FUND INTELLIGENCE

Polen Capital CEO talks surging inflows and hiring opportunities during the crisis

In an interview with Fund Intelligence, Stan Moss discusses senior hires, product dev, distribution landscape and more

By Tom Wilson | May 6, 2020

Market volatility caused by the coronavirus pandemic has put pressure on performance and flows for many asset managers, but boutique **Polen Capital's** stellar alpha generation has helped it attract billions in net inflows year to date.

The scale of the sales success during a crisis has caught CEO **Stan Moss** by surprise.

"If you'd asked me if I saw that the flows would be like this in the middle of a crisis and pandemic, I would have said absolutely not," Moss told *Fund Intelligence.* "In terms of why that's happening, I can only speculate, but in previous crises we had seen far fewer people willing to allocate … It appears to be a substantial amount of assets that were perhaps on the sidelines or maybe in a passive structure, with allocators waiting for movement in the market to put more money to work or rebalance. We have been on the receiving end."

The firm has posted net inflows of \$3.6bn across its seven strategies in the year to date, including \$2.7bn between February 2020 and May 1, compared to \$1.3bn for the same period last year. Total assets for the firm stood at \$32bn in March 2020, up from \$25.6bn in March 2019.

Those inflows have been persistent across all sales channels, with mutual funds, institutional accounts and Ucits funds serving EMEA and APAC all receiving net new money, though the two most successful strategies have been Polen's Global Growth strategy, running for five years, as well as its International Growth strategy, running three years.

Coronavirus opportunities

Moss has no plans to tactically launch new products in response to the pandemic-induced volatility, and the firm's broad plans are unlikely to change.

The equity shop employs a consistent approach across all its strategies, with high-conviction quality growth portfolios each holding around 15-30 stocks leading to strong alpha generation that has held up during the crisis.

"There's no change in our thinking around our strategic plan itself. We're still executing on our strategic plan," Moss said. "Our top priority is to execute on what we have to continue to grow organically, as opposed to trying to find something that's been displaced or out of favor given the current market environment."

However, the crisis is creating opportunities to bring new talent into the business, and the number and quality of job applications has surged in recent weeks.

“We were going to do this anyway, but there’s a lot more talent out there looking at Polen Capital, either because they’re not happy in their current situation, or they could have been displaced,” Moss said. “There’s going to be lots of opportunity to add talent to firms who are in a position to do so.”

Currently, the business is actively recruiting for a chief operations officer and a head of distribution, both of which Moss “hopes” to fill by June 30, as well as an institutional business development head.

Polen’s shift to working remotely was smooth, bar the odd employee “asking for an extra mouse or screen,” as tech infrastructure for remote working had been put in place years ago, with employees making regular use of it.

“What was more of a struggle for us was that our people were ready to go and to keep their traditional call volume up,” Moss said. “What we were finding was the organizations that we were calling didn’t figure out things as quickly.”

That led to some friction for distribution teams, making it harder to keep up their usual pace. That was particularly the case where intermediaries had blocked video conferencing services such as Microsoft Teams and Zoom.

“If your typical role was to go out to a branch and shake hands and have sit downs with people, the only substitute for that right now is video technology. And if a firm limits video technology, that drives you to a telephone exchange and email communications, taking some of the efficiencies down,” he said. “That said, our team still being highly productive, but it’s just more difficult today than it was before the crisis because you’re losing that eyeball to eyeball connection.”

The end to the lockdown will bring its own challenges, Moss added, particularly as Polen’s Boca Raton, Boston and London offices work in different political jurisdictions.

“When the government says you can’t go in office, you can’t go in the office. But returning to the office is a much more complex question. Do you force people to come in? Who comes in? How do you stage it? Do people wear masks? There’s 100 possibilities within the question,” he said.

Investment philosophy

“[Our portfolios] are purposely constructed with underlying earnings per share growth rates that are double digit or mid-teens … targeting around a 15% long term earnings per share growth rate,” Moss said. “Our objective is to purchase those securities at what we believe to be reasonable valuations.”

Since the firm’s flagship strategy launched 30 years ago, initially only through a separate account, it has delivered annualized returns of 14.5% to 15% depending on format, which Moss estimates equates to around 600bps of alpha per year.

Paradoxically, those concentrated positions have also resulted in lower risk for investors, in terms of both volatility versus the S&P 500 and the portfolio’s peers, and downside capture which averages around 60% over the life of the strategy.

“When you think about concentration, a lot of people’s natural intuition would be to believe that the concentration would lend itself to more risks,” Moss said. “We’ve been demonstrating over the past 30 years that by investing in only the highest quality businesses [you take less risk].”

One downside of the approach is lower capacity than rivals holding more positions, Moss admitted. Although all the strategies are currently open to investors through mutual funds, the flagship strategy has “some soft-closures” to SMA and UMA investors.

Another trade-off is a relatively high tracking error, though performance has tended to win out in the end, with the strategy outperforming in 100% of seven-year quarterly rolling periods.

Distribution 'has become a very harsh world'

Moss recognizes that platform consolidation is turning the screw on many boutiques but said that Polen has been seeing doors open.

"There's no magic to it. Our portfolio managers are producing outstanding strategies that deliver alpha, and idiosyncratic alpha, for our clients. If you're able to do that, the platforms are going to want to onboard your strategy because it's going to be in demand from their clients," Moss said. "But if you're not doing that, it has become a very harsh world because products are getting consolidated and removed from platforms at a more rapid pace than what they used to even five years ago."

Though Polen's distribution team is far smaller than those of the trillion-dollar-plus giants they come up against, Moss said that its success is due to long-tenured salespeople who all have intimate knowledge of every strategy.

"Our people can talk about every single stock in any portfolio, any trims, buys, sells. They understand the portfolio construction," Moss said. "They can have a very meaningful and relevant discussion about the portfolio. If you're at one of the larger firms, it's not that it's impossible to do that. Can you actually be an expert in 40 to 50 different products?"

The salesforce is set up to man-mark its investor base, with a 12-strong team, soon to be 15, serving intermediaries such as RIAs, wirehouses, and broker-dealers, as well as a five-person institutional team that also deals with consultants of all sizes. A six-person client relations team responds to queries from existing clients, mainly on the institutional side, as well as preparing marketing materials.

Lastly, Polen has two people in London supporting Ucits vehicles in EMEA and APAC.

Product development and nontransparent ETFs

No new strategies are in the works, but the $32bn boutique does plan to launch mutual fund and Ucits mirrors of its Global Emerging Growth Strategy this year, which launched in January, managed by London-based **Damian Bird.**

"The typical cadence [to product launches] has been to have our separately managed account up and running, and then launch a mutual fund next, then a Ucits structure. They could all be launched at the same time, but that tends to be [how we do it] because of the amount of time it takes to launch a fund because of the different regulatory approval for a fund," Moss said.

Establishing a track record in a separate account only helps sell a young mutual fund "in theory," he said, noting that it still took years for its flagship strategy to draw assets in mutual fund form, despite 20 years of performance data. Properly seeding a fund is more important, he thinks.

"Within the mutual fund industry, we've typically found you've got to get some form of scale to actually have an onboarding in a platform. Usually, you've got to have $25m to even get one of the wirehouses, in some cases, [much more]. Getting that first $25m, $100m, is a grind. It doesn't matter if you've got a 50-year track record listed in that perspective," he said.

Generally, Polen will seed new vehicles at launch, and where necessary, top them up at the three-year mark when they come onto most platforms' radars.

Moss is always open to offering strategies in different vehicles, such as collective investment trusts, as he "doesn't want vehicles to get in the way" of giving clients what they want.

However, he is cool on the idea of launching ETF products, having previously investigated and decided against adopting the wrapper.

Moss's team is "looking closely" at non-transparent variants but is unlikely to adopt the vehicles for the foreseeable future.

"We do still have some hesitations around non-transparent ETFs, especially in the less liquid space," he said. "I still think that the non-transparent ETF has quite a bit of ways to go in terms of evolving… Let's see what happens over the next five years because things always improve and change. Right now, we haven't made the decision to make a move. We've just made the decision to continue to watch and research."