POLEN | CAPITAL
1825 NW Corporate Blvd. Suite 300, Boca Raton, FL 33431 • Tel: 561-241-2425 • www.polencapital.com

July 9, 2014

2nd Quarter 2014 Portfolio Commentary

Following a relative pause in the market during the first quarter of the year, which included a significant drawdown and then recovery, the market resumed its generally strong upward course during the second quarter of the year. Widening the lens a bit, the second quarter appeared to be a continuation of the trend that has persisted for several years now: modest underlying earnings growth being amplified by price-to-earnings multiple expansion, with more leveraged companies still seeing the most favor in the current low interest rate environment. We wrote more extensively about these trends in our *4th Quarter and Full-Year 2013 Portfolio Commentary*.

Summary

- *For the second quarter of 2014, our Large Cap Growth Model Portfolio (the "Portfolio") returned 4.21% versus 5.13% for the Russell 1000 Growth Index and 5.23% for the S&P 500 Index.*

- *Our slight underperformance during the quarter was most concentrated in our consumer-oriented holdings. Our healthcare holdings (Allergan in particular) performed well, mostly offsetting the relative headwind from our consumer businesses.*

- *Portfolio activity was modest during the quarter. We eliminated our position in eBay because the business is not realizing its growth potential and we think management has made some questionable strategic and financial decisions.*

- *We built a position in Nestlé, one of the most durable consumer staple franchises in the world, and initiated a position in Priceline Group, which we believe is a competitively advantaged business with strong ongoing growth potential.*

Commentary

Our slight underperformance during the second quarter was most concentrated in our consumer-oriented holdings. During the second quarter, eBay and TJX were down 7% and 12%, respectively. TJX's weakness was due to soft same-store-sales comparisons, which we believe was driven mostly by weather and other temporary issues. Visa and MasterCard were down modestly as well. Nike and Starbucks shares bounced back during the second quarter, but both of these stocks are still down modestly through the first half of the year. With the exception of eBay, which we address below, we believe that each of these businesses is performing well in what has been a fairly challenging environment overall and that each remains competitively advantaged and well positioned to drive strong growth going forward. In fact, we continue to expect each of these consumer holdings to grow earnings per share at a strong double-digit pace for the foreseeable future.

While most of our holdings made a positive contribution to the Portfolio's return during the second quarter, Allergan was the strongest contributor. In late April, Valeant Pharmaceuticals made an unsolicited offer to acquire Allergan for a combination of cash and stock. Valeant's unsolicited offer valued Allergan at a roughly 30% premium to its share price prior to the offer. Allergan's board of directors unanimously rejected the initial proposal, and has also rejected Valeant's two subsequent higher offers, stating in each case that the applicable offer significantly undervalues Allergan and creates significant risks and uncertainties for Allergan shareholders due to the large stock component of the deal and Valeant's "roll-up" business model. Despite Valeant's current plan to convince a majority of Allergan shareholders to sell their Allergan shares to Valeant, we currently agree with Allergan's board of directors. We believe Allergan, as a standalone company, can grow its earnings at a 20% annual rate for the next five years (and at a solid pace beyond that). At the current valuation, we expect Allergan's intrinsic value to continue to compound roughly in line with the company's earnings growth, which would be superior to the current Valeant offer. If Valeant's offer or our views regarding Allergan's long-term growth prospects were to change materially, we would obviously reconsider.

In the second quarter, we sold our position in eBay and initiated new positions in Nestlé and Priceline Group. We also trimmed our position in T. Rowe Price.

We purchased eBay a year ago after we felt the company had made a series of changes that repositioned the company for long-term growth. The core ebay.com business had transitioned from predominantly auction-based used and collectible sales to mostly fixed-price new items, which is preferred by most consumers. This transition and continued strong growth at PayPal led us to the purchase decision. Today we see ebay.com decelerating and at risk of growing slower than global e-commerce as management has refused to invest in certain initiatives such as a strong marketing plan (we believe many people still view eBay as an online flea market and are unaware of the transition) or a loyalty program to bring users back to eBay and to spend more when using eBay. In addition, management is using aggressive share repurchases to maintain double-digit earnings per share growth. While we agree the stock is inexpensive and buybacks make some sense, we fear that it is being done in lieu of necessary investments in the core business. The rapid pace of buybacks is depleting the company's onshore cash, potentially forcing repatriation of foreign cash at high tax rates. If this continues, the earnings power of the company will be substantially lower than we previously believed. Given that the business is not realizing its full growth potential and that we are uncomfortable with some of management's decisions, we have decided there are better places to invest for the next five years.

We built a position in Nestlé during the quarter and initiated a position in Priceline Group. Nestlé is one the most recognized and durable consumer staple franchises in the world. Selling more than 8,000 brands into 196 countries, Nestlé has an enormous breadth of product offerings, which the company's leadership manages as a portfolio. Through thoughtful portfolio management (investing into its best businesses, fixing those that are underperforming and divesting those that they cannot fix to deliver high returns on invested capital) and a good geographic business mix, Nestlé has consistently delivered double-digit total shareholder returns. Roughly 40% of Nestlé sales are from fast growing emerging markets where it has established many of its brands decades ago. We believe Nestlé remains very well positioned to continue to deliver double-digit total shareholder returns for many years to come, and with a great degree of stability. Anchoring the portfolio with steady, strong returns has always been an important role to play in our portfolio.

Priceline is the leading online travel agent ("OTA") in the burgeoning online travel industry. While OTAs, including Priceline, typically provide a variety of travel services (including airline and rental car bookings), hotel room bookings are the crown jewel because the hotel supplier base is extremely fragmented globally, and customer service, traveler reviews and supplier relationships are all key differentiators on the hotel side of the business. OTAs have continued to gain market share within the hotel industry as more hotels have realized that hotel rooms are high-priced, perishable items that they need help selling. We estimate that more than 85% of Priceline's total travel bookings are hotel room bookings, and approximately 90% of Priceline's operating profits are earned overseas, primarily through its Booking.com platform. Booking.com is the largest online hotel reservation service in the world with more than 500,000 hotel and accommodation partners in more than 180 countries. Booking.com's top-notch hotel supply has attracted more travelers over time, and these additional travelers have attracted even more hotels over time, creating a virtuous cycle.

In addition, Priceline has tremendous scale, which enables it to further strengthen its platform through (among other things) low price guarantees and heavy sales and marketing, customer service and technology investments. Unlike many of its competitors, Booking.com was also built on the agency model which is more hotel and traveler-friendly than alternatives and therefore helps establish both traveler and hotel loyalty. Priceline's commission rates are also among the lowest in the industry, which again helps establish loyalty among hotels. The fact that most of Booking.com's customers are international travelers also gives Priceline a leg up on the competition with respect to global expansion because many of its international travelers who are already familiar with the brand are more willing to use its services when traveling into these new markets. In the end, we believe Priceline has a number of competitive advantages in an industry with strong secular tailwinds, which should allow the company to generate solid double-digit growth for many years to come.

Attribution

The top three contributors (portfolio weight multiplied by return) for the second quarter of 2014 were Allergan (2.60%), Apple (0.78%), and Abbott Laboratories (0.42%). The bottom three contributors were The TJX Companies (-0.49%), eBay (-0.35%), and Visa (-0.17%).

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

Sincerely,

Polen Capital Investment Team

Historical Returns

Polen Capital 2nd Quarter 2014 Performance Update				
	PCM (Gross)	PCM (Net)	R1000G	S&P 500
2Q14	4.21%	4.06%	5.13%	5.23%
YTD	4.87%	4.59%	6.31%	7.14%
1 Year	24.79%	24.07%	26.92%	24.61%
3 Years	13.92%	13.23%	16.26%	16.58%
5 Years	17.92%	17.10%	19.24%	18.83%
7 Years	10.28%	9.46%	7.98%	6.16%
10 Years	9.22%	8.37%	8.20%	7.78%
15 Years	7.61%	6.72%	3.07%	4.35%
20 Years	13.36%	12.34%	9.15%	9.79%
Since Inception (1/1/89)	14.33%	13.25%	9.97%	10.35%
*Returns are trailing through 6/30/14. Annualized returns are presented for periods greater than 1 year.				

GIPS Disclosure

Polen Capital Management
Large Capitalization Equity Composite-Annual Disclosure Presentation

		UMA	Firm	Composite Assets		Annual Performance Results					3 Year Standard Deviation		
Year	Total	Assets	Assets	U.S. Dollars	Number of	Composite		S&P	Russell 1000	Composite	PCM	S&P	Russell 1000
End	(millions)	(millions)	(millions)	(millions)	Accounts	Gross	Net	500	Growth	Dispersion	Gross	500	Growth
2014*	4,965	1,203	3,762	1,888	268	4.87%	4.59%	7.14%	6.31%	0.3%	12.32	12.26	12.61
2013	5,017	1,197	3,820	1,901	261	23.77%	23.04%	32.39%	33.48%	0.3%	11.91	12.11	12.35
2012	4,522	891	3,631	1,581	358	12.43%	11.75%	16.00%	15.26%	0.1%	16.01	15.30	15.88
2011	2,366	562	1,804	596	185	9.02%	8.23%	2.11%	2.64%	0.2%	15.97	18.97	18.01
2010	1,185	322	863	337	129	15.65%	14.69%	15.06%	16.71%	0.2%	20.16	22.16	22.42
2009	624	131	493	235	127	39.73%	38.49%	26.46%	37.21%	0.3%	16.99	19.91	20.01
2008	266	10	256	152	121	-27.84%	-28.44%	-37.00%	-38.44%	0.2%	15.26	15.29	16.63
2007	682	-	682	504	152	10.73%	9.82%	5.49%	11.81%	0.2%	8.36	7.79	8.66
2006	730	-	730	533	224	15.07%	14.12%	15.80%	9.07%	0.1%	7.27	6.92	8.43
2005	1,849	-	1,849	986	430	-0.51%	-1.42%	4.91%	5.26%	0.2%	8.10	9.17	9.67
2004	2,017	-	2,017	1,160	693	8.76%	7.78%	10.88%	6.30%	0.2%	10.09	15.07	15.66
2003	1,617	-	1,617	969	570	17.72%	16.67%	28.68%	29.75%	0.6%	12.98	18.32	22.98
2002	970	-	970	544	420	-6.69%	-7.54%	-22.06%	-27.88%	0.4%	13.15	18.81	25.58
2001	703	-	703	417	305	-4.61%	-5.50%	-11.93%	-20.42%	0.6%	13.58	16.94	25.56
2000	622	-	622	363	239	-3.50%	-4.45%	-9.10%	-22.42%	0.5%	16.52	17.67	23.11
1999	640	-	640	385	233	23.89%	22.63%	21.04%	33.16%	0.6%	18.27	16.76	19.27
1998	418	-	418	266	205	31.61%	30.20%	28.58%	38.71%	0.7%	17.95	16.23	18.15
1997	252	-	252	147	160	37.14%	35.64%	33.36%	30.49%	0.9%	13.17	11.30	12.80
1996	140	-	140	94	125	31.95%	30.43%	22.96%	23.12%	0.7%	10.16	9.72	10.49
1995	70	-	70	46	63	48.08%	46.34%	37.58%	37.18%	1.1%	9.72	8.34	9.26
1994	32	-	32	18	28	10.11%	8.94%	1.32%	2.62%	1.6%			
1993	24	-	24	16	27	13.07%	11.85%	10.08%	2.87%	2.9%			
1992	16	-	16	11	24								

Total assets and UMA assets are supplemental information to the Annual Disclosure Presentation.
*Performance disclosures are located on the following page

Performance Disclosure

*Performance represents partial period (January 1, 2014 through June 30, 2014), assets and accounts are as of 6/30/14. ** 2014 3 Year Standard Deviation is as of 6/30/14.

The Large Capitalization Equity Composite created on January 1, 2006 contains fully discretionary large cap equity accounts that are not managed within a wrap fee structure and for comparison purposes is measured against the S&P 500 and the Russell 1000 Growth indices. Polen Capital invests exclusively in a portfolio of high quality large cap and 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 March 31, 2014.

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. The Large Capitalization Equity Composite has been examined for the periods April 1, 1992 through March 31, 2014. The verification and performance examination reports are available upon request.
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. As of July 1, 2002, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash outflow of 10% or greater of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the first full month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request. 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 75 basis points (.75%) on the first $50 Million and 55 basis points (.55%) 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.

	Year									
Return	1	2	3	4	5	6	7	8	9	10
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