

# POLEN | CAPITAL

1825 NW Corporate Blvd., Suite 300 • Boca Raton, FL 33431 • Tel:561-241-2425 • [www.polencapital.com](http://www.polencapital.com)

July 13, 2015

## 2<sup>nd</sup> Quarter 2015 Global Growth Commentary

### Summary

- *For the second quarter of 2015, our Global Growth Portfolio (the "Portfolio") returned 1.86% gross of fees, compared to 0.52% for the MSCI All Country World Index ("MSCI ACWI"). Since inception on January 1, 2015, the Portfolio has returned 4.91% gross of fees, compared to 2.97% for the MSCI ACWI.*
- *We are seeing solid business performance from our Portfolio holdings. Despite currency headwinds, we expect the Portfolio to deliver at least low double-digit earnings per share growth in 2015, compared to 1% - 3% earnings per share growth for the broader market. We expect mid-teens earnings growth for the Portfolio over the next five years.*
- *We made no changes to the Portfolio during the quarter but continue to build a strong pipeline of investment candidates.*

### Commentary

The second quarter was relatively uneventful for the Global Growth Portfolio. Throughout the quarter we continued to execute steadily, employing the investment process we described previously in the inaugural [1<sup>st</sup> Quarter 2015 Global Growth Commentary](#). As will be the case every quarter, we put great effort both to closely follow a number of moving pieces within existing holdings, and to review new investment candidates. This involved a great deal of research, diligence and travel, as well as some exciting additions to the pipeline of candidates we are considering for investment going forward. But the fact that we have had almost no changes to existing holdings over the six months since the inception of the strategy, should demonstrate that our hurdle for inclusion is extremely high. This reflects both our long-term investment horizon, since we expect to hold each of our Portfolio companies for the next several years, and the high level of conviction we have in our existing holdings.

As of June 30<sup>th</sup>, the Portfolio holds investments in 30 world-class growth businesses based in nine countries. Each holding represents, in our view, a long-term commitment of capital to an exceptional and best-of-breed growth business. Holdings remain concentrated, with an average position size exceeding 3% of the Portfolio, as we seek to avoid smaller or lower conviction investments. We typically maintain a minimum position of approximately 2%. Since we select each and every holding for its long-term and absolute return potential, Portfolio characteristics vary significantly from the Portfolio's formal

*Please reference the information regarding the composite performance which accompanies this commentary.*

benchmark, the "MSCI ACWI". The table below provides a snapshot of the Portfolio's holdings as of June 30, 2015:

As of 30th June, 2015	Polen Global Growth	MSCI ACWI
<b>Holdings</b>	30	2,483
<b>Active Share</b>	94%	n/a
<b>Domiciles</b>	9	46
<b>Average Market Cap (\$ billion)</b>	114.7	92.6
<b>Historic EPS Growth % (3 Years)</b>	17.2%	10.4%
<b>Estimated EPS Growth % (3-5 Years)</b>	15.1%	11.0%
<b>P/E Next-Twelve-Months (NTM)</b>	22.3	15.4
<b>P/E to Growth Ratio (PEG)</b>	1.5	1.4

Source: Polen Capital & FactSet

In our view the current macro-economic back-drop is generally sluggish, with slow or slowing GDP growth in most regions of the world. The slowdown is especially noticeable across emerging markets. Low inflation, currency volatility and U.S. Dollar strength have been additional headwinds for the developed world in 2015. As a result, we have been seeing continued declines in earnings estimates for broad market indices. The most reliable estimates we see indicate corporate earnings per share growth in the United States in the 1% - 3% range this year, clearly well below long-term averages. While these estimates are negatively affected by the volatile energy sector, they are also helped by a significant commitment by many U.S. companies to repurchase shares of their own stock. With or without share repurchases, earnings growth appears anemic and below trend at best. The overall picture is similar for the rest of the world, albeit with much less repurchase activity. In 2015, we are likely to see worldwide corporate earnings per share growth in low the single-digits.

Despite the weak environment, we continue to see very solid business performance across the Portfolio's holdings. The Portfolio's strong bias towards higher quality and sustainable earnings growth and its low exposure to more cyclical energy, financials, industrial and materials sectors have contributed to the Portfolio's outperformance thus far in 2015. Business performance to date suggests the Portfolio's companies are on track to deliver low double-digit to low teens earnings growth in 2015, despite the negative currency impact from the stronger U.S. Dollar. We continue to monitor the Portfolio for quality as well as quantity of earnings. Overall, we can say that our Portfolio companies continue to generate a very high level of cash flow, have very little or no net debt, and continue to generate returns on capital well above their cost of capital and market averages. The following table illustrates this point:

*Please reference the information regarding the composite performance which accompanies this commentary.*

As of 30th June, 2015	<b>Polen Global Growth</b>	<b>MSCI ACWI</b>
<b>Cash Flow / Earnings</b>	130.0%	n/a
<b>Net Debt (Net Cash) / Total Capital</b>	(15.0%)	18.0%
<b>% Return on Equity (ROE)</b>	28.2%	17.1%

Source: FactSet

We continue to spend our time and energy on bottom-up and business-focused research as we review existing holdings and investment candidates. During the second quarter we completed early-stage reviews, or shallow dives as we call them, on 29 investment candidates, almost all of which are based outside the United States. Among these candidates we have discarded 19 as unsuitable based on the qualitative and quantitative criteria we apply. The remaining 10, in addition to other candidates that might surface between now and the end of the year, will be subject to further research through the rest of 2015. Overall, the pipeline of investment candidates is healthy and on track as we look towards the end of the year.

Given that we are likely in the later stage of an extended market cycle, valuation discipline has been by far the main sticking point for investment candidates and is the main reason a number of otherwise highly attractive businesses are currently sitting on the sidelines of the Portfolio, rather than making the final cut. Valuation discipline also explains the Portfolio's current cash position, which remains above average. Currently, there are a fair number of businesses we are waiting to own, as well as a number of existing positions that we are looking to increase in size.

### **Performance and Attribution**

For the second quarter of 2015 our Global Growth Portfolio returned 1.86% gross of fees. This outperformed the benchmark MSCI ACWI, which was only slightly positive over the 3-month period, returning 0.52%. Since inception on January 1, 2015 the Portfolio has returned 4.91% gross of fees, compared to 2.97% for the MSCI ACWI.

Performance for the quarter was broad-based, with two holdings, Starbucks Corporation and Regeneron Pharmaceuticals, Inc., each appreciating by about 13%. We provide an update on both holdings in the [2nd Quarter 2015 Focus Growth Commentary](#). The top three contributors for the quarter were Starbucks Corporation (+0.51%), Regeneron Pharmaceuticals, Inc. (+0.48%) and Nike, Inc. (+0.35%). Relatively few holdings lagged the return of the benchmark, and among laggards the degree of underperformance was modest and typically less than 5% price depreciation. Overall, the largest detractors from Portfolio performance were Google, Inc. (-0.22%), Baidu, Inc. (-0.18%) and TJX Companies, Inc. (-0.18%).

*Please reference the information regarding the composite performance which accompanies this commentary.*

Thank you for your investment in the Polen Global Growth Portfolio. We appreciate your business. Please feel free to contact us with any questions.

Sincerely,

Julian Pick, CFA

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

*Please reference the information regarding the composite performance which accompanies this commentary.*

## Historical Performance

Polen Global Growth Monthly Performance Update - June 30, 2015			
	PCM (Gross)	PCM (Net)	MSCI ACWI
Jun-15	-1.04%	-1.04%	-2.31%
2Q15	1.86%	1.64%	0.52%
Since Inception (1/1/15)	4.91%	4.47%	2.97%

\*Returns are trailing through 6/30/15.

*Supplemental information to a fully compliant composite performance presentation.*

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

# GIPS Disclosure

## Polen Capital Management Global Growth Composite-Annual Disclosure Presentation

Year End	UMA		Firm	Composite Assets		Annual Performance Results				3 Year Standard Deviation	
	Total (millions)	Assets (millions)	Assets (millions)	U.S. Dollars (millions)	Number of Accounts	Composite		MSCI ACWI	Composite Dispersion	Polen Gross	MSCI ACWI
						Gross	Net				
2015*	5,894	1,549	4,345	\$0.31	<5	4.91%	4.47%	2.97%	0.0%	-	-

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

\*Performance represents partial period (January 1, 2015 through June 30, 2015), assets and accounts are as of 6/30/15. \*\* 3 Year Standard Deviation is not available for the composite due to the composite's January 1, 2015 creation date.

# GIPS Disclosure

The Global Growth Composite created on January 1, 2015 contains fully discretionary global growth accounts that are not managed within a wrap fee structure and for comparison purposes is measured against MSCI ACWI. Polen Capital invests exclusively in a portfolio of high quality liquid 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 Ashland Partners & Company LLP for the periods April 1, 1992 through December 31, 2014. The verification is available upon request.

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. Verification does not ensure the accuracy of any specific composite presentation.

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. 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 85 basis points (0.85%) on the first \$50 Million and 65 basis points (0.65%) 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 is not necessarily indicative of future results and future accuracy and profitable results cannot be guaranteed. Performance figures are presented gross of management fees and have been calculated after the deduction of all transaction costs and commissions. Polen Capital is a SEC registered investment advisor and its investment advisory fees are described in its Form ADV Part 2A. The advisory fees will reduce client's 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 MSCI ACWI Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

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 the composite or that the securities sold will not be repurchased. The securities discussed do not represent the composite's 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