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# Graham & Doddsville

An investment newsletter from the students of Columbia Business School

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INVESTMENT MANAGEMENT  
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## Glenn Hubbard & Joseph Stiglitz



Glenn Hubbard was named dean of Columbia Business School on July 1, 2004 and has been a Columbia faculty member since 1988.

He received his B.A. and B.S. degrees summa cum laude from the University of Central Florida. He also holds AM and PhD degrees in economics from Harvard University.

In addition to writing more

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## Polen Capital



Damon Ficklin joined Florida-based Polen Capital in 2003, where he is the Lead Portfolio Manager of the Global Growth Portfolio and Co-Portfolio Manager of the Focus Growth Portfolio. Prior to joining Polen, Mr. Ficklin was an Equity Analyst with Morningstar and a tax accountant with PwC. Mr. Ficklin earned a B.S. in Accounting from the University of South Florida, an M.S. in Accounting from Appalachian State University, and an M.B.A. with High Honors from The

**Damon Ficklin & Jeff Mueller '13**

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## DG Capital Management



Prior to forming DG Capital in 2007, Dov Gertzulin was a Portfolio Manager at Neuberger Berman where he specialized in value-based and event-driven situations, co-managing over \$4 billion for high net worth and institutional investors. Before joining Neuberger Berman, he was a research analyst at JDS Capital Management. Mr. Gertzulin received his M.B.A. with distinction from New York University's Stern School of Business, where he specialized in finance and accounting and was named a Stern Scholar. He earned a B.B.A. from Baruch College, graduating summa

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**Damon Ficklin**



**Jeff Mueller '13**

**University of Chicago Booth School of Business.**

**Jeff Mueller '13 joined Polen Capital in 2013 and is currently Co-Portfolio Manager of the Global Growth Portfolio. Prior to joining Polen, Mr. Mueller spent ten years in the US Marine Corps, during which he logged over 400 hours flying combat missions in F/A-18 Hornets. He ended his tour as an instructor at MAWTS-I, the Marine Corps version of Top Gun. Mr. Mueller earned a B.A. in Communications and Business Administration from Trinity University and an M.B.A. from Columbia Business School where he graduated from the Value Investing Program with Honors and Distinction. Mr. Mueller also teaches at Columbia Business School as an Adjunct Professor.**

**Graham & Doddsville (G&D):** Can you start by discussing your background and how you got into the business?

**Damon Ficklin (DF):** I have both a bachelor's and a master's degree in accounting with a focus on taxation. That led me to PwC after college, where I worked in international tax for about four years. My long-term aspiration was to be in money management, but I thought that public accounting experience would be a solid building block. After my time at PwC, I earned an MBA from the University of Chicago Booth School of Business with concentrations in finance and

economics. I effectively used this as a stepping stone to transition into the money management industry. I worked for Morningstar as an equity analyst after graduation, joined Polen Capital about a year later, and have been at Polen ever since. Despite going to the University of Chicago – the birthplace of the efficient market hypothesis – I've always been a Warren Buffett and Benjamin Graham junkie. I'm happy to have found an opportunity at a firm that adheres to many of Buffett's and Graham's tenets.

**Jeff Mueller (JM):** In 2001, I was living in Texas and training to see if I could become a professional tennis player. My plans completely changed on September 11<sup>th</sup>, 2001. After the second plane hit the North tower, I decided to join the US Marine Corps where I spent 9 ½ years on active duty flying in F/A-18s. While I was deployed to Iraq flying combat missions, someone sent my squadron-mate an investing book that introduced me to Ben Graham and opened my eyes to a world I had previously not known. That book inspired me to read *The Intelligent Investor*, which I quickly devoured, and any other Graham works I could get my hands on. It sounds surreal, but I can still picture myself sitting in an airbase in the middle of the desert reading Graham between missions. His words really connected with me: I quickly realized that investing is the last Renaissance occupation and that I wanted to make a career out of it when I left the Marines.

My chance encounter with Graham pushed me to set the

ambitious goal of attending Columbia Business School – the institution where Graham taught and Warren Buffett trained. I was fortunate to be accepted into CBS and, subsequently, the Value Investing Program. It may be considered blasphemous to say this in Graham and Doddsville, but at CBS, I came to realize that the best way to compound wealth over time is to invest in high quality businesses, not in cigar butts. This led to a desire to work for a firm that invests in high quality businesses in a concentrated manner with a long-term orientation and that also has a terrific culture. Coming from a Marine fighter squadron, which has a culture of purpose, teamwork and service, it was important for me to find the same culture at my first post-Marine Corps job. I found all of that at Polen Capital, which I joined immediately after graduation. I have now been at Polen for about 5 ½ years and have been managing the Global Growth portfolio with my partner, Damon for the last 1 ½ years.

**DF:** Polen has a long history of successfully managing concentrated growth portfolios with a business-owner mindset. The large company growth team, which Jeff and I are a part of, is one fully-integrated global investment team executing a proven investment discipline across three different portfolios. Our flagship Focus Growth portfolio, which started in 1989, is invested in the best growth companies in the U.S. Our Global Growth portfolio, which launched at the beginning of 2015, invests in our best ideas anywhere in

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the world. International Growth, which launched at the beginning of 2017, invests in the best growth companies outside the U.S.

**G&D:** Was there any strategic reason why Polen chose to be based in Boca Raton, Florida?

**DF:** David Polen, the firm's namesake and founder, began as a broker in New York before moving to Tampa, Florida to bootstrap the business in an area with a more affordable cost of living. By 2002, when the investment track record was well-established and he wanted to attract talent to build the business, he decided to move the firm to Boca Raton, Florida, where we are based today. Boca Raton is far from New York, but we believe being disconnected is a good thing. We have a unique investment philosophy and process, which is built upon independent fundamental research. We are not concerned with what anyone else thinks of the companies we own. In that way, we think it is actually an advantage to be on an island of sorts.

**G&D:** Can you elaborate on your investment process and how it's unique?

**JM:** I think what is probably most unique is that we have consistently executed a process that hasn't changed in any significant way for more than 30 years. We owe a large part of our success to our discipline in sticking with our process. We begin with a very large universe of about 3,000 companies globally, but we quickly whittle that down by applying five investment

guardrails which have been in place since the inception of the firm. We are looking for companies with (1) a return on equity above 20%, (2) an exceptionally strong balance sheet, (3) stable to improving margins, (4) abundant free cash flow, and (5) real, organic revenue growth.

***“The [pre-mortem] is to reverse-engineer explanations for how a company can hypothetically become the worst investment Polen has ever made. It's an interesting exercise because it can show how strong – or weak – our investment thesis is; the harder it is to come up with plausible pre-mortem reasons, the more likely a company is special.”***

While each of these guardrails sets a high bar individually, looking for companies that meet *all five* becomes an exceptionally high hurdle. For example, while an ROE of 20% or greater is roughly double the corporate average and signals a strong competitive advantage, it is possible for a business to increase its ROE

simply by adding leverage. This is why we also demand low levels of debt in our companies.

Once we apply our five guardrails, our investible universe of companies drops to roughly 350 companies. From there, we study these companies extensively, aiming to remove businesses that are overly cyclical or driven by an unsustainable fad. We have traditionally avoided materials, utilities (not enough growth), telecom (too capital-intensive and cyclical), energy, banks (overly leveraged with opaque balance sheets), and real estate. Our overarching goal is to construct a portfolio of roughly 25 high-quality, competitively advantaged businesses that generate consistent mid-teens earnings growth, with the belief that stock appreciation will follow the earnings growth over the long term.

After filtering out cyclical businesses and businesses with more temporal growth prospects, we are left with about 100-150 companies, which we call our coverage universe. These are the businesses that we spend most of our time on. One of the advantages of holding positions for an average of five years is that there's no rush to get the next idea in the portfolio; the goal is to truly understand the competitive advantages that protect the business and the sustainability of those competitive advantages going forward. I believe Charlie Munger said that the first rule of fishing is to fish where the fish are. We believe we are fishing in a stocked pond.

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One of the last things we do is a pre-mortem on the companies. This is taken from the discipline of social psychology. The exercise is to reverse-engineer explanations for how a company can hypothetically become the worst investment Polen has ever made. It's an interesting exercise because it can show how strong – or weak – our investment thesis is; the harder it is to come up with plausible pre-mortem reasons, the more likely a company is special. From there, Damon and I apply critical thinking and judgment and choose the best ~25 businesses.

**G&D:** Can you touch on how you put the portfolio together?

**DF:** We like to say that we are investing across the growth spectrum. On the left side of the spectrum you have steady businesses that grow at a higher-than-average, but more moderate and dependable rate. On the right side of the spectrum you find quality companies growing at much higher rates, perhaps 20-25% per year and above. Of course, these businesses often have higher multiples as well. We are happy to own higher growth companies such as Adobe or Tencent that have a higher valuation, as long as the business fundamentals support it. What looks expensive in terms of the next-twelve-month P/E becomes more reasonable if the business is growing earnings at a 20-25% rate and the stock isn't following along.

**G&D:** Aside from your unique investment process, what else separates Polen from other investment firms?

**DF:** We would put concentration at the top of that list. We have about 25 positions in the Global Growth portfolio, which we think is a big advantage from two perspectives. From a performance perspective, by concentrating in the best growth businesses, we can construct a portfolio that grows underlying earnings faster than the market. This is what we believe drives excess returns over time. From a risk perspective – which is arguably even more important – portfolio concentration in only the highest quality businesses reduces risk.

***“What looks expensive in terms of the next-twelve-month P/E becomes more reasonable if the business is growing earnings at a 20-25% rate and the stock isn't following along.”***

We've had among the best downside capture across the industry in our flagship fund over the past 30 years, and our Global Growth fund is following in the same footsteps. In the four years since its inception, the Global Growth portfolio has compounded at about 11% compared to just over 4% for the MSCI ACWI (all country world index) and ranks in the top decile for downside capture. We have been able to

deliver significant excess returns while also capturing less of the downside than 90% of our peers.

The second advantage that we would highlight is our long-term holding period. We're not trying to generate returns by buying and selling stocks; in fact, half of the Global Growth holdings have been in the portfolio since inception (over four years ago). And to use our Focus Growth portfolio as another reference point, we've only owned about 120 companies in that portfolio over the past 30 years.

We also believe we have an advantage in the way we put it all together to manage risk. As Jeff described earlier, we only consider high-quality business, which removes a lot of risk at the front-end of the process. We are also quick to adjust to any new risks that emerge in a business. We don't want to take any undue risks with a concentrated portfolio, and our track record shows that we don't need to. We have produced strong returns not because we have taken big risks and have been right, but because we have avoided taking unnecessary risks.

**G&D:** To what degree does engaging with management factor into your process?

**DF:** We engage with management, but it's not the most important thing that we do. We meet with management maybe once a year. We really try to put the picture together with publicly available information before we talk to management. Management conversations tend to confirm what we have

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The judges' panel for the 4th Annual CSIMA Stock Pitch Competition

already learned. If the situation is so complicated that we can't understand it without having a conversation with management, that would be a red flag.

**JM:** We don't meet with management to ask about quarterly inflections or catalysts. We understand the business model, so when we meet we talk through their strategy over the next three to five years or beyond.

**G&D:** Polen is currently roughly half US and half international. Do you set a geographic target when building the portfolio?

**JM:** We do not target a certain geographic mix. We tend to think more in terms of where the underlying revenue is being earned as opposed to where the company is domiciled. You can have a US business that does 80% of its business outside the US, and vice versa. We are mindful of what the mix is, but we are really just looking for the best businesses while staying balanced over time.

**G&D:** Let's talk about specific investments. You own Tencent and Alibaba. How do you think about investing in China and state-controlled enterprises?

**DF:** We're very thoughtful about how we invest in China. Most businesses in China are not investible for us today. Even Tencent and Alibaba have Variable Interest Entity structures, which is not direct equity ownership. While that set-up is a risk factor and something we keep in mind – a reason we have limited our aggregate exposure to those

two enterprises to about 10% of the portfolio – we think it is highly unlikely that the Chinese government would do anything to usurp these assets. These companies are highly visible businesses that have significant foreign institutional ownership. Any meaningful effort to assert direct control over these businesses would likely result in foreign capital flooding out of China, which would be against China's broader interest in becoming a global hegemon.

**“We appreciate companies with high returns on invested capital and that operate in both underpenetrated and expanding addressable markets.”**

We also feel confident that both businesses are well-aligned with China's strategic direction, particularly Alibaba. China is trying to move towards a more consumer-driven economy, and Alibaba is essentially the backbone of commerce across China. These businesses are Chinese champions, helping propel the economy in a way that the government really supports. We are mindful of having the wind at your back when investing in China, as opposed to running into the wind, which can be fraught with challenges.

**G&D:** JD is one of Alibaba's direct competitors. Did JD

miss one of your guardrails?

**JM:** This goes back to our approach on strategically thinking through what is happening today and what could happen over the next five-plus years. Alibaba is not only more dominant today, but it's also more profitable and has higher returns on capital. JD's business is still heavily weighted towards their low margin, capital-intensive IP business which largely consists of selling consumer electronics. Alibaba is completely dominant, and they're reinvesting heavily to ensure they maintain their strategic position.

We appreciate companies with high returns on invested capital and that operate in both underpenetrated and expanding addressable markets. Both of these qualifications apply to Alibaba, particularly as China's middle class grows from 300 to 500 million within the next few years. The company has a long runway to deploy free cash flow at higher returns. Alibaba has also reinvested heavily into payments, as Alipay has become China's leading payment platform. Their dominance is so impressive that we think it will continue to do very well against JD.

JD has had one main advantage over Alibaba: a built-up system of in-house logistics and last-mile delivery. However, Alibaba has arguably caught up by leveraging their massive amounts of data and scale. Its logistics network, Cainiao, now handles over 60% of Chinese packages, or 25 billion packages a year. With access to the over 600 million users

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on Alibaba's retail platform and their 50 billion annual transactions, Cainiao is using advanced machine learning to "guess" where a purchase is most likely to happen and plan the logistics accordingly. A more efficient logistics network will likely further widen the gap between Alibaba and its competitors.

Alibaba's current take rate is only about 3.5%, which pales in comparison to Amazon's 13%. We think that rate should go up over time. We are watching these Chinese companies execute similar strategies that our team studied in the past with eBay and Amazon. For example, third-party sales became a big part of Amazon's business model between 2000 and 2002. The introduction of 3P increased profitability and was also strategically effective: 3P is a high-margin business given that Amazon merely takes a cut of transactions, it allows for a greater selection on the platform without added inventory risk, and it strengthens the Amazon network effect by attracting more buyers (and by extension, more sellers).

However, Amazon struggled with scale problems during this period of rapid retail business growth, forcing the company to build many of its own systems to deal with application, computing, and storage needs. That led to the birth of Amazon Web Services, currently Amazon's most profitable division. We saw Alibaba benefit from a similar rise in 3P growth and we're also seeing the same pattern play out with Alibaba Cloud, which now controls almost half of China's cloud-computing

market.

**G&D:** Alibaba sounds like a compelling investment. Are there other names that you're excited about that hit all five guardrails?

**DF:** Adobe is a great example of a company that we're really excited about – there's a reason why it's our top holding in the portfolio. We think it has a huge competitive advantage and a very strong opportunity to continue to reinvest back into the business at high incremental returns.

Adobe basically has two businesses. One is Digital Media which is the creative side and about 70% of the business. That's content creation, software like Photoshop that allows users to edit photos and create videos.

Digital Experience is the other 30%. Firms are transitioning their marketing away from traditional channels like newspapers, television, and magazines and toward digital channels. With Digital Experience, Adobe will conduct entire digital marketing campaigns for companies and run very fine-tuned analytics. Adobe can tell you how long someone hovered their cursor over a link, what they clicked on, how long they watched a video, etc., while also creating a unified customer profile in the background. This is basically a code that informs companies, with a fair degree of accuracy, who you are and what you're most likely to buy online.

**JM:** We found Adobe in 2013 when we were doing a big exercise on Oracle (which

we've owned since 2005) to see what the transition to cloud would be like and how significant the headwind would be to revenue. As we were doing the research, we started thinking, "Alright, the cloud's obviously a good thing for a lot of companies even though they're going through some short-term headwinds. Who else is really benefiting from this cloud transition?" Adobe was one of those companies.

In December 2011, Adobe decided to stop selling packaged software for its creative content and transitioned to a subscription model. That strategic shift was attractive to us because the company went from a boom-or-bust revenue cycle, where every two years customers may or may not upgrade to the newest version of the software, to a more predictable and sustainable revenue cycle where Adobe could easily raise prices. Adobe effectively holds a monopoly in this space; there's really nowhere else to go if you're a professional and you want to create digital content.

We spent roughly 15 months researching Adobe, trying to answer questions like, "What is the growth rate of Digital Experience? What is the value proposition? Are there synergies between Digital Media and Digital Experience that create an even greater competitive advantage than what you might see on the surface?" It turns out there are deeper synergies. Since Adobe is a monopoly on the creative side, any company that signs up with Adobe to run a digital marketing campaign will also end up using Adobe's creative

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content for their digital media. All the code is the same, so nothing gets lost in the transition between the creators and the marketing people. It all works seamlessly. That functionality informs the decision of a lot of large companies as they choose Adobe over a competitor.

We later realized that there's this secular tailwind where digital marketing is becoming increasingly important for companies not only to survive but to thrive. That has created even more demand for digital content creation. Not only are the two businesses helping sell each other, but they're both growing due to the same secular tailwinds.

We think management has done a good job of broadening their Digital Experience business and expanding their product offerings. Previously, if a company used Adobe's digital marketing, they'd have to use a third-party company to enable their clients to check out. That gap no longer exists following Adobe's acquisition of Magento, an open source e-commerce platform. Adobe's ensuing purchase of Marketo, a B2B digital marketing services provider, further bolsters its product lineup.

Tapping into Polen's experience, we found that for enterprise software, the full-suite offering usually wins out over best-of-breed point solutions. It's logical – if you're the deciding person for enterprise software purchasing, you don't want 100 different point solutions, because not only is there a chance that they won't integrate well, but you have to

call 100 different people if or when things start going wrong. The full-suite offering ensures that everything is integrated and you have just one point of contact.

What makes this even more potent for Adobe is that their full-suite offering also includes best-of-breed point solutions. This makes it very difficult for other software vendors to compete. We think Adobe is well-positioned to continue to compound earnings in excess of 20%. We feel margins can still expand over time, with the high quality of the business acting as the investment's margin of safety.

**G&D:** We noticed you also own Starbucks. Building on our earlier discussion of China transitioning to a consumer-driven economy, do you view Starbucks as a stock where most, if not all, of the growth in the future is going to come from China?

**DF:** We expect continued growth from both the US and from China. The US is currently 70% of Starbucks' business. Though the region is certainly more mature than China, it is still a meaningful contributor to overall growth. Starbucks is growing store count at about 4% annually in the US, a rate which has been pretty consistent over the past several years. Same-store sales have moderated from high single-digits a few years ago to what we think will be a sustainable 3-5%. Aggregate growth in the US, though more modest than it historically has been, is still quite healthy.

China is certainly a bigger growth opportunity and will

become a more significant part of the business over time. Starbucks is growing store count in China in the high-teens. That has had some impact on same-store sales which are now relatively flattish after being as high as 8%+ a few years ago. Moderating comps, plus an intensifying competitive environment with the entry of local players like Luckin Coffee, are undoubtedly short-term headwinds.

Nevertheless, Starbucks has a very strong established position in China, which is a bit of a land-grab market. They have thousands of stores. They have a real brand experience which is not really being challenged. I think they have the right strategy there, which is not to optimize for same-store sales but rather to open more stores. They're playing the long-term game instead of taking easy short-term wins.

Additionally, the store-level economics in China are as good as they are anywhere in the world. Usually, US-based companies that try to expand abroad aggressively chase after growth markets at the expense of profitability. They try to build a beachhead and grow into new areas with the hopes of making money in the future. But for Starbucks in China, the overall economics and cash-returns of stores are actually quite good. So, not only is it the right strategy to accelerate store growth, it's a good return strategy as well.

**G&D:** Is there any worry the trade war might shift Chinese preferences away from American companies to domestic brands like Luckin?

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**DF:** I think there's enough opportunity in this market for more than one player to have some growth, but you need to grow in the right way. It's funny because you have companies like Luckin that are taking this technology business model approach like, "We'll just grow. We're not going to worry about profit. We'll make money tomorrow." That might make sense in certain technology businesses where there's a network effect, but we don't see that here. Luckin is just building stores. The consumer could wake up in two years and say, "If you're not giving me a discounted cup of coffee then I'll go to Starbucks." You don't have that lock-in effect like you do in other businesses where you see that type of approach. It's a competitive environment, but I think brand definitely matters.

Moreover, there's probably a multi-tiered marketing opportunity in China. There are some consumers that are going to be price-sensitive and won't go to Starbucks to buy a \$4 latte. But there are other consumers that do want the brand, that will pay a premium to carry around the mermaid on the cup. I don't think anyone is challenging Starbucks on all dimensions, and it's a big enough market for more than one player. Starbucks is going to do just fine as time passes.

**G&D:** Can you give your take on Align Technology? They had a rough 2018 with the stock dropping about 50%. Do you still feel that clear aligners will eventually replace braces?

**DF:** We still own Align, although we trimmed the

position a couple of times throughout last year because the valuation had become a little more demanding. It turned out to be fortuitous timing, since they had a bit of a hiccup last quarter which brought the stock down quickly.

Two things happened last quarter that repriced the stock. First, promotions for Invisalign aligners didn't turn out as well as expected, putting downward pressure on average selling prices. Second, new competitors entered the market. Combine those developments with a rich valuation, plus the negative market environment last quarter, and investors got scared.

***"We have a view that vanity is increasing across humanity."***

We looked at all of those factors and determined that they were short-term challenges and that the business is still in a very good position for the long-term. The valuation is reasonable again, so we brought the position back up to a 2.5% weight in the portfolio. While it wasn't an outstanding year in terms of share price for Align, the stock was still a strong contributor in our portfolio because of solid position management.

**JM:** We still love the business, and it is worth noting the importance of historic perspective and how it benefitted our understanding of Align. Damon knows Allergan exceptionally well

after owning it in our Focus portfolio for a long time. We believe Invisalign is similar to Allergan and its Botox product. Botox has been off-patent for decades, yet it's still a very powerful brand and the go-to for people that want to get rid of wrinkles and look younger. Most people can't name Botox's competitor (it's a brand called Dysport). We've found that the Invisalign brand, even though it's still patented, has all the hallmarks of the brand equity that Botox has.

We also have a view that vanity is increasing across humanity. First, you have the creation of the internet, and the advent of smartphones and social media shortly after. Now, sadly for our children, humans are taking more pictures of themselves than ever before, which means that people are more into their faces and, by extension, their smiles. We think that fits right into what Align is bringing to market with Invisalign.

We first saw this market shift with adults. Many adults that got Invisalign wouldn't feel comfortable going into a professional workspace with braces on, making braces a non-starter. We're now seeing that trickling down to teens and children.

Clear aligners are more aesthetically-pleasing than wires and brackets. They're also healthier. You can't floss while you wear wires and brackets, which can lead to gum irritation, at a minimum, and potentially even gum disease. It's an easier and more time-efficient process, as technology with clear aligners has advanced to the point

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where clear aligners are generally quicker than wires and brackets.

We think the sub-10% market share that Align holds today in teeth correction procedures is only going to grow from here. Honestly, if wires and brackets are still around in 20 years, then clear aligners have really done something wrong.

**G&D:** That's a very strong case for the industry. Why do you think Align is better positioned than its competitors in the space?

**DF:** While putting this little piece of plastic in your mouth to shift teeth seems simple, optimizing the biomechanics and algorithms behind the technology and then mass-producing these aligners at scale is incredibly complex. No set of teeth is the same. Align is essentially mass-producing snowflakes on demand and then shipping them to a widely distributed set of dentists and orthodontists all over the world.

On top of all that, Align also has the patents underlying the technology in addition to its strong brand equity. If a dentist or an orthodontist brands their practice – and here's the parallel between Align and Botox – with the Invisalign product, there's going to be little incentive to move away from that. Once you build that brand into your practice and become comfortable with it, you're not going to switch unless there's something much better or much cheaper – and even then you need to think twice because you don't want to diminish the patient experience.

**G&D:** Can you talk about the purchase decision and how it's made? Does the orthodontist make the decision about what brand customers use and is there any real threat from direct-to-consumer brands in the space?

**DF:** The dentist or orthodontist can make a recommendation and steer you towards different types of products and alternatives. But most of the alternatives are only for very moderate cases. Only Align has the capability to treat extreme cases such as extractions that require teeth removal and palate restructuring.

As for threats from direct-to-consumer businesses, Align explored that model but ultimately decided to go in a different direction. It would be very easy for them to target lower-end treatments. But Align has always kept the dentist and the orthodontist at the center of the experience. They're doing other things to pull more people into the market but they're always trying to direct them to the dentist or orthodontist, not work around them. That's their channel – Align believes that you want a quality healthcare professional managing this outcome. They're creating all the tools to make it incredibly simple to get great outcomes, but they still want to prioritize protecting the relationship with the professional.

You could think about this as market segmentation, just as we were discussing with Starbucks and Luckin Coffee. There's a certain population

out there that might need a few aligners. They might want to straighten one tooth out but they're not going to pay much for it and they're willing to take on a lower-end direct-to-consumer product. That's a customer that Align is probably not going to win. There's room for different players in different segments of the market, so we don't think it's a long-term problem for Align.

**G&D:** Thanks for that insight. Do you have any advice for MBA students looking to get into investment management?

**JM:** I'll give three pieces of advice: two on perspective, and one on how to improve perspective. First, investing can be a long career. Even if it takes you five years to break into the right place with the right people who compound capital in the right way, five years represents only 10-12% of your total career, which isn't much.

Second, the investing industry should be approached with the goal of lifelong learning and an understanding that you're compounding your knowledge over time. It's important to keep in mind that the industry lives on an exponential curve. This means you will experience long plateaus without noticeable improvement, with the key word being "noticeable." There will be inflection points; you just won't know when. Grow to embrace, or even love, the plateaus.

Finally, consciously develop your values and moral compass. One way to do this comes from Charlie Munger, who said, "Read history, read

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## Polen Capital

history, read history.” Don’t do it to memorize facts to impress people, but do it with the understanding that decisions made in the past were made by people with the same cognitive makeup that you and I have. When reading about frauds, catastrophic decisions, and decisions based on weak values, try to understand what led to those decisions, and think about how to improve your own judgment to prevent yourself from making similar mistakes. Reaching the point where your values and your moral compass are impenetrable will make your life better because you will have earned the trust of people you work with, and there is a good chance your example will influence others along the way.

**DF:** Don’t compromise your vision for yourself. As you complete your studies and begin your career in investment management, make sure you set sail in a direction that you believe in. Prioritize principles over money and join people that you respect and can learn from. I understand the desire to repay the student loans and to monetize all the learning that you’ve already paid for, but there’s much more to learn. You’ll be better off in the long run if you decide to double down and invest in yourself again. If you guide yourself with the right principles and align yourself with the right people, then you’ll learn how to create real value for the people that ultimately entrust their money to your care. If you do that well, the money will come, and you’ll be able to feel good about not just what you’ve accomplished, but what you’re

contributing to others.

**G&D:** Thank you so much for your time.