



July 6, 2011

2nd Quarter 2011 Portfolio Commentary vs. Russell 1000 Growth

Polen Capital's Large Cap Growth Model Portfolio (the "Portfolio") returned 4.24% for the second quarter versus 0.76% for the Russell 1000 Growth Index (the "Index") and 0.10% for the S&P 500 Index (the "S&P 500").

This past quarter our Portfolio benefited from very strong earnings results from our companies. In 2010, most corporations were reporting strong earnings growth due solely to easy comparisons with what was a dismal 2009. As these comparisons are becoming more difficult, and they will continue to get more difficult over the next few quarters, we can more easily separate the wheat from the chaff and see which companies truly have vibrant franchises. As usual, our companies shined with median revenue growth of 15% and earnings per share growth of 23% in the quarter. The comparable results for the S&P 500 were 9% revenue growth and 17% EPS growth.

Interestingly, the fastest earnings growth in the S&P 500 came from sectors that we have zero exposure to: Materials (55% EPS growth) and Energy (29%). So while much of the growth in the indices was driven by more "cyclical" forces, most of the growth in our portfolio was secular in nature. Our bottom-up stock selection process, which has very strict criteria for high returns on capital and requires exceptional and consistent free cash flow, has not led us to companies in these sectors. We have not had a shortage of great companies to invest in though. We believe that in the long run, our Portfolio's return will roughly track the healthy underlying earnings growth of our holdings. Our companies in aggregate tend to grow their earnings faster and with more consistency than the market.

In the second quarter we initiated a new position in Intuitive Surgical and eliminated our position in Amazon.com. We also added to our positions in BMC Software, Cognizant Technology Solutions, and MasterCard, while trimming our Allergan position.

Intuitive Surgical manufactures the Da Vinci surgical robot that allows many open surgeries to be performed in a minimally invasive fashion. Roughly 80% of prostate removal surgeries in the U.S. are now done with a Da Vinci and surgeons are increasingly using the machine for surgeries ranging from hysterectomy, colorectal cancer surgery, oral cancer surgery, and even in many benign procedures. Today about 300,000 surgeries worldwide are performed using a Da Vinci and in the long run, we believe that more than 2 million procedures per year may be done robotically. Intuitive has a virtual monopoly today on robotic surgery and we believe that the company possesses a nearly insurmountable competitive advantage driven by over 900 patents, a large installed base of machines and trained surgeons, and well-documented benefits (both clinical and economical) of their system. The Da Vinci provides patients with faster recovery times, less blood loss, and lower complications than open surgery. Hospitals also benefit as lower costs from fewer complications and reduced post-surgical infections translate into shorter lengths of stay.

We sold Amazon.com as we believe that the company's very high valuation at a time of large investments in the business increased our investment risk to an unacceptable level. Amazon continues to be wildly successful attracting customers to its retail site as well as to its Web Services business. In addition, existing customers continue to purchase more products more often than they have in the past due to the Amazon's unmatched pricing, selection, and fast fulfillment. We still believe that Amazon will grow to multiples of its current revenue run rate in the next 10 years but the company's substantial investments in fulfillment, distribution, content and technology are not without operational risk.

The top three contributors to the Portfolio (portfolio weight multiplied by return) for the second quarter were Coach (1.23%), Allergan (1.05%), and MasterCard (0.90%). The bottom three contributors were Google (-0.91%), T. Rowe Price (-0.41%), and Apple (-0.36%).

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

Sincerely,

Dan Davidowitz
Damon Ficklin
David Polen