will continue to be our focus well into the future as we look forward to delivering long-term value for our clients.

Portfolio Performance & Attribution

In the second quarter, the top relative contributors to the Portfolio performance were **Alphabet**, **Adobe**, and **Amazon**. The top absolute contributors were **Alphabet**, **Amazon**, and **Adobe**.

Alphabet represented our top relative and absolute contributor. The stock responded very positively to strong results across the board that came in ahead of expectations, with particular strength in Google Search, YouTube, and Google Cloud. In all, the business's revenues accelerated to 16% constant currency growth, which is compelling for a business of its size. Additionally, the company introduced a dividend and announced an additional $70B share buyback.

With **Adobe**, in some ways, we see it as a microcosm of the market's "shoot first, ask questions later" approach to categorizing AI winners and losers. In the early part of last year, Adobe came under pressure with a perception that generative AI (GenAI) would represent a material headwind to their suite of creative offerings. In short order, the company introduced its GenAI offering, Firefly, which shifted the narrative to Adobe as a beneficiary with a real opportunity to monetize GenAI in the near term. Earlier this year, that narrative was again challenged as the company reported a slight slowdown in revenue growth. Results in the most recent quarter were robust as the company raised its full-year forecast across a number of key metrics and showcased better-than-expected results.

[1] The dot-com bubble was a period between the late 1990s and early 2000s when the stock market saw a rapid increase in the valuations of internet-based companies.

Amazon reported better-than-expected results in the quarter, most notably showing a re-acceleration in revenue growth in its AWS segment. Equally impressive, the AWS segment saw margins increase compared to the prior quarter and year as it continues to grow its economies of scale. For some investors, the good news was balanced by the company saying it would be ramping up its capex spending in AWS to meet cloud demand, including demand from GenAI. It's important to bear in mind that 1) this is in response to real demand the company is experiencing today and 2) the ability to continually reinvest capital at high returns is what drives outsized long-term compounding of per share earnings.

Amazon has shown both the will and the skill to continually reinvest capital at high returns over many years.

The largest relative detractors in the quarter were **NVIDIA**, **Workday**, and **Paycom Software**. The largest absolute detractors were **Workday**, **Paycom Software**, and **Aon**.

For the second quarter in a row, **NVIDIA** represented the top detractor to relative performance as the stock climbed another 40%, bringing the YTD return to +153%. As of this writing, NVIDIA is the third largest company in the world, but for a brief moment towards the end of the quarter, it surpassed Microsoft to become the largest company in the world. Yet again, the company delivered blowout results that came in ahead of already lofty expectations, reinforcing the narrative that NVIDIA is the only obvious "AI winner" due to the eye-popping revenue growth it's generating now.

However, our research shows that most businesses are only experimenting with GenAI rather than actual, proven use cases. If proven use cases with real return on investments for businesses do not materialize in time, it's possible that the huge infrastructure build and ravenous demand for graphics processing units (GPUs) and AI servers may be ahead of the true demand for that infrastructure.

In prior commentaries, we've spoken at length about the cyclicality of NVIDIA's business and the potential for significant changes in its revenue and earnings growth from year to year.

While NVIDIA is a highly advantaged business with many things to like (especially its current growth!), we believe it has a wider range of possible outcomes for revenue and earnings growth over the next three to five years than we are comfortable with at the company's current valuation.

This is a dynamic environment on the bleeding edge of innovation and could change rapidly. While we'll continue to study the developments closely, we're confident that we can achieve our goal of being long-term owners of a concentrated portfolio of high-quality, competitively advantaged businesses that, in aggregate, can grow earnings per share (EPS) at a mid-teens rate or higher without taking undue risk.

In line with broader weakness across the enterprise software complex, **Workday** sold off more than 15% as management guided to organic subscription sales growth in the range of 16.6-17%, 50bps lower than previously guided. Zooming out longer term, we believe nothing has fundamentally changed for Workday. According to our research, it remains a solid, market-leading, long-term compounder with a substantial runway for future growth in the market for both its human capital management and financial software.

Finally, **Paycom Software**—a new addition we started at a smaller position size—represented another relative detractor in the period. Paycom is a leading cloud-native payroll and human capital management (HCM) software provider. A recent go-to-market hiccup with their new BETI product and some macro weaknesses have led to a deceleration in their near-term growth. However, we continue to think the long-term picture remains intact as a leader in an attractive industry, providing mission-critical software with highly recurring revenue, 90%+ retention rates, and high returns on capital. The stock price performance has effectively been all P/E multiple compression.

Portfolio Activity

In the second quarter, we purchased new positions in **Zoetis** and **Shopify** and eliminated our position in **Autodesk**. We also trimmed our positions in **Microsoft**, **ServiceNow**, **Amazon**, and **LVMH** and added to our existing position in **MSCI**.

We re-established a position in **Zoetis** after holding a position from late 2017 to late 2021. Our sale came after a successful holding period and was solely driven by valuation, which we felt was stretched at the time. We had an opportunity to re-establish a position at a lower price than we sold in September 2021 despite Zoetis having a roughly 25% higher earnings base. In short, we've taken advantage of the recent dip in valuation to buy back what we think is an attractive safety business capable of sustaining durable low double-digit earnings growth.

Shopify, a leading cloud-native commerce software platform, is a business we've been studying since 2018 and which we have long admired. At its core, Shopify's goal is to be the operating system of retail, helping to democratize commerce via lowered barriers to entry, the rise of DTC (direct-to-consumer), and hyper-targeted digital ads.

Shopify's business model combines 1) a mission-critical software business where merchants can run all their business operations from one dashboard and 2) a payments business with a long runway to increase attach rates and grow alongside merchants.

Additionally, we believe the business possesses significant optionality to continue attaching existing merchant solutions and adding more merchant services as high-margin cross-sells. With several powerful tailwinds at their back (e-commerce, mobile commerce, social media, digital payments, seamless omnichannel, DTC, cloud software digitization) and a highly scalable business model, we think their growth will likely prove to be stronger for longer than investors expect.

We sold our small position in **Autodesk** to help fund our purchase of Shopify. We still think Autodesk is a great business, with 95%+ recurring revenue, dominant in its end market, and with nice tailwinds behind digitization in that end market. It should be a durable grower over time, perhaps with continued fits and starts, but we found the risk-reward around Shopify to be more compelling at this time.

We trimmed **Microsoft** and **ServiceNow** purely for valuation reasons. We remain confident in both businesses over the long term.

We trimmed our position in **Amazon** purely as a function of position size management, as it had grown over 10.5% weighting in the Portfolio. We still feel great about the business, its competitive advantages, growth runway, management team, and valuation relative to its long-term growth prospects, hence why it remains our largest position.

We trimmed **LVMH** from 2.6% to 1%. We think that after a period of excellent business performance, the business should see slower growth in revenues and margins over the next few years. While a portion of their demand is certainly durable due to its luxury positioning, it will still likely prove more cyclical in an economic downturn. Given its current prospective high single-digit/low double-digit EPS growth profile (which will likely be high in a downturn), we thought it was more prudent to allocate this capital to a business with more safety-like characteristics in Zoetis. However, we kept a 1% position in LVMH because we believe it remains a phenomenal business with durable advantages that are hard to replicate. We hope to own more of it someday when the business fundamentals and valuation are a more attractive combination, all things considered.

We added to our existing position in **MSCI**, increasing it from less than 2% to a 3.5% weight. The stock sold off recently after reporting a decrease in net new subscription sales during the first quarter. New subscription sales were up modestly versus the prior year, but there was a bolus of cancellations due to "business events," most notably UBS acquiring Credit Suisse and adjusting their subscriptions. While net new subscription sales might be a little softer near-term, retention rates remain high for this highly recurring and profitable business. This short-term softness does not change our view on the competitive advantages or long-term growth profile of the business. We used the selloff as an opportunity to bring MSCI up to a full-sized position.

Outlook

We continue to believe Global Growth is well-positioned to deliver long-term, mid-teens-or-better earnings growth that will drive our long-term investment returns. Our portfolios continue to contain businesses with stronger balance sheets, higher profitability, and faster growth than average that should be able to grow rain or shine.

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

Sincerely,
Damon Ficklin and Bryan Power, CFA

Experience in High Quality Growth Investing

Damon Ficklin
Head of Team, Portfolio Manager
22 years of experience

Bryan Power, CFA
Portfolio Manager, Director of Research & Analyst
12 years of experience

Important Disclosures & Definitions:

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Source: All data is sourced from Bloomberg unless otherwise noted. All company-specific information has been sourced from company financials as of the relevant period discussed.

Definitions: Price-to-earnings (P/E) ratio: The price-to-earnings (P/E) ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

Earnings per share (EPS) is a company's net income subtracted by preferred dividends and then divided by the average number of common shares outstanding.

Contribution to relative return is a measure of a securities contribution to the relative return of a portfolio versus its benchmark index. The calculation can be approximated by the below formula, taking into account purchases and sales of the security over the measurement period. Please note this calculation does not take into account transactional costs and dividends of the benchmark, as it does for the portfolio. Contribution to relative return of Stock A = (Stock A portfolio weight (%) - Stock A benchmark weight (%)) x (Stock A return (%) – Aggregate benchmark return (%)). All company-specific information has been sourced from company financials as of the relevant period discussed.

GIPS Report

Polen Capital Management
Global 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 ACWI (%)	Composite Dispersion (%)	Polen Gross (%)	MSCI ACWI (%)
2023	58,910	22,269	36,641	670.70	9	32.38	30.92	22.20	0.1	20.08	16.27
2022	48,143	18,053	30,090	507.47	7	-30.53	-31.39	-18.35	0.0	20.39	19.86
2021	82,789	28,884	53,905	138.08	7	17.90	17.07	18.54	0.6	15.08	16.84
2020	59,161	20,662	38,499	39.14	3	25.01	24.13	16.27	N/A	16.16	18.13
2019	34,784	12,681	22,104	6.50	2	37.37	36.35	26.60	N/A	12.10	11.22
2018	20,591	7,862	12,729	4.77	2	3.14	2.22	-9.41	N/A	11.50	10.47
2017	17,422	6,957	10,466	4.16	2	32.66	31.55	23.96	N/A	10.12	10.36
2016	11,251	4,697	6,554	0.33	1	1.21	0.34	7.86	N/A	N/A	N/A
2015	7,451	2,125	5,326	0.33	1	10.07	9.14	-2.36	N/A	N/A	N/A

Performance % as of 12-31-2023:
(Annualized returns are presented for periods greater than one year)

	1 Yr	5 Yr	10 Yr	Inception
Polen Global Growth (Gross)	32.38	13.24	-	12.29
Polen Global Growth (Net)	30.92	12.22	-	11.30
MSCI ACWI	22.20	11.73	-	8.35

[1]A 3 Year Standard Deviation is not available for 2015 and 2016 due to 36 monthly returns are not available.
Some versions of this GIPS Report previously included assets of the Firm's wholly-owned subsidiary in the 2022 Firm Assets figure, in error. The figure above has been corrected to no longer count assets at the subsidiary level.
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.

GIPS Report

The Global Growth Composite created and incepted on January 1, 2015 contains fully discretionary global growth accounts that are not managed within a wrap fee structure and for comparison purposes is measured against MSCI ACWI. Prior to October 18, 2016, the benchmark for the Global Growth Composite was the MSCI ACWI variant with gross dividends. As of October 18, 2016, the benchmark was changed retroactively to the MSCI ACWI variant with net dividends, to more accurately reflect the Global Growth Composite's strategy. Effective January 2022, fully discretionary large cap equity accounts managed as part of our Global 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 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, 2022. 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 maintains related entities which together invest exclusively in equity portfolios consisting of high-quality companies. 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, provided, however, if invoking this policy would result in all accounts being removed for a month, this policy shall not apply for that month. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management 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:

Institutional: Per annum fees for managing accounts are 85 basis points (0.85%) on the first $50 Million and 65 basis points (0.65%) on all assets above $50 Million of assets under management. HNW: Per annum fees for managing accounts are 160 basis points (1.60%) of the first $500,000 of assets under management and 110 basis points (1.10%) 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 Growth Fund, which is included in the Global Growth Composite, is 85 basis points (.85%). The total annual fund operating expenses are up to 135 basis points (1.35%). As of 9/1/2023, the mutual fund expense ratio goes up to 1.26%. This figure may vary from year to year.

The per annum fee schedule for managing the Polen Capital Global Growth ETF, which is included in the Global Growth Composite, is 85 basis points (.85%). The total annual fund operating expenses are up to 85 basis points (.85%).

Past performance does not guarantee future results and future accuracy and profitable results cannot be guaranteed. Performance figures are presented gross and net of management 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 ACWI Index is a market capitalization weighted equity index that measures the performance of large and mid-cap segments across developed and 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.

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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