POLEN | CAPITAL

POLEN FOCUS GROWTH STRATEGY

Dan Davidowitz, CFA
Head of the Large Company Growth Team & Portfolio Manager

Damon Ficklin
Portfolio Manager & Analyst

Key Takeaways

- During the first quarter of 2018, the Polen Focus Growth Composite Portfolio (the "Portfolio") returned +3.41% gross of fees compared to +1.42% for the Russell 1000 Growth Index and -0.76% for the S&P 500 Index.

- Our strong outperformance was driven by primarily what we own, but we also benefited from what we do not own. Company specific positives came from Adobe, Booking Holdings (formerly Priceline) and two of our healthcare companies: Align and Zoetis. From a sector perspective, our lack of exposure to energy, materials and telecom companies also aided our relative performance.

- Portfolio activity in the first quarter was higher than normal, although most of the changes were incremental adds and trims, with no new purchases in the quarter and only one outright sale.

- Looking at the macroeconomic backdrop, there are some positive forces already in motion such as accelerating GDP growth in the United States and abroad as well as lower tax rates coming to U.S. individuals and corporations. There are also risks to the current growth acceleration, namely the potential for protectionist trade wars and tariffs as well as higher interest rates.

- For the first time in many years, there finally seems to be strong corporate earnings growth in the United States. For the full-year 2017, we calculated S&P 500 earnings growth was about 17%, well above its long-term annual average of approximately 7%, and the highest it has been since 2010. Our Portfolio also saw an acceleration with weighted average earnings growth in the low 20% range. Over the long haul, we continue to expect our Portfolio to compound earnings at roughly a mid-teens rate, which should be more than double the growth rate of the S&P 500.

Commentary

During the first quarter of 2018, the Polen Focus Growth Composite Portfolio (the "Portfolio") returned +3.41% gross of fees compared to +1.42% for the Russell 1000 Growth Index and-0.76% for the S&P 500 Index. Our strong outperformance was driven by primarily what we own, but we also benefited from what we do not own. Company specific positives came from **Adobe Systems Inc.**, **Booking Holdings, Inc.** (formerly Priceline) and two of our healthcare companies: **Align Technologies, Inc.** and **Zoetis, Inc**. From a sector perspective, our lack of exposure to energy, materials and telecom companies also aided our relative performance.

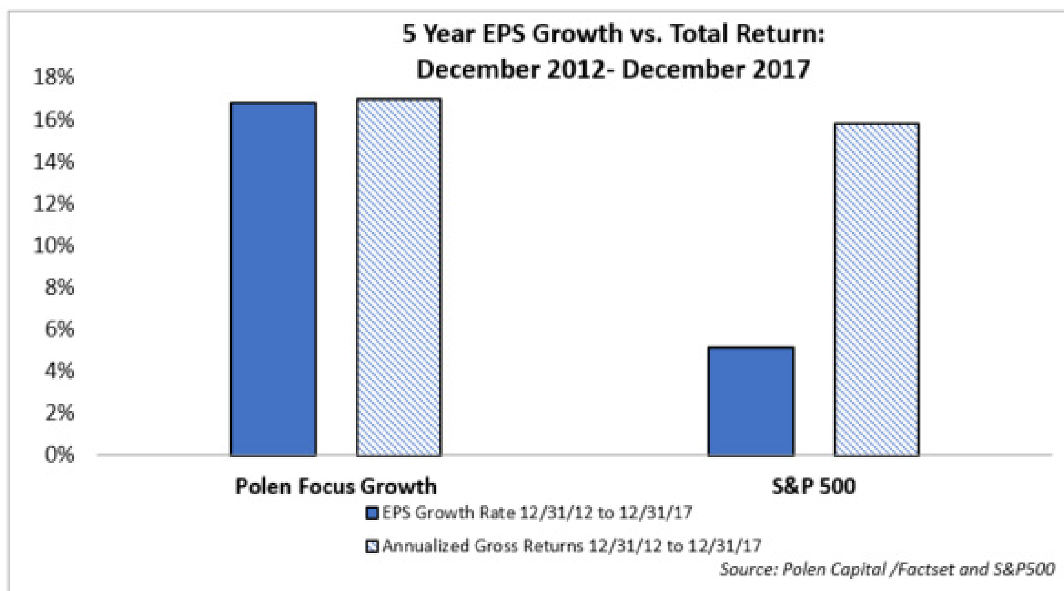
The quarter started out strong with a "melt up" in equities leading to the best January for stocks since 1987. But volatility, which has been notably absent for some time, returned in February and March, erasing much of the early 2018 gains. Looking at the macroeconomic backdrop, there are some positive forces already in motion such as accelerating GDP growth in the United States and abroad as well as lower tax rates coming to U.S. individuals and corporations. We can certainly debate the merits and risks of the U.S. tax cut to the long-term

health of the U.S. economy, but in the short run, we believe it should provide at least a modest boost to economic activity and corporate earnings growth. There are also risks to the current growth acceleration, namely the potential for protectionist trade wars and tariffs. At present, it is difficult to tell if the White House is using the threats of tariffs as a negotiating tactic or actual protectionist measures. The latter would likely be a significant negative for economic growth. In addition, the Federal Reserve has indicated a path to higher interest rates faster than previously expected, which is mostly due to the improving economic backdrop and the fiscal tailwind from tax cuts. All this is to say, we see some strong positives, but have some concerns as to their sustainability. Regarding inflation, we are not hearing anything from our companies or seeing anything in the economic data that indicates the prospect of a significant inflationary environment. If inflation does pick up, our Portfolio companies have significant pricing power that they can employ to pass on costs without impacting their profits. In addition, to the extent inflation or other factors lead to more challenging economic periods, the fact that our holdings are generally some of the most competitively advantaged and best-positioned companies in our view typically allows for continued investment and market share gains versus their peers during tough times.

For the first time in many years though, there finally seems to be strong corporate earnings growth in the United States. For the full-year 2017, we calculate S&P 500 earnings growth was about 17%, well above its long-term annual average of approximately 7%, and the highest it has been since 2010. Our Portfolio also saw an acceleration with weighted average earnings growth in the low 20% range. The consensus estimates for S&P 500 earnings growth in 2018 stands at 25%, which we estimate is aided at least five percentage points by the new tax law. We expect our Portfolio's earnings growth rate to be similar or slightly lower than it was in 2017 as some of our faster growing companies naturally slow a bit over time. We expect that the tax law will also have a smaller benefit to our Portfolio versus the S&P 500 as many of our companies are global in nature and therefore already had low tax rates prior to the new law. Over the long haul, we continue to expect our Portfolio to compound earnings at roughly a mid-teens rate, which should be more than double the growth rate of the S&P 500. The chart below shows clearly that our Portfolio's return has closely tracked earnings growth over the last five years (and over almost all longer-term time horizons) while the return of the S&P 500 has far exceeded earnings growth. In our experience, returns that are not supported by earnings growth are not likely to be sustainable.

Narrow Market Leadership

We are often asked about the narrow market leadership in large technology companies, especially those dubbed the "FANG" or "FAANG" or "FAANG plus Microsoft" stocks. In the real world, Facebook, Apple, Amazon, Netflix, Google (Alphabet) and Microsoft are all more different than they are alike. They have very different business models, margin profiles, capital intensity, and valuations. Yet, all are large and technology enabled, hence the silly shorthand nicknames. We own **Facebook, Inc.**, **Alphabet, Inc.** and **Microsoft Corp.** today and have for some time. We don't own the others for various reasons but most notably Amazon and Netflix do not meet our high hurdles for investment today because their returns and free cash flow metrics can be negatively impacted by significant and more unpredictable investments in infrastructure and media content. We are frequently asked to discuss our ownership of and/or our opinions on the FAANG stocks. Facebook and Alphabet have been strong contributors to our performance, but they are also only part of the contribution to our Portfolio. In fact, not owning Apple, Amazon and Netflix over the past few years has been a big headwind for our relative performance. This past quarter, it was even more pronounced. We outperformed the Russell



1000 Growth and S&P 500 benchmarks by approximately 200 and 400 basis points, respectively, with Facebook and Alphabet detracting a combined 50 basis points (they both had negative returns in the quarter) and Amazon and Netflix detracting over 100 basis points (they were both substantially positive in the quarter). The point is, our Portfolio is just that, a portfolio. It is also not unusual for the stock market to be led by a small group of stocks in either the short run or the long run. We encourage our investors to look past overly simplified acronyms to the true fundamentals of real world businesses within the context of a portfolio's construct.

Portfolio Performance

During the first quarter, the leading contributors to the Portfolio's performance were Adobe, Booking Holdings and Align. The biggest detractors were Facebook, **Nestle, S.A.** and **Regeneron Pharmaceuticals, Inc**. Adobe and Align continue to show exceptional growth that has been in motion for years. Both companies have virtual monopolies in their core markets (digital media creation for Adobe and invisible orthodontic aligners for Align) with wide open growth potential. While both have high P/E multiples on current earnings, we believe the ability to grow unimpeded for many years into the future should allow for still strong investment returns. In the case of Adobe, we feel the valuation is quite attractive and it is currently our largest holding. For Align, the valuation is fair, meaning we still expect double-digit investment returns over the next five years despite the higher absolute multiple.

Regarding detractors, Facebook has been under pressure of late, largely due to self-inflicted wounds around data privacy and security. The most recent example is the discovery that a firm called Cambridge Analytica misused private data of 87 million Facebook users. These issues around data privacy and security, and Facebook's failure to recognize and respond to these issues appropriately, are unequivocally negative for the company. Over the last few years, it has become clear that Facebook's platform has been used by bad actors including rogue nations, peddlers of hate speech and others. We recently trimmed Facebook, prior to the Cambridge Analytica news, due to our belief that the company would have to combat these issues potentially with higher costs and lower monetization from targeted ads. This most recent issue regarding Cambridge Analytica is part of the same overall problem. There may be others to come. That being said, with virtually no competition and most likely little required change to the long-term business model, we are comfortable with our current position. We will be monitoring government actions across the globe to see if there is any regulation that could change Facebook's ability to serve highly targeted ads, but we don't expect anything significant as of this writing. We believe monetary fines are also unlikely to be meaningful in light of the company's size and balance sheet strength. Very early data indicates little change in the behavior of Facebook's user base as a result of the issues mentioned above.

Nestle shares have been an opportunity cost to our Portfolio, with the stock virtually flat over our nearly four-year holding period. Over the same period the S&P 500 has risen 40%. Nestle is a "safety" holding for us, meaning that downside protection is one reason why we own it, but we don't own any companies exclusively for downside protection. We expect significant earnings growth from all of our companies and Nestle has not delivered due to a combination of factors, such as currency headwinds and eroding pricing power. We are happy to see that Nestle itself recognizes some of these issues and hired an outsider, Mark Schneider, as CEO last year. We expect Schneider to be an agent of change, slowly reshaping Nestle's portfolio of businesses for better growth and profitability. The pace of change is likely to be modest, but we do expect to see improvement. It is important to look forward from today to decide if there is a valid investment thesis and not focus on the underperformance of the company over the last few years. In hindsight, our decision to purchase Nestle four years ago was a mistake, as we underestimated the headwinds to this industry from changing consumer preferences and lower barriers to entry as a result of online search and social media making it easier for consumers to discover products and allow smaller brands to broadcast their products to large audiences. That said, Nestle's volume growth has still been sufficiently good and management's new vigor for portfolio shaping through active acquisitions and divestitures should position the company for improved results from here.

We discussed Regeneron's underperformance last quarter, and the reasons for the continued underperformance have not changed in our view, so we won't repeat them here. We still expect a bright future for Regeneron with significant, albeit lumpy, growth ahead. There is no change to our long-term outlook for the company.

Portfolio Activity

Portfolio activity in the first quarter was higher than normal, although most of the changes were incremental adds and trims, with no new purchases in the quarter and only one outright sale, **Celgene Corp**.

In our last quarterly commentary, we spent time discussing the issues that had recently plagued Celgene including the disappointing clinical trial results of one of its drug candidates and significant payor pressure on one of its faster growing drugs, Otezla. At year end, we felt that these disappointments did have a negative impact on our investment thesis, enough so that we felt the 30%+ decline on the stock price from its highs was justified, yet there would still be enough earnings growth to maintain our position. This balanced

risk-reward was further negatively tilted in January when the company began announcing some relatively large acquisitions that felt at best expensive and at worst, desperate. As room for error has been getting tighter and management's responses suboptimal, we decided to exit our position in January at an average cost of about $103 per share. At the time of this writing, the stock is down another 13% since our sale.

In addition to trimming our Facebook position in January from 7.5% to 4.5% of the Portfolio, we also reduced our position in Booking Holdings in February from 4.6% to 2.5%. Our concern on Booking is that its largest competitor, Expedia, is spending a tremendous amount of money on digital advertising to try and wrestle away market share from Booking. The auction nature of Google AdWords makes it more important for Booking to then increase its Google spend in order to avoid losing market share to Expedia in the Google channel. The company has seen margin headwinds from this "performance advertising" even when competitors act in a benign fashion, so the new aggressiveness by Expedia as well as new players like Airbnb gave us pause. Interestingly, when Booking reported quarterly results a few weeks later, our concerns seemed unfounded. It appears that Booking didn't see pressure from performance ad spend - it was quite the opposite. Instead, Booking's performance advertising spend grew significantly slower than its gross profit growth. If sustainable, we expect this would be excellent for shareholders. We are not yet sure this is the case for certain reasons, but our research has been focused on how Booking was able to reverse this multi-year trend in the face of more aggressive competition and whether it is indeed sustainable.

In the quarter, we added modestly to our positions in Microsoft and Zoetis, essentially bringing these newer holdings up to "normal" weights. We also added to **Dollar General Corp**. and **Gartner, Inc**. Dollar General seems to have come through its one-year malaise that was caused by food price deflation and a reduction in food stamp benefits in many states. The business is back to its normal growth trajectory, mid-to-high-single-digit revenue growth and low-double-digit EPS growth. Gartner made a large acquisition last year of a company called CEB that raised some yellow flags because it was outside of its core technology research business and it increased the company's debt load to a level of discomfort for us. Gartner has been an exceptional growth investment for us for over five years but the CEB acquisition caused us to re-evaluate our holding. We determined after the deal that indeed the risk profile was now higher than before and we would track some key indicators during the integration. First, we wanted to see the core IT research business continue its strong revenue growth. Second, we wanted to see Gartner sell a non-core Talent Assessment business that it acquired with CEB. Third, we wanted the company to pay down debt substantially. And last, we wanted to see the CEB business metrics improve. We have seen strong improvement in each of these areas. The core Gartner business is accelerating, the Talent Assessment business has now been sold, debt is being paid down quickly and retention rates for CEB's business are rapidly improving. Given all of these improvements, the risk profile for Gartner has been meaningfully reduced in our view, and we can now focus more on the accelerating earnings growth to come from the combined businesses.

Attribution

The top three contributors (Portfolio average weight multiplied by return) for the first quarter were Adobe (1.74%), Booking Holdings (0.54%) and Align Technology (0.51%).

The three largest detractors in the first quarter were Facebook (-0.37%), Nestle (-0.29%) and Regeneron (-0.27%).

Conclusion

We are heartened by accelerating economic and corporate earnings growth. Rising rates need to be monitored, but do not necessarily have to lead to poor market returns. Protectionist measures, if real, could be a significant risk. That said, we believe our Portfolio is positioned well for the long term, and we continue to see strong opportunities for earnings growth over the long term.

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

Sincerely,
Dan Davidowitz & Damon Ficklin

POLEN | CAPITAL
1825 Corporate Blvd NW #300, Boca Raton, FL 33431
+ 1-800-358-1887 | www.polencapital.com

The commentary is not intended as a guaurantee of profitable outcomes. Any forward-looking statements are based on certain expectations and assumptions that are susceptible to changes in circumstances.

Please reference the supplemental information to the composite performance which accompanies this commentary.

Historical Performance

Polen Focus Growth Composite as of 03-31-2018				
	Polen (Gross)	**Polen (Net)**	**R1000G**	**S&P 500**
Mar-18	-1.61	-1.61	-2.74	-2.54
3 Month	3.41	3.29	1.42	-0.76
YTD	3.41	3.29	1.42	-0.76
1 Year	20.93	20.37	21.26	13.99
3 Years	14.52	13.96	12.90	10.79
5 Years	16.34	15.74	15.54	13.32
7 Years	15.19	14.56	14.09	12.71
10 Years	13.40	12.68	11.34	9.50
15 Years	12.02	11.23	10.88	10.10
20 Years	9.93	9.07	6.19	6.46
25 Years	13.77	12.81	9.17	9.47
Since Inception (1/1/89)	14.55	13.53	10.36	10.38

Source: Archer
Returns are trailing through: March 31, 2018
Annualized returns are presented for periods greater than 1 year.

Please reference the supplemental information to the composite performance which accompanies this commentary.

GIPS Disclosure

Polen Capital Management
Large Capitalization Equity 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	S&P 500	Russell 1000 Growth	Composite Dispersion	PCM Gross	S&P 500	Russell 1000 Growth
2017	17,422	6,954	10,468	5,290	513	27.73%	27.13%	21.83%	30.22%	0.3%	10.65	10.07	10.69
2016	11,158	4,648	6,510	3,243	450	1.73%	1.23%	11.96%	7.09%	0.2%	11.31	10.74	11.31
2015	7,451	2,125	5,326	2,239	321	15.89%	15.27%	1.38%	5.68%	0.1%	10.92	10.62	10.85
2014	5,366	1,374	3,992	1,990	237	17.60%	16.95%	13.69%	13.06%	0.2%	10.66	9.10	9.73
2013	5,017	1,197	3,820	1,834	245	23.77%	23.07%	32.39%	33.49%	0.3%	11.91	12.11	12.35
2012	4,522	891	3,631	1,495	325	12.43%	11.75%	16.00%	15.26%	0.1%	16.01	15.30	15.88
2011	2,366	562	1,804	555	171	9.04%	8.25%	2.11%	2.63%	0.2%	15.97	18.97	18.01
2010	1,185	322	863	316	120	15.65%	14.70%	15.06%	16.72%	0.2%	20.16	22.16	22.42
2009	624	131	493	225	120	39.71%	38.50%	26.46%	37.21%	0.3%	16.99	19.91	20.01
2008	266	10	256	137	112	-27.81%	-28.42%	-37.00%	-38.44%	0.2%	15.26	15.29	16.63
2007	682	-	682	491	149	10.78%	9.86%	5.49%	11.81%	0.2%	8.36	7.79	8.66
2006	730	-	730	524	219	15.00%	14.04%	15.80%	9.07%	0.1%	7.27	6.92	8.43
2005	1,849	-	1,849	945	419	-0.53%	-1.43%	4.91%	5.26%	0.2%	8.10	9.17	9.67
2004	2,017	-	2,017	1,124	665	8.72%	7.76%	10.88%	6.30%	0.2%	10.09	15.07	15.66
2003	1,617	-	1,617	907	516	17.73%	16.67%	28.68%	29.75%	0.6%	12.98	18.32	22.98
2002	970	-	970	518	407	-6.69%	-7.53%	-22.06%	-27.88%	0.4%	13.15	18.81	25.58
2001	703	-	703	408	289	-4.61%	-5.50%	-11.93%	-20.42%	0.6%	13.58	16.94	25.56
2000	622	-	622	359	236	-3.50%	-4.44%	-9.10%	-22.42%	0.5%	16.52	17.67	23.11
1999	640	-	640	378	228	23.89%	22.65%	21.04%	33.16%	0.6%	18.27	16.76	19.27
1998	418	-	418	257	202	31.61%	30.19%	28.58%	38.71%	0.7%	17.95	16.23	18.15
1997	252	-	252	145	158	37.14%	35.63%	33.36%	30.49%	0.9%	13.17	11.30	12.80
1996	140	-	140	89	118	31.94%	30.40%	22.96%	23.12%	0.7%	10.16	9.72	10.49
1995	70	-	70	45	61	48.07%	46.33%	37.58%	37.18%	1.1%	9.72	8.34	9.26
1994	32	-	32	17	27	10.13%	8.96%	1.32%	2.62%	1.6%			
1993	24	-	24	16	26	13.07%	11.85%	10.08%	2.69%	2.9%			
1992	16	-	16	11	24								

Total assets and UMA assets are supplemental information to the Annual Disclosure Presentation.

GIPS Disclosure

The Large Capitalization Equity Composite created on January 1, 2006 contains fully discretionary large cap equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against the S&P 500 and the Russell 1000 Growth indices. 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, 2016. A verification covering the periods from April 1, 1992 through December 31, 2015 was performed by Ashland Partners & Company LLP, which was acquired by ACA Performance Services, LLC, whose report expressed an unqualified opinion thereon.

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. The Large Capitalization Equity Composite has been examined for the periods April 1, 1992 through December 31, 2016. The verification and performance examination reports are available upon request.

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. From July 1, 2002 through April 30, 2016, composite policy required the temporary removal of any portfolio incurring a client initiated significant cash outflow of 10% or greater of portfolio assets. The temporary removal of such an account occurred at the beginning of the month in which the significant cash flow occurred and the account re-entered the composite the first full month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request. 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.

Past performance is not indicative of future results. 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 actual management 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 75 basis points (.75%) on the first $50 Million and 55 basis points (.55%) on all assets above $50 Million of assets under management. HNW: Per annum fees for managing accounts are 150 basis points (1.5%) of the first $500,000 of assets under management and 100 basis points (1.0%) 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 management 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 S&P 500® Index is a widely recognized, unmanaged index of 500 common stocks which are generally representative of the U.S. stock market as a whole.
The Russell 1000® Growth Index is an unmanaged index that measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-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 composites' 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