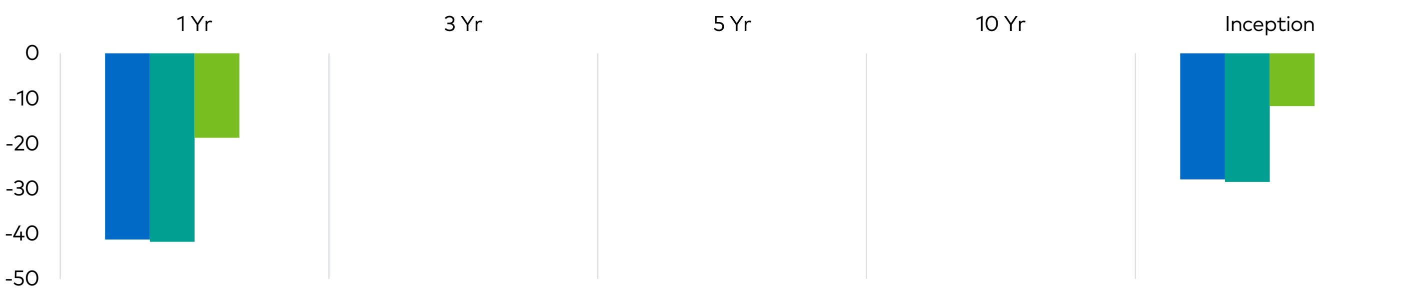
Polen Global SMID Company Growth

Portfolio Manager Commentary – December 2022

Summary

- Over the fourth quarter of 2022, the Polen Global SMID Company Growth Composite Portfolio (the "Portfolio") returned 10.40% gross and 10.11% net of fees, respectively, versus the 11.11% return of the MSCI ACWI SMID Capitalization Index (the "Index").
- Geopolitical uncertainty, persistently high inflation, rising rates, 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 fourth quarter included Tecan, CTS Eventim, and Five Below. The most significant absolute detractors from performance included Temenos, Globant, and Paycom.
- We initiated several new positions in quality businesses, funded by reducing our cash holding and trimming a range of other holdings.
- 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 12-31-2022)



	Qtr	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Polen Global SMID Company Growth (Gross)	10.40	-41.32	-41.32	-	-	-	-27.94
Polen Global SMID Company Growth (Net)	10.11	-41.77	-41.77	-	-	-	-28.54
MSCI ACWI SMID Net	11.11	-18.72	-18.72	-	-	-	-11.67

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 fourth quarter of 2022 echoed themes that endured throughout the year, and despite posting double-digit returns over the quarter, 2022 ended with the largest annual decline since 2008. While multiple compression was behind the broad decline over the year, the fourth quarter saw multiples expand for the first time since Q4 2021. Signs of inflation slowing mostly drove this reversal.

Despite inflation appearing to moderate, it is still elevated, and the U.S. Federal Reserve Board (the "Fed") continues to tighten interest rates, prioritizing curtailing rising prices over the risk of tipping the economy into a recession. The absence of a resolution to the Ukraine-Russia conflict continues to contribute to persistent inflation, as do domestic pressures such as rising housing costs.

Certain market segments, including traditionally more cyclical sectors such as Consumer Discretionary, continue to be under more pressure, given fears about consumer weakness in recessionary periods. However, some more cyclical areas have also experienced bear market bounces. Despite the earnings pressure, Consumer Discretionary was the strongest performing sector after Energy, which continues to be buoyed by high energy prices. Notably, lower-quality cyclicals have generally outperformed. 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.

Our Portfolio companies' fundamentals largely remain on track. However, high inflation and interest rates, hawkish central banks, and growing recession concern continue to weigh on sentiment and have created some difficulty for our investing style.

Nevertheless, the market's focus appears to be now shifting away from multiples and back to earnings.

While growing recessionary pressures may cause companies to downgrade their earnings expectations, it should also lead to the market distinguishing between good and bad companies again. We believe this should be a positive for active management and our high-quality bottom-up approach.

Portfolio Performance & Attribution

Over the fourth quarter, the Portfolio returned 10.19% gross and 10.04% net of fees, respectively, versus the 11.20% return for the Index.

Portfolio underperformance was driven primarily by sector allocation. Our significant overweight to Information Technology, and zero weight in Energy, were the primary drivers of this.

As a reminder, the outcome of our sector positioning is entirely driven by bottom-up stock picking. Security selection also detracted from relative returns, as positive selections in Health Care and Communication Services sectors were outweighed by negative selections in Financials and Information Technology.

The Portfolio style also continued to be challenged, with Growth and Quality investing 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 fourth quarter were **Tecan, CTS Eventim,** and **Five Below.**

Tecan, a Swiss healthcare technology company and one of the portfolio's largest positions, continued its recent momentum after the company previously 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 the 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.

CTS Eventim, the European leader in ticketing and live entertainment event management, reported strong quarterly results. They have seen a strong rebound in demand, even based on pre-Covid levels, and have seen profitability improve over the period. Based on these results, management revised guidance higher for the full year. The stock still trades at an attractive valuation. We believe they can compound earnings close to 15% per annum given their dominant market position and the secular trends of ticketing moving online and increased consumer spending on experiences.

Five Below is a leading, high-growth, value retailer in the United States. The stock rose on the back of strong quarterly results, with earnings coming in ahead of expectations. This contrasted with many of its retail rivals, who have struggled. In a backdrop of slowing retail demand, Five Below is seen to have an attractive value proposition with products that deliver 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 **Temenos, Globant,** and **Paycom.**

Temenos, a leading provider of software in banking, payments, and asset management, reported weaker-than-expected results and revised guidance for the full year. The challenges appear to be driven by a combination of management execution and a deteriorating macro backdrop. Given the ongoing macroeconomic uncertainty, the company specifically cited a more cautious decision-making environment for banks. While disappointing in the near term, Temenos should be well-positioned when the macro environment turns positive.

Globant, an IT consulting firm, posted strong quarterly results. Still, its share price declined due to concerns over the sustainability of this growth and whether companies will continue to spend on technology if the recession is severe. The company grew revenues 34% year-on-year, and while demand remains strong across the business, management guided more conservatively for next year. Globant is a high-quality business exposed to structural growth drivers within digital transformation. The company has grown top-line revenues at over 30%, and we expect this to continue within the 20-30% range looking forward.

Paycom, a high quality, high-growth leader in human capital management and payroll software, was the largest single detractor from returns over the quarter, reversing some of the gains it made in Q3. The company posted strong third-quarter results, with revenue and earnings ahead of expectations. However, concerns over a Global recession and a weaker US employment market weighed heavily on the share price. The company continues to take market share from long-standing incumbents. We believe the business has a long runway with only approximately 5% market share and a growing total addressable market.

Portfolio Activity

As expected, during periods of heightened volatility and a shifting economic environment, we are refining the Portfolio opportunistically. This includes initiating positions in companies that have been unfairly punished and taking profits by trimming companies that have held up well. Those that we believe have lower return expectations going forward.

Over the quarter, we initiated three new positions and sold out of no existing positions.

We initiated a mid-sized position in **FirstService Corp**, a Toronto-based residential property manager and owner/operator of various leading home services. It has a leadership position in each of its businesses, and it operates in highly fragmented markets, which we believe creates a long runway ahead for the company to continue its pace of mid-teens top line growth with modest margin improvements over time. Like many high-quality companies, the stock sold off this year, and we believe the current share price represents an attractive risk/reward.

We started a similar-sized position in **Topicus.com**, the European version of Constellation Software. The company is led by an elite management team and operates in one of the most attractive industries in the world. The industry is vertical market software ("VMS"), and the business provides mission-critical software solutions to a fragmented market where businesses can dominate their niche. The stock trades at an attractive valuation for a company that we believe can grow earnings at 30% or above per annum.

Finally, we initiated a new position in **Eurofins Scientific**, a leading European testing, inspection, and certification company. The company has over 900 labs across Europe, North America, and Asia, and its mission is to test and do quality assurance for customers in food, environment, biopharma, and clinical diagnostics. Our view is that this company can compound earnings at 10-14% over the long term, driven by organic revenue growth, thoughtful M&A, and modest margin expansion.

We funded these new positions by reducing our cash position, reducing our weight in names that have performed well, and reducing risk elsewhere in the portfolio.

These trims included **Tecan**, a high-quality Swiss healthcare technology company, which became a substantial position due to strong absolute and relative performance over the second half of the year. We also trimmed **Globant** and **Paycom**, top five positions which remain high conviction holdings. For Globant, Technology consulting can become discretionary for some in a recessionary environment, so we decided to bring it back to a more average weight. We do not expect a wide range of outcomes in the long term, but we view our actions as prudent risk management. For Paycom, we remain very constructive on the long-term fundamentals and valuation, but there are risks in some employment scenarios that we want to reflect in our weight.

We trimmed **FICO** and **TMX Group**, which we believe are great companies, but we felt that due to valuations and a wider range of outcomes relative to other holdings, it was prudent to reduce our positions. Finally, we trimmed **Kinaxis**, a high-quality company that we hope to own for many years, given our belief in their structural competitive advantage, the attractiveness of the industry they operate in, the strength of the management team, and long runways ahead to compound at healthy rates and drive incremental shareholder value, but felt it prudent to trim given its current valuation and reallocate to Eurofins which mirrors many of these attributes at a lower price.

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. The severity of a recession, the path of inflation and interest rates, and geopolitics will continue to have an influence on markets. Still, 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 economic challenges, maintain resilience, and gain market share while their competition retreats. Various risks remain in the market, but we believe this is primarily reflected in share prices, and we are well compensated for these risks.

Valuation is rarely this attractive in small and mid-cap stocks.

The dramatic drawdown in 2022 has afforded us the opportunity to look at several high-quality businesses that are priced very attractively.

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 and Troy Renauld, CFA

Experience in High Quality Growth Investing

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22 years of experience

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9 years of experience