

October 8, 2013

3rd Quarter 2013 Portfolio Commentary

Polen Capital's Large Cap Growth Model Portfolio (the "Portfolio") returned 6.65% for the 3rd quarter of 2013 versus 8.11% for the Russell 1000 Growth Index (the "Russell 1000 Growth") and 5.24% for the S&P 500 Index (the "S&P 500" and together with the Russell 1000 Growth, the "Indices").

Our past commentaries have highlighted our steadfast belief that earnings growth will drive share prices over time. This view remains unchanged and the Portfolio's performance since inception corroborates our belief (see historical performance chart on last page). Our Portfolio's weighted average EPS growth has been only slightly below the roughly 14% annualized investment return generated by our holdings since inception. This compounded annual return of approximately 14% is more than 400 basis points above the annual returns of the Indices over the same period and the underlying earnings growth disparity between our Portfolio and the Indices is even greater. Earnings growth drives value and share prices over the long-term, so we remain focused on identifying businesses with strong long-term earnings growth potential. We are also pleased to report that the companies in our Portfolio continue to deliver the type of earnings growth that we believe will produce market-beating returns over time.

Putting this year's market appreciation in context with our views on earnings growth is instructive. Through the first three quarters of 2013, the Indices are up roughly 20% and Polen Capital's Large Cap Growth Portfolio is up approximately 11%. Earnings growth, however, reveals a different story. On a weighted average basis, our portfolio companies continue to grow earnings at a solid double-digit rate while the broader market's overall earnings growth has been tepid. Through the first six months of 2013, earnings per share of the S&P 500 only grew approximately 5% year-over-year, yet the index appreciated 14% during that span. Our Portfolio, on the other hand, grew its earnings 16% year-over-year in the first half of 2013 but only appreciated approximately 4%. Thus, nearly three-quarters of the S&P 500's appreciation in the first half of 2013 is attributable to expansion of the market P/E multiple. Meanwhile, our Portfolio has actually experienced multiple compression this year as our portfolio companies' earnings growth has exceeded share price appreciation.

We have seen similar dynamics play out in the past when the Indices' returns have decoupled from underlying earnings growth. This has typically occurred in big up markets, such as 1998-1999, 2003 and the middle of 2009. Not surprisingly, our Portfolio trailed the Indices during most of these time periods. While significant divergences between share prices and underlying earnings growth are certainly not unprecedented, history has shown that these deviations revert over time. Earnings (and dividends) drive equity returns over the long-term, and our research process is designed to uncover companies that have strong long-term earnings power. This point underscores our unyielding conviction in holding a concentrated portfolio of financially superior, competitively advantaged growth companies.

* * * * *

Portfolio Activity

In the 3rd quarter, we added Facebook, Automatic Data Processing (ADP), and MasterCard to the Portfolio. We increased our position in eBay. We sold Intuitive Surgical and Varian Medical Systems out of the Portfolio.

Facebook has over 1.15 billion active users, which we believe represents approximately 50% of the world's internet population excluding China, making it the world's leading social network by a wide margin. Users are attracted to the network because of the ability to connect with, and view loads of content from, friends, family and others in a real life setting. These new users then add even more content, which in turn drives additional user growth. This virtuous cycle, combined with top notch management and engineering, should allow Facebook to maintain its dominant position within the space. With respect to monetizing this network, Facebook has quickly grown its mobile advertising business from non-existent in the first half of 2012 to a \$1+ billion business in the first half of 2013 alone. As the gap between advertising dollars spent on mobile devices and time spent on mobile devices continues to narrow, and as Facebook continues to take market share within the mobile advertising space due to its ability to serve more targeted and engaging ads to an unrivaled user base (more people visit Facebook in just the U.S. each day than watch the Super Bowl), we believe Facebook's advertising revenue should continue to grow at a robust pace. In addition, there are opportunities for significant margin expansion and optionality around Instagram, Graph Search, third party ad serving, ecommerce, payments, etc.

ADP is a company that we are quite familiar with having owned it from early 2007 to early 2009. While ADP's core business remains payroll processing, management has fundamentally improved the growth profile of the company by expanding into areas beyond payroll that include benefits administration, human resource management and tax and compliance solutions. The opportunities in non-payroll solutions are vast with a potential global addressable market of roughly \$90 billion. Additionally, the company has spent many years upgrading its technology platforms which are currently being rolled out to clients. These new platforms provide better integration of ADP's many services which has in turn improved attach rates, retention rates and has led to more upselling of additional applications. ADP has been negatively impacted by the continual decline in interest rates which affects the float income (interest earned on client funds until they are remitted to the applicable tax authorities) the company generates from its payroll business. As interest rates have seemingly begun to find a floor, the headwind from declining rates should meaningfully subside for ADP going forward and should turn into a nice tailwind if rates eventually rise toward more normal historical levels. Finally, ADP is very shareholder friendly as it returns nearly all of its free cash flow through a combination of stock buybacks and steady dividend increases. ADP's stable payroll business, which is a 90% recurring revenue business, combined with the company's faster growing non-payroll services and consistent return of cash to shareholders should enable ADP's stock to generate healthy investment returns going forward.

MasterCard is the second largest global electronic payment network. The company benefits from a long-term secular shift in commerce toward electronic payments. Today, 85% of transactions globally are completed with cash or check. We expect this to change over time as consumers and merchants continue to benefit from the simplicity and security inherent in utilizing MasterCard's network. MasterCard investors stand to benefit from the company's dominant global position, high incremental margins, and shareholder friendly management. MasterCard is continually hounded by regulators and litigants, but those risks seem unlikely to

meaningfully impact this well entrenched network. We believe the business is well positioned to generate earnings per share growth in excess of 15% for the next several years based on these positive attributes.

We sold Intuitive Surgical after the company warned that robotic systems sales growth slowed dramatically in the second quarter. Intuitive Surgical continues to hold a monopoly on minimally invasive robotic surgery with recurring revenues accounting for more than 50% of sales. Unfortunately, the business was beset by a combination of reduced hospital capital investment, slowing robotic surgical procedure growth and a rash of negative publicity in conjunction with lawsuits. Intuitive Surgical started the year expecting revenue growth north of 20%, but reduced expectations to 0-7% revenue growth. We believe Intuitive Surgical's business is unique, but the long-term growth prospects appear to be more muted than our previous projections and, at the current valuation, an adequate investment return seems less likely than we originally anticipated.

We also exited our position in Varian Medical during the quarter. Despite the company's still dominant position in the global radiation therapy market, the downward pressure on reimbursement rates in developed markets, a tepid economic recovery in many geographies and general uncertainty about healthcare reform in the U.S. have combined to weigh on the overall growth of the business. While Varian has navigated these issues admirably over the past few years, it is unlikely that these pressures will abate anytime soon which may lead to a long-term earnings growth rate below our requirements for a company of this size. Thus, we feel there are better opportunities and have moved on.

Contributors and Detractors

The top three contributors (portfolio weight multiplied by return) in the third quarter were Nike (+1.06%), Starbucks (+0.98%) and QUALCOMM (+0.70%). The bottom three contributors to the Portfolio in the third quarter were Intuitive Surgical (-0.62%), Abbott Labs (-0.22%) and T. Rowe Price Group (-0.08%).

* * * * *

Earnings growth is what drives share prices over time, and our research process continues to uncover companies with strong long-term earnings power. Share prices have risen far faster than earnings among the market Indices year-to-date. Although our Portfolio has not benefited from the P/E multiple expansion garnered by certain segments of the market (namely highly levered and high dividend paying companies) recently, we have no doubt that businesses that produce consistent, high-quality earnings growth will be properly rewarded over time. Interestingly, if our return through the third quarter of 2013 were annualized, it would be right on our long-term investment return and very close to the earnings growth of the Portfolio as well.

Thank you for your interest in Polen Capital and please feel free to contact us with any questions or comments.

Sincerely,

PCM Investment Team

Polen Capital Historical Returns as of September 30, 2013

Polen Capital 3Q2013 Performance Update			
	PCM (Gross)	R1000G	S&P 500
Sep-13	5.77%	4.46%	3.14%
3Q13	6.65%	8.11%	5.24%
YTD	10.88%	20.87%	19.79%
1 Year	9.64%	19.27%	19.34%
3 Years	14.71%	16.94%	16.27%
5 Years	11.77%	12.07%	10.02%
7 Years	9.56%	7.60%	5.60%
10 Years	9.06%	7.82%	7.57%
15 Years	8.29%	4.28%	5.33%
20 Years	12.92%	8.18%	8.80%
Since Inception (1/1/89)	14.07%	9.57%	9.93%

*Returns are trailing through 9/30/13. Annualized returns are presented for periods greater than 1 year.

FOR INTERNAL USE ONLY - NOT FOR PUBLIC USE