

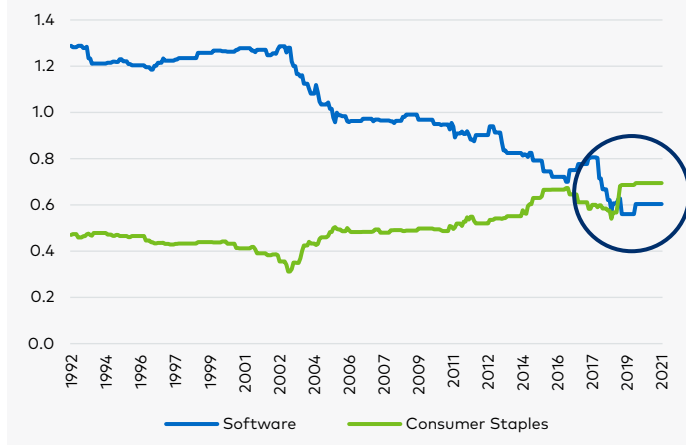
# Could Software be a Safer Investment than Consumer Staples?

At Polen Capital, we seek first to preserve and then grow our clients' capital. Therefore, our portfolios have an allocation to what we refer to as "safety" businesses. We define "safety" businesses as those we consider to be less affected by economic conditions and offer stable earnings growth. Thus, their stock prices are generally more resilient amid market declines, in our experience.

Historically, we have often found these "safety" investments in the classic recession-resistant sectors like consumer staples. However, more recently, software subscription businesses appear to be taking on the same "safety" characteristics but with arguably more sustainable growth. Meanwhile, consumer staples companies have experienced slower growth and more competition and may even offer fewer safety characteristics than in years past.

Software's ability to protect capital has improved and, today, offers similar levels of downside protection compared to Consumer Staples.

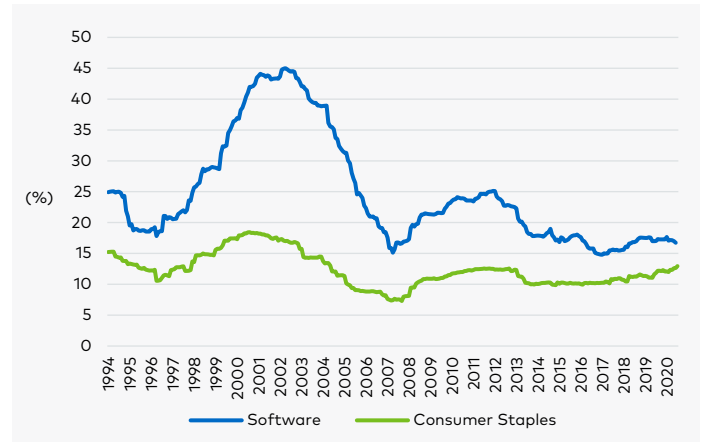
**Figure 1: Downside Capture vs. S&P 500**



As of 3-31-2021. Source: Bloomberg. S&P 500 Sector Indices.

Software's volatility seems to be converging on consumer staples.

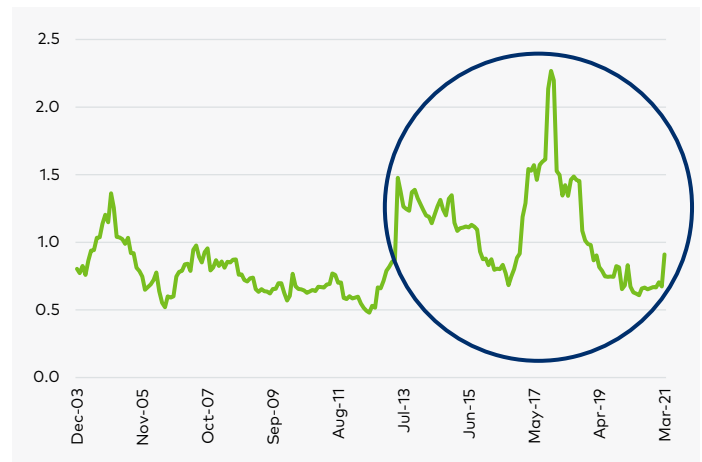
**Figure 2: Rolling 5-Year Standard Deviation vs. S&P 500**



Data as of 3-31-2021. Source: Bloomberg. S&P 500 Sector Indices.

Meanwhile, relative volatility for Staples has become more erratic than in the past.

**Figure 3: Rolling 5-Year Standard Deviation Consumer Staples vs. S&P 500**



Data as of 3-31-2021. Source: Bloomberg. S&P 500 Sector Indices.

Software is currently demonstrating market-like volatility, as measured by standard deviation, with higher returns.

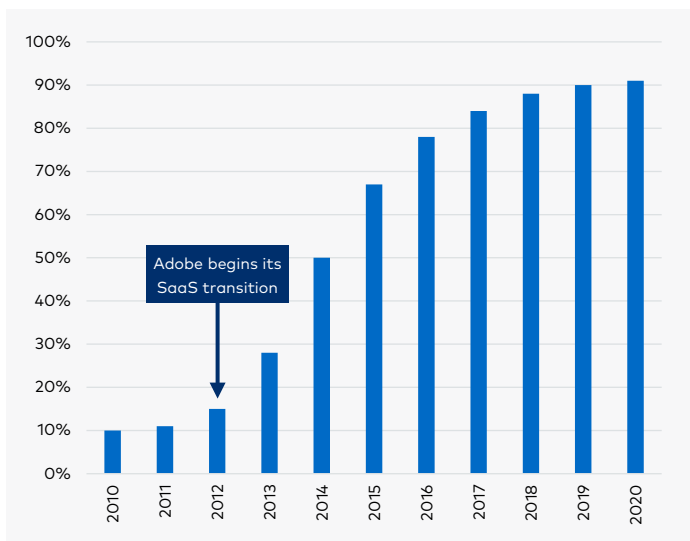
**Figure 4: S&P 500 Level 2 Sectors: Realized Risk Returns Trailing 3 Years**



Data as of 3-31-2021. Source: Macrobond, Mizuho Securities USA, Bloomberg. S&P 500 Sector Indices.

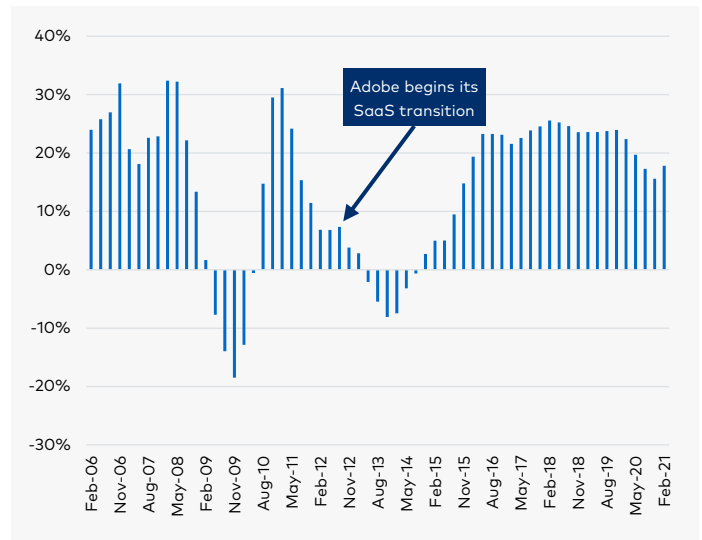
Many software companies display stability in revenue, earnings, and free cash flow after a transition to a recurring revenue model, like Adobe.

**Figure 5: Adobe: Subscription Revenues/Total Revenues**



Source: Company Filings, Factset.

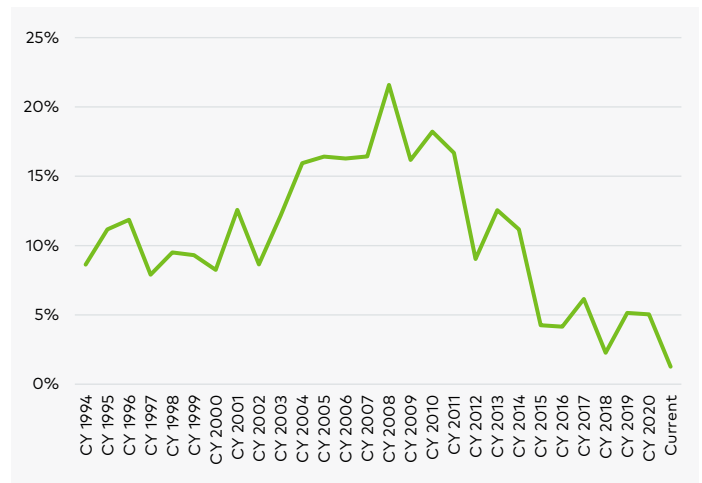
**Figure 6: Adobe: Trailing 12 Months Sales Growth**



Source: Company Filings, Factset.

Meanwhile, growth has been harder to come by for Consumer Staples.

**Figure 7: Consumer Staples Trailing Five-Year Revenue Growth**



Source: Bloomberg. S&P 500 Sector Indices.

And, private-equity-backed labels seek to erode the competitive moat of large established brands.

**Figure 8: Unbundling Procter & Gamble**



Source: CB Insights. The issuers discussed may or may not be held by Polen Capital.

**Figure 9:**

Characteristics of Safe Businesses	Software: Adobe	Consumer Staple: Hershey
Subscription Revenue Models	++	--
Necessity Products	++	-
Repeat and/or Non-Discretionary Product/Service	++	-
Consistent/Non-cyclical/Predictable Demand	++	+
Few Substitutes	++	-
High Barriers to Entry	++	-
Customer Lock-In or Loyalty	++	+
Growth Opportunities	++	--
Regulatory Interference Risk	++	++
Pricing Power	++	-
Low Customer Churn	++	+
Dividend Income	-	+

Source: Polen Capital. The issuers discussed may or may not be held by Polen Capital. For illustrative purposes only.

Based on what we consider characteristics of a "safety" company, we believe that select software companies now offer more of these attributes than consumer staples, making them compelling investments that potentially offer both ballast and attractive, sustainable growth prospects.

Based on GICS industry classification of S&P 500 companies. The S&P 500® Index is a widely recognized, unmanaged index of 500 common stocks which are generally representative of the U.S. stock market as a whole.

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"Unbundling Procter & Gamble" infographic was sourced from <https://www.cbinsights.com/research/disrupting-procter-gamble-cpg-startups/>.