Polen U.S. Small Company Growth

Portfolio Manager Commentary - December 2019

Summary

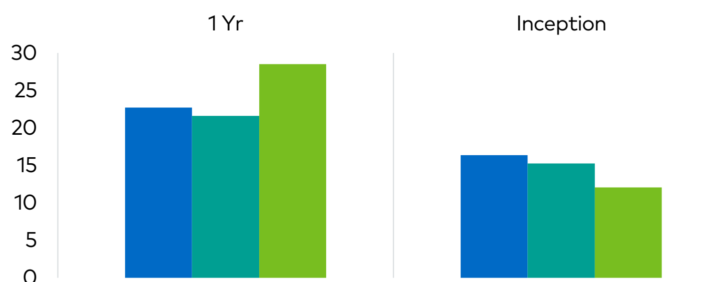
- During the fourth quarter of 2019, the Polen U.S. Small Company Growth Composite Portfolio (the "Portfolio") returned 4.12% gross of fees versus a return of 11.40% for the Russell 2000 Growth Index (the "Index") in the same period. For the full year 2019, the Portfolio returned 22.73% gross of fees versus the Index return of 28.50%.

- Index performance was primarily driven by companies with higher volatility and leverage, and weaker profitability, in contrast to the types of companies that the Portfolio seeks to own.

- We believe that the companies we own remain healthy. For the trailing twelve months, they have delivered 17% revenue growth on average with both solid earnings and cash flow conversion. Return on invested capital (ROIC), the key metric we use to evaluate the health of our investments, was about 17%. This figure is favorable compared to the average ROIC for the broader small cap universe, which is negative.

- Balance sheets for our holdings, which average 28% debt to total capital, also remain sound in our view, and efficiency metrics for our companies indicate continued improvement. These portfolio metrics compare favorably to the Russell 2000 Growth universe, where over 40% of the companies are unprofitable.

Seeks Growth & Capital Preservation (Performance (%) as of 12-31-2019)



	Qtr	YTD	1 Yr	3 Yr	5 Yr	Inception
U.S. Small Company Growth (Gross)	4.12	22.73	22.73	-	-	16.36
U.S. Small Company Growth (Net)	3.88	21.62	21.62	-	-	15.27
Russell 2000 Growth	11.40	28.50	28.50	-	-	12.05

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.

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Commentary

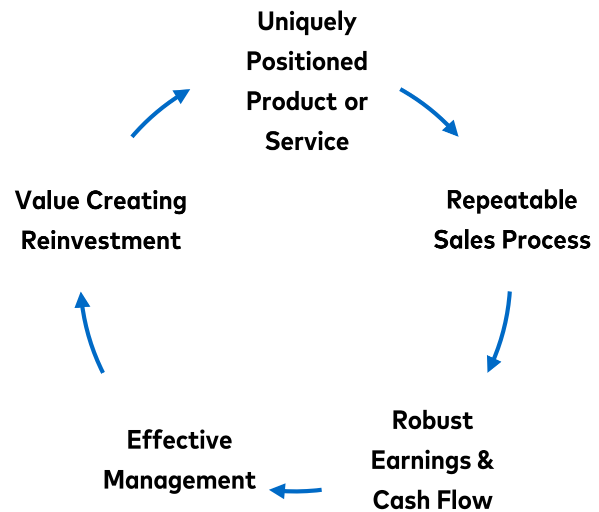
For 2019, a strong fourth quarter capped a year of broad-based strength for U.S. equity markets. Recession fears and concerns over the U.S.-China trade war seemed to diminish, and the Fed cut rates for the third time in 2019.

Small cap companies overall produced solid absolute performance during the period, although results varied considerably across sectors and industries. The broader small cap universe continued to underperform relative to mega caps, the best performing equity asset class in the quarter.

The rotation towards companies that are less profitable, more cyclical, and have less manageable levels of financial leverage, which we referenced in our Third Quarter Growth Commentary, continued through the fourth quarter. We believe this late-cycle behavior is consistent with what we have witnessed historically.

As a reminder, we manage the fund with an absolute return orientation and aim to generate double-digit returns with lower levels of risk. We focus on owning what we believe to be the best high quality companies and intend to hold them for approximately five years. Unprofitable companies that rely heavily on external capital and whose business results appear to be largely driven by the economic or capital cycle do not fit our definition of a great investment. When investors gravitate toward high risk assets like these, we expect the Portfolio to underperform. By comparison, our higher quality growth companies outperformed much of the small cap universe during the period of sharp decline sustained in the fourth quarter of 2018.

We are committed to finding and owning what we believe to be the best businesses in our investment universe that meet all of our flywheel criteria—companies that we think are uniquely positioned and have repeatable sales processes, robust earnings & cash flow, and effective management teams that reinvest for the future—and that fit our mid-teens rate of return hurdle.



Our analysis indicates that the Portfolio's companies remain healthy. For the trailing twelve months, they have delivered 17% revenue growth on average, with both solid earnings and cash flow conversion.

Return on invested capital (ROIC), the key metric we use to evaluate the health of our investments, was about 17%.

This figure is favorable compared to the average ROIC for the broader small cap universe, which is negative. Balance sheets for our holdings, which average 28% debt to total capital, also remain sound in our view, and efficiency metrics for our companies indicate continued improvement. These portfolio metrics compare favorably to the Russell 2000 Growth universe, where over 40% of the companies are unprofitable.

Portfolio Performance & Activity

During the fourth quarter of 2019, the Polen U.S. Small Company Growth Composite (the "Portfolio") returned 4.12% gross of fees. This compares with a return of 11.40% for the Russell 2000 Growth Index (the "Index") in the same period.

For the full year 2019, the Portfolio returned 22.73% gross of fees versus the Index return of 28.50%. On an absolute basis, the Portfolio produced attractive fourth quarter and full-year performance and exceeded our target mid-teens return expectations.

During the fourth quarter, the Portfolio suffered on a relative basis due to its underexposure to biotechnology and the unprofitable, lower quality, highly levered, and generally more volatile companies we tend to avoid. Healthcare accounts for most of the Portfolio's underperformance due to our underexposure to the biotechnology industry. As discussed in previous commentary letters, we have a structural underweight to the biotechnology industry. In our experience, early-stage biotechnology companies are often unprofitable, and their business models tend to carry more binary risk than we prefer. The price movements in the industry may cause sharp swings in short-term relative returns, both positive and negative. These swings, historically, appear to have had a negligible impact on returns over the long-term. From a stock perspective, **U.S. Physical Therapy** drove relative weakness within healthcare.

Style also explains the magnitude of short-term underperformance in the fourth quarter, which was again, related to our underweight to biotechnology. Outside healthcare, overall performance delivered in line with our estimates. The Portfolio's overweight to and stock selection within the information technology sector produced attractive results during the fourth quarter.

We underperformed our benchmark in 2019, which we expect during periods where investors appear to have a greater appetite for higher risk assets. Factors that drove relative underperformance during the year were similar to those in the fourth quarter—our lack of exposure to biotechnology and more cyclical sectors and industries. In 2019, biotechnology stocks were up nearly 45%. Our large underweight to industrials, materials, and real estate, which in our experience tend to be more exposed to changes in commodity prices and/or interest rates, also hampered relative returns.

Conversely, information technology was the greatest contributor to the Portfolio's returns due to a large overweight position and stock selection. Despite our lack of exposure to the more cyclical semiconductor industry, which was the best performing subsector within technology, the sector returns for the Portfolio beat sector returns for the Index. We believe these results reflect our ability to find competitively advantaged, well-run businesses that can post durable growth and returns.

Our performance in consumer discretionary, our second largest sector weight, was weak in 2019. Sector underperformance can be largely explained by the performance of a single stock, **Stamps.com**. We sold Stamps.com after a disappointing string of announcements and business decisions that drove considerable value erosion. We observed evidence of poor management judgment and capital stewardshipas well as a lack of transparency. These represent major violations of our flywheel philosophy and our investment standards and drove our sell decision. Apart from Stamps.com, other Portfolio holdings within the sector performed well, particularly **Floor & Décor Holdings and Pool Corporation**, which were the top two contributors to sector returns.

From a style factor standpoint, there was substantial variability during the year, with the net impact from style appearing to be negligible. Our positive exposure to growth seemed to offset weakness from our overexposure to profits and underexposure to leverage. At times, our high quality oriented factor exposure helped performance, but those factors struggled to outperform consistently during the period. By the late summer, companies with lower profits, higher leverage and greater volatility outperformed.

From a company specific perspective, our largest contributors in the fourth quarter showed relative price strength, mostly due to idiosyncratic factors. Globant, Paycom Software, and Fox Factory Holding were all standouts for year.

Globant, the second largest position in the Portfolio, was the top contributor to performance in the quarter, as the stock appreciated by 15.8%. The stock was somewhat volatile, seemingly due to macro concerns that emerged in October and then later abated—in our view, the fundamentals remained intact throughout this period. The company continues to report positive results, exceeding management's long-term revenue growth targets of 20%. We continue to believe Globant is well positioned in the fast-growing digital strategy consulting services industry as companies across all industries have an ongoing need to strengthen their online presence, better leverage technology in their own products and services, and drive customer experience.

Paycom Software was the second largest contributor to the Portfolio's fourth quarter returns and the largest contributor for the year. The stock appreciated 26.38% in the fourth quarter and 116% in 2019. The human capital management (HCM) software provider, a Portfolio holding since inception, has continued to grow

has multiple drivers of growth including opening new territories, deepening penetration in existing territories and customers, improving sales productivity, and adding new products developed through internal R&D or small bolt-on acquisitions. Just as important, in our estimation, clients remain dissatisfied with incumbent payroll providers and appreciate Paycom for its strong customer service, software as a service (SaaS) delivery model, and lower total cost of ownership. The company's consistently high rates of growth and profitability set it apart from many software vendors in our small cap universe, in our view. Many software vendors within the small cap universe are growing revenue quickly but have negative earnings. In our experience, it is unusual to find a software company with this balance of both growth and profitability.

Fox Factory Holding was our third largest contributor, up nearly 12% for the quarter. The company is a leader in high-performance suspension products for mountain bikes and powered vehicles, such as motorcycles, snowmobiles, ATVs, pickup trucks, and SUVs. The business performed well throughout 2019. Sales and EPS grew over 20% YoY and 25% YoY, respectively, through the first nine months of the year on the back of strong demand in the company's powered vehicles segment, which experienced organic growth of roughly 40% in the third quarter. The company has recently experienced a change in leadership, which we believe is part of normal succession planning, but we continue to monitor the transition closely. That said, we believe that the long-term business fundamentals for Fox Factory look attractive. Based on our research, its products and technology are meaningfully better than competitors, which has led to its strong brand recognition and appeal to professional athletes and performance vehicle enthusiasts.

Our largest detractors in the quarter were U.S. Physical Therapy, Blackbaud, and Alarm.com, each of which showed relative price weakness, mostly due to idiosyncratic factors.

U.S. Physical Therapy was our largest detractor in the quarter, down roughly 12%. The company reported third-quarter results that were somewhat mixed. Strong organic growth at its physical therapy clinics was seemingly offset by the sale of a large partnership at the end of the second quarter and a one-time charge related to an overpayment at one of its clinics. Additionally, wildfires and temporary power outages in California plus higher integration costs from a recent acquisition appear to have disrupted its industrial injury prevention business segment. As a result, management revised its earnings guidance lower by roughly 2% for the remainder of the year. We do not believe, however, that these issues negatively impact the long-term attractiveness or competitive positioning of the business.

U.S. Physical Therapy remains a leader in the outpatient physical therapy industry in the U.S., which is benefiting from numerous secular tailwinds that are driving volume growth to its clinics. In addition, we think the company has a unique and differentiated approach to unit growth with its Clinic Partnership model, whereby the company seeks to acquire and partner with local market providers of single and multi-clinic practices nationwide.

Blackbaud was the second biggest detractor, down just under 12% in the quarter. The company is the market-leading SaaS provider for non-profit organizations such as colleges, religious organizations, and charities. 2019 has been a year of transition for Blackbaud as they reorganize and grow their sales force, open several new verticals to expand the total addressable market, and transition to cloud-based platform solutions. The company posted solid third quarter results with mid-single-digit revenue growth and signs of progress on many of the initiatives, as mentioned above. However, investors reacted to the company's lower-than-expected margins and affirmation that fourth quarter results would be on the lower end of prior guidance, which management attributed to initiatives and investments oriented toward long-term growth prospects.

We will continue to monitor results closely as Blackbaud is now entering the tail end of these investments. We believe results should improve in the coming years.

Alarm.com, a SaaS provider of cloud-based security systems primarily for residential applications such as smart homes, was the third biggest detractor, down just under 8% in the quarter. Its software enables a large ecosystem of devices from a wide range of manufacturers and incorporates features such as energy management and home automation. This unique model facilitates sticky customer relationships. The stock has been weak since management's third quarter conference call, where they announced that margins would be lower than expected due to investments in new growth initiatives. That said, fundamental results were solid as revenue and EBITDA beat consensus estimates by 12% and 9%, respectively. In our opinion, management is taking a prudent and thoughtful approach to their growth investments and have waited for empirical signs of traction and viability. We remain optimistic about the company's long-term prospects.

We made a few changes to the Portfolio in the quarter. We initiated a new position in **Envestnet, Wingstop, and Exponent**.

Envestnet is a software and investment solutions provider to the wealth management industry. Envestnet seeks to empower independent financial advisors by expanding their investment options to match the options that are available at larger wirehouses like Morgan Stanley and Merrill Lynch. Over time, the company added more software solutions including portfolio accounting and reporting, data and analytics, and financial

planning. The company now has the most comprehensive suite of products in the market and a dominant top-three position in nearly all solutions that are considered important to advisors.

We believe Envestnet has a differentiated product offering, strong corporate culture, and attractive opportunities for ongoing growth. Envestnet benefits from secular tailwinds including 1) the switch away from commission-based advisory to fee-based advisory, 2) the transfer of wealth to technology-savvy millennials, and 3) increasing demand for comprehensive wealth management solutions like goals-based planning and analysis. Envestnet's customer base is sticky because switching software providers can be disruptive and expensive. Our research indicates the business model is highly repeatable with about 96% recurring revenue (fee-based or subscription-based). In addition, we believe the company has a significant growth runway as it further penetrates existing client relationships by bundling additional products or adding advisors from existing banners.

We also initiated a new position in Wingstop, a franchisor and operator of quick-service restaurants focused on chicken wings. We believe Wingstop has a long runway for growth and the potential to increase its restaurant base by multiples both domestically and internationally.

Its emphasis on take-out orders is unique and allows for a small store footprint that minimizes upfront investments and fixed costs such as rent. This model can lead to high returns for the restaurant owner and more easily attract franchisees—the company is about 98% franchised today. The business model benefits from stable cash flows and almost no investment required to grow. We believe Wingstop is in an enviable and rare position to pay shareholders nearly all of the cash it generates via dividends or buybacks without interrupting growth. Additionally, we believe management has an attractive track record of strategic execution.

We purchased **Exponent**, a specialty consulting firm with a consistent business model, during the quarter. The company performs high profile, scientifically technical investigations. These investigations usually involve litigation surrounding complex events such as plane crashes, car recalls, terrorist attacks, and natural disasters. Companies often hire Exponent when they are in a defensive position and the stakes are extremely high.

We believe Exponent is a great example of a flywheel business that works at driving predictable growth. Exponent has built its track record over decades. It has successfully leveraged its position in defense work to expand into proactive work, using its diverse teams of scientists to tackle product and regulatory issues. In terms of a repeatable sales process, 85% of revenue comes from existing customers and Exponent's top consultants (for which there is <5% turnover) generate a steady flow of new business. Importantly, the company has pricing power facilitated by its competitive position. Exponent has historically compounded free cash flow at a 20% CAGR and has shown consistency in all economic scenarios.

During the quarter, we sold our position in **Cantel Medical** after careful consideration and **Medidata Solutions** left the Portfolio upon being acquired.

Cantel Medical has been a Portfolio holding since inception. The company is a leader in infection prevention products and services for the healthcare industry. We felt the company had a strong position, consistent revenue growth, and margin expansion. However, in the last year, the repeatability of the company's growth, a key component of how we define a great business, has come into question in our view. Across almost all segments, Cantel is facing different challenges including greater-than-expected cyclicality in its dental segment and a lack of strategic direction in its Life Sciences division. Also, we believe Cantel's endoscopy business faces longer-term risks of increased competition as disposable products enter the endoscopy sterilization business. Compounding challenges also point to another violation of our flywheel—what appears to us to be poor decision making by the management team.

While we think the company could overcome some of these challenges, the changes in the competitive landscape are the most concerning to us. Unfortunately, we sold Cantel Medical at a loss, but believe this decision avoids the risk of even larger losses and allows us to redeploy capital towards investments that we believe meet our high standards.

The acquisition of Medidata Solutions by Dassault Systems closed during the quarter. We have owned Medidata since the Portfolio's inception and, during this time, the company delivered solid business growth and returns.

We invested when the company's market cap was roughly $3.4B. Upon completion of the acquisition, Medidata's market cap was ~$5.8B. While it is bittersweet to have this company leave the Portfolio, the returns are largely in line with the results we aim to achieve consistently. We invested the cash we received at closing to make new purchases.

Outlook

We believe our Portfolio's companies remain financially strong with attractive growth prospects, especially relative to the broader small cap universe where high debt levels and weak profitability continue to persist. While swings in investor preferences and their effect on portfolio returns can appear significant in the short-term, we believe they are transitory. What will persist across market environments, in our view, is investing in high quality growth businesses that we believe can perform well in any scenario.

We do not know exactly how 2020 will play out given uncertainty around economic growth, trade relations, the impact of tariffs, rising labor costs and the presidential election. If looming uncertainty is a precursor for tougher times ahead, we believe that many of our Portfolio holdings could strengthen on the basis of their competitive advantages, solid returns on capital and cash flow generation, and manageable amounts of leverage. In difficult market environments, we expect our management teams to be agile and invest for the future rather than be reactionary and defensive. For these reasons, we believe the Portfolio's focus on owning businesses that we believe can generate more cash flow at persistently high rates of ROIC, rather than timing short-term market swings, will produce more attractive returns and provide downside protection for our clients.

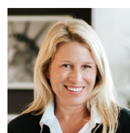
We continue to look across the small cap landscape to find companies that we believe meet our definition of a great investment. We believe that by owning a concentrated portfolio of what we consider to be the best businesses, we can achieve our expected mid-teens return targets and provide a path to attractive compounding returns for our clients over the long term.

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

Tucker Walsh and Rayna Lesser Hannaway

Experience in High Quality Growth Investing

Tucker Walsh
Head of Team, Portfolio Manager & Analyst
27 years of experience



Rayna Lesser Hannaway
Portfolio Manager & Analyst
22 years of experience

Historical Performance

	Polen (Gross) (%)	Polen (Net) (%)	Russell 2000 Growth Index (%)
3 Months	4.12	3.88	11.40
YTD	22.73	21.62	28.50
1 Year	22.73	21.62	28.50
Since Inception (03-09-2017)	16.36	15.27	12.05

Returns are trailing through 12-31-2019. Annualized returns are presented for periods greater than one-year.
Source: Archer

GIPS Disclosure

Polen Capital Management
U.S. Small Company Growth Composite—Annual Disclosure Presentation

		UMA	Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation**	
Year End	Total (millions)	Assets (millions)	Assets (millions)	U.S. Dollars (millions)	Number of Accounts	Composite Gross	Composite Net	Russell 2000 Growth	Composite Dispersion	Polen Gross	Russell 2000 Growth
2018	20,591	7,862	12,729	3.82	6	3.30%	2.31%	-9.29%	0.1	-	16.7
2017*	17,422	6,957	10,466	5.65	4	20.74%	19.82%	17.33%	N/A	-	14.8

Note: N/A - There are five or fewer accounts in the composite the entire year.
Total assets and UMA assets are supplemental information to the Annual Disclosure Presentation.
*Performance represents partial period (March 9, 2017 through December 31, 2017), assets and accounts are as of December 31, 2017. **A 3 Year Standard Deviation is not available for 2017 and 2018 due to 36 monthly returns are not available.

GIPS Disclosure

The U.S. Small Company Growth Composite created on March 9, 2017 contains fully discretionary small company equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against Russell 2000 Growth. Polen Capital invests exclusively in a portfolio of high-quality companies.

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 by ACA Performance Services, LLC for the periods January 1, 2016 through December 31, 2018. A verification covering the periods from April 1, 1992 through December 31, 2015 was performed by Ashland Partners & Company LLP, whose report expressed an unqualified opinion thereon. The verification reports are available upon request. Ashland Partners & Company LLP was acquired by ACA Performance Services, LLC.
Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Polen Capital Management is an independent registered investment adviser. The firm maintains a complete list and description of composites, which 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. Past performance is not indicative of future results. Effective January 1, 2018, accounts must be fully invested at the market open on the first business day of the month, in order to be included in that month's composite.

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 actual fees. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The management fee schedule is as follows:
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. HNW: 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.

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 2000® Growth Index measures the performance of those Russell 2000 companies with higher price/book ratios and higher forecasted growth values.

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%	1.1	1.21	1.33	1.46	1.61	1.71	1.95	2.14	2.36	2.59
9%	1.09	1.19	1.3	1.41	1.54	1.68	1.83	1.99	2.17	2.39
20%	1.2	1.44	1.73	2.07	2.49	2.99	3.58	4.3	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