

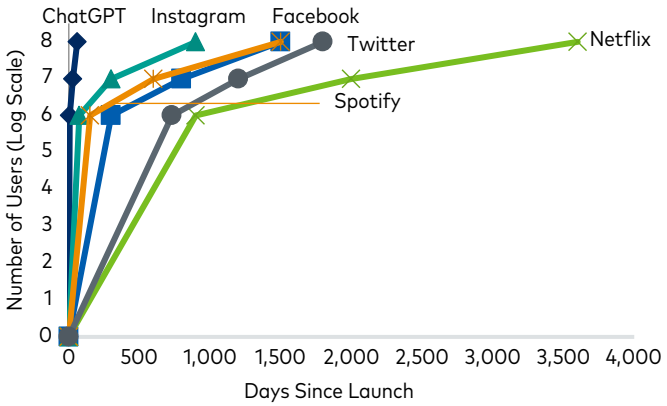
THOUGHT LEADERSHIP

Investing at the Speed of Change: Why Adaptability Matters in the AI Era

For most of modern investing, the pace of change has been remarkably stable. Industries evolved incrementally. Business models matured. Competitive advantages emerged slowly and, in most cases, eroded slowly. As a result, investors could afford to think in years and decades because the competitive landscape generally moved at that speed.

Artificial intelligence seems to be changing that equation. AI is a general-purpose technology that compresses product development cycles, lowers the cost of innovation, accelerates competition, and enables entirely new business models to emerge very quickly. ChatGPT was able to scale from 0 to 100M users in two months—a staggering feat that took years if not decades for other digital platforms as shown in Figure 1.

Figure 1: Days to 1M, 10M, and 100M users (log scale)



As of January 2025. **Sources:** Medium.com (The Most Important Chart in 100 years, John Nosta). Any statements made by Polen Capital regarding future events or expectations are forward-looking statements and are based on current assumptions and expectations. Such statements involve inherent risks and uncertainties and are not a reliable indicator of future performance. Actual results may differ materially from those expressed or implied.

We believe we have entered a new paradigm whereby change will increasingly be defined in non-linear terms. For investors, this distinction matters enormously.

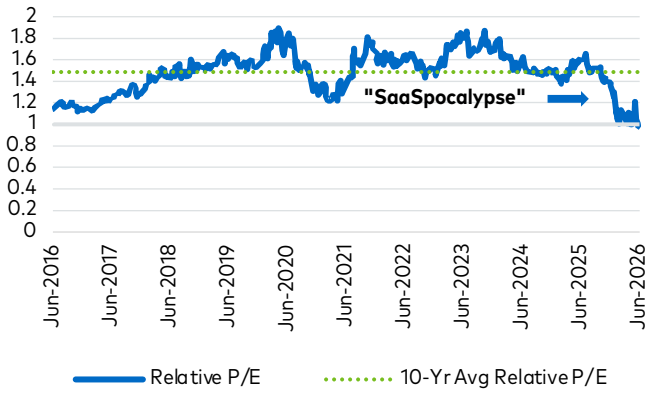
.Rethinking Competitive Advantage

Prominent financial researcher and strategist Michael Mauboussin has argued that the value of a business depends not only on the magnitude of excess returns (earning more than its cost of capital), but also on the duration of those returns—which he refers to as the "Competitive Advantage Period". In short, businesses capable of sustaining returns above their cost of capital for longer periods deserve higher valuations because investors can capitalize those excess returns further into the future.

With this in mind, we are not suggesting that competitive advantages have been rendered worthless. Rather, we believe artificial intelligence may be compressing both the duration of those advantages and introducing more uncertainty around that duration.

In our view, the software industry in early 2026 provides a clear example of this. For much of the past decade, the software industry has generally represented the archetype of competitively advantaged businesses with a host of attractive traits—capital-light, recurring revenue, high margins, and long runways for growth. Then, over the course of a few weeks in late January/early February 2026, the market discounted the agentic AI threat, questioning whether it fundamentally altered the economics of software development and what that would mean for the terminal value of these businesses.

Figure 2: Software Relative P/E vs. the Russell 1000



Source: Polen Capital, Bloomberg. Daily observations are shown over the past decade from 7/1/2016 through 6/30/2026. The Russell 1000 Index is shown as a proxy for the broad US equity market. "Software" refers to the Software industry GICs grouping within the Russell 1000 Index. Relative P/E is a ratio of the weighted average trailing 12-month P/E for the Software industry vs the overall Russell 1000 Index.

Whether those fears ultimately prove correct is almost beside the point. Our observation is not whether software moats have permanently weakened, but rather how rapidly markets revised their expectations for the durability of those moats.

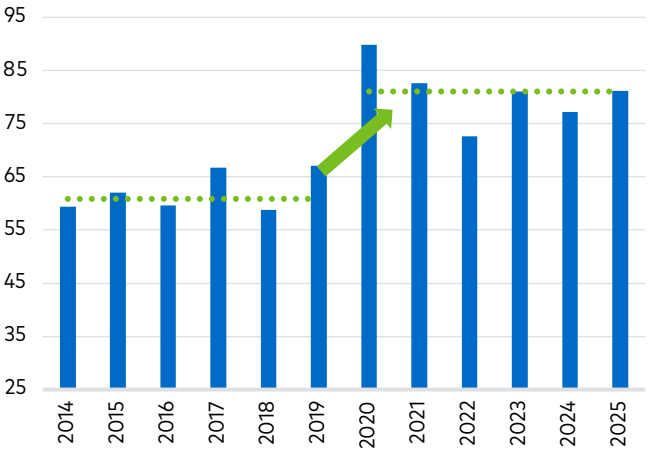
The Increasing Value of Adaptability

If competitive advantages become less durable on average—or if markets simply become faster at discounting changes in durability—then we believe another characteristic becomes increasingly valuable: adaptability.

For companies, we define adaptability as the willingness and ability for reinvention before circumstances impose change, and there's been countless examples of this through history. Netflix willingly disrupted its own DVD-by-mail business. Amazon repeatedly sacrificed near-term profits to build entirely new businesses. Microsoft shifted from perpetual software licenses to cloud subscriptions despite the risk of cannibalizing its existing franchise. The willingness to challenge one's own success may become just as important as the competitive advantage itself.

In our view, the same principle applies to investors. Long-term investing has always required conviction, but that conviction needs to be continuously underwritten and should always be viewed through the lens of opportunity cost. To illustrate, consider that in the 6 years preceding COVID (a line of demarcation starting with digital transformation and in recent years, AI), the median dispersion between the top and bottom decile of returns in the Russell 1000 index was 60%. In the 6 years thereafter (2020 and beyond), the median dispersion ratcheted up to over 80%. For investors, the lesson here is that the cost of being patient is rising with the accelerating pace of change. In our view, this calls for a more dynamic approach.

Figure 3: Russell 1000 Top vs. Bottom Decile Return Dispersion, Pre- and Post-COVID



Source: Polen Capital, Bloomberg. Calendar years 2014-2025 shown to have equal proportion of Pre-COVID years (2014-2019) to Post-COVID years (2020-2025). Chart shows the difference in returns from the top decile (10th percentile) to the bottom decile (90th percentile) within the Russell 1000 Index in a given calendar year. Dashed lines delineate the median dispersion for the Pre- and Post-COVID periods.

A Framework for Adaptability

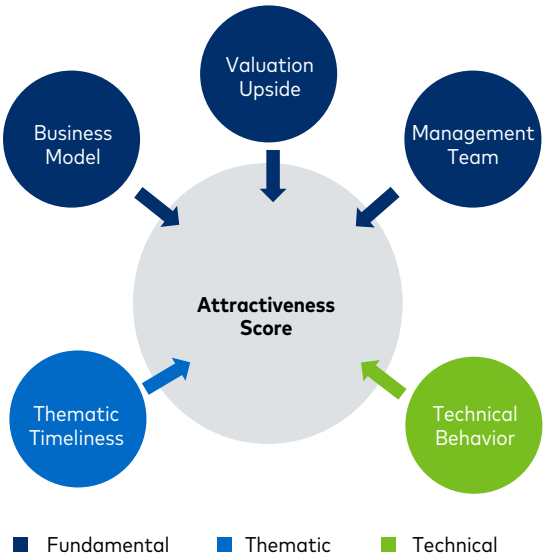
Of course, adaptability should not be confused with constantly reacting to headlines. In our view, changing one's mind only adds value when it is grounded in a disciplined, repeatable framework.

For some investors, this may mean placing an increased emphasis on fundamental momentum, earnings revisions, or other leading indicators of business quality. At a minimum, it requires investors to continually reassess whether a company's competitive advantage is strengthening or weakening—and whether management is making the necessary investments to stay ahead of the competitive environment. Here, one might emphasize things like changes in pricing power, shifts in market share, evolving customer behaviors, product differentiation, and unit economics, among other things.

Other investors may conclude that the answer lies in complementing traditional bottom-up analysis with additional perspectives that help identify changes earlier. This has been our approach for more than twenty-five years.

Figure 4: The 5Perspectives Evaluation Framework

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The process depicted in the chart has been simplified for illustrative purposes. There can be no assurance that the 5Perspectives Growth Team will be able to implement its investment strategy or invest in companies with the characteristics mentioned. Actual characteristics may vary (in some cases materially).

Our 5Perspectives Growth Assessment framework has always combined rigorous bottom-up fundamental analysis with two additional disciplines in an effort to improve responsiveness to changing markets: a thematic discipline and a technical discipline. These disciplines provide what we believe is a critical element of investing today—timeliness.

Like most investors, we seek businesses with an appealing combination of economics, exceptional management teams, and reasonable valuations. However, we also recognize that powerful thematic forces—many of which sit outside a company's control—can become significant drivers of returns for extended periods. Likewise, technical behavior often reflects changing expectations before those changes become fully visible in company fundamentals.

Together, we believe these disciplines introduce healthy tensions into the investment process. They help us become more constructive when tailwinds strengthen, while encouraging us to reassess positions when investor psychology begins to deteriorate or themes lose momentum.

Closing Thoughts

Artificial intelligence is accelerating the pace of change across nearly every industry. Whether that ultimately shortens the average lifespan of competitive advantages, causes markets to discount those changes more quickly, or both, we believe the implication for investors is the same: adaptability matters much more than it used to.

Having a process that embraces change and adapts to the operating environment is crucially important. For us, we believe incorporating thematic and technical disciplines into our process can help us assess and navigate this paradigm shift across markets.

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