



January 11, 2010

#### **4<sup>th</sup> Quarter and Full-Year 2009 Portfolio Commentary vs. Russell 1000 Growth**

Polen Capital's Large Cap Growth Model Portfolio (the "Portfolio") returned 11.27% and 39.73% before fees for the fourth quarter and full year 2009, respectively. Over the comparable periods, the Russell 1000 Growth Index (the "Index") returned 7.94% and 37.21%. While fourth quarter and full-year 2009 results are not necessarily indicative of the long term (these are not "normal" times), we do believe our strong relative results from 2008 and 2009 illustrate the consistency of our methodology in the most challenging of times.

There are 3 factors that together account for our consistent performance. First, we only invest in the highest quality growth businesses. We hold each company to very high financial criteria before we will even consider investing in it. Second, we act like business partners when we buy shares of a business. We buy companies with the intention of holding on to them for 5 years or more. Our long-term annual turnover of 25% proves that we do not try to make money by shifting the portfolio based on changing economic or market predictions. Third, we do not "over" diversify our portfolio. Introducing too many companies into the portfolio would not only dilute the impact of the businesses we do choose to own, but it also increases the probability of buying marginal businesses. We feel we get more than adequate diversification by owning 15-25 of the most competitively advantaged growth businesses.

Given our very long time horizon we do not try to interpret the returns of our portfolio in the short window of a quarter or a year. It is just not the way we think about our investments. But the last two years have been interesting to say the least, as the stock prices of even the most stable blue chip companies swung wildly. At PCM, we are hardwired to analyze businesses in a disciplined and thorough manner. However, the volatility provided wonderful opportunities. For many years now we have spent most of our time analyzing and following about 125 of the best companies, and we believe we know them thoroughly. This focus allowed us to make some changes to the portfolio swiftly and confidently when we found some incredible growth franchises on sale. We sold some of our high quality, but slower growing companies such as Coca-Cola and Automatic Data Processing that had held up quite well and purchased some higher growth franchises at very attractive prices.

Two of our newer positions, Apple and Amazon.com, were among the top 5 contributors to both our fourth quarter and full-year 2009 performance. Our purchase of Amazon is a good illustration of our thinking. We purchased Amazon.com in late 2008 and added to it in early 2009. Our investment thesis on Amazon is that the company has solidified a tremendous competitive advantage in online retail that is unlikely to be significantly challenged. We believe that this advantage will lead to continuing market share gains for Amazon over time while online retail in general will continue to grow at the expense of traditional retail. At the time of our initial purchase we believed, and still do, that Amazon because of its competitive

advantages and secular growth could easily grow to 5-10 times its current size in the next 10 years. That is the way we think about all businesses: the next 10 years. In the biggest recession in a generation, Amazon grew earnings about 30% and its shares increased 165% in 2009. Most important to us though, is that the company continues to distance itself from the competition.

Short-term performance detractors are also of little concern to us provided our long-term view of the business is still intact. Interestingly, our three worst performers in both the fourth quarter and full year were all healthcare companies: Gilead Sciences (down 16%), C.R. Bard (down 5%), and Amgen (down 2%). While it seems that the healthcare reform debate in Washington was a big headwind for these stocks in 2009, the businesses are performing just fine. The legislation is now being finalized and we see little that should affect the long-term franchises and growth prospects of these companies. In fact, we purchased Gilead and Amgen this past year based on our expectations for these businesses over the next several years, not the next few quarters. Both companies have drugs in their pipelines that should lead to strong growth for a long time to come, regardless of the impact of healthcare legislation. We are excited by the quality and value of these businesses going forward. In fact, nearly 40% of our portfolio is currently diversified within the healthcare industry.

While the last two years have been enormously volatile, we have stayed with our discipline. We continue to look for a select group of high-quality businesses capable of delivering above-average earnings growth with a margin of safety.

We made the following changes to the portfolio during the year (there were no new buys or sells in the fourth quarter):

- Initiated positions in Amgen, Apple, Gilead Sciences, and Charles Schwab
- Eliminated positions in ADP, Expeditors International, Genentech, Microsoft, Charles Schwab, St. Jude Medical, and Stryker

The top three contributors (portfolio weight multiplied by return) for 2009 were Google (7.35%), Apple (7.32%), and MasterCard (6.15%). The bottom three contributors to the portfolio were Gilead Sciences (-0.69%), C.R. Bard (-0.27%), and Amgen (-0.04%).

The top three contributors in the fourth quarter were Google (1.92%), MasterCard (1.88%), and Amazon.com (1.70%). The bottom three contributors were Gilead Sciences (-0.36%), Amgen (-0.33%), and C.R. Bard (-0.02%).

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