

# Investing in the Age of Transformation

## It's the Big Picture That Matters

Over the past two years, the evolution of the pandemic has been the leading force dictating the path of the global recovery. Despite the many challenges still present, we believe that several megatrends that were already in motion before COVID-19 will continue to shape the world around us and play an important role in defining tomorrow's leading businesses.

In our view, the speed of change across the globe pulled forward several years of growth and innovation, presenting us with new ways to participate in some of the most disruptive opportunities of tomorrow. As long-term equity investors, we believe that identifying these transformational trends—and the companies harnessing their power—is critical to generating positive equity market returns.

Our research indicates that in contrast to cyclical companies—whose growth is closely tied to the economic cycle—businesses in sectors and industries benefiting from structural tailwinds can thrive even under different economic scenarios. At Polen Capital, we continually monitor the development of transformative trends, with themes such as digitization, cloud migration, artificial intelligence (AI), telehealth, and digital payments currently on our radar.

Amid a seemingly endless daily flow of economic releases, market updates, and price gyrations competing for our attention, it is easy to get caught on “the now,” and miss the forest for the trees. This paper aims to look beyond the short term and illuminate some of the megatrends we think could define global economies and markets over the next decade.

## Megatrend 1: Digitization

As the pandemic lockdowns took hold in 2020, companies across the globe were forced to go digital or go dark. Seemingly overnight, social distancing mandates and activity restrictions brought life to an abrupt halt, forcing businesses to look into creative digital ways to continue serving their clients and operating remotely.

While firms that had made early investments in digitization before the pandemic benefited during the “new normal,” other businesses had to take technological leaps that had been delayed for years. Digital innovation, once an imperative to gain a competitive edge, is now a key to business resilience and transformation globally.

The pandemic also had a transformative effect on where—and how—we worked. Though increasingly more companies are requesting staff to return to the office, we believe the future will blend home and office models. According to an analysis published by the National Bureau of Economic Research, about 40% of jobs in the U.S. can be done entirely from home. This includes jobs like education, which were previously not thought possible before the crisis (see Figure 1).

The increased flexibility to work from different parts of the world has also helped reduce the geographic hiring boundaries, enhancing the available talent pool. The ability to draw from “distributed talent” across the globe represents better opportunities and access for workers and employers alike. Some companies also look at flexible workforces to elevate cost savings and curb corporate environmental impact.

## Share of U.S. Jobs That Can Be Done at Home (By Industry)

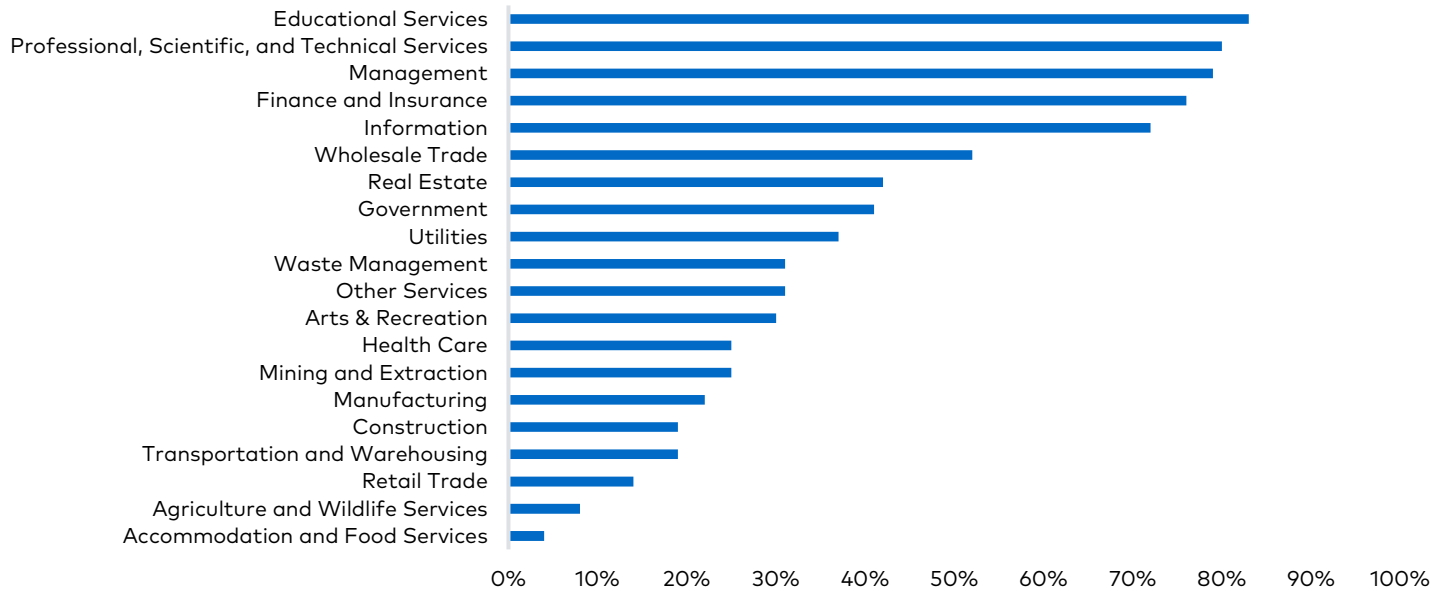


Figure 1: Source: Bloomberg. National Bureau of Economic Research. As of May 2022.

## Megatrend 2: Diving into the Cloud

Cloud adoption was another of those forces that gained momentum with the pandemic. Before the cloud, a company had to store its data on individual devices or local servers, facing many limitations. For example, if a company's network was down, employees would be unable to access the data until the connection to the server was restored. Similarly, legacy IT infrastructure was vulnerable to physical pitfalls such as hardware failures, posing business continuity risks.

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With the help of the cloud, companies can access data and software over the internet from multiple devices. Given that businesses only pay for the digital resources they use, they have the flexibility to scale up or down swiftly and cost-effectively. In contrast to when companies needed large and expensive server rooms, companies today can reduce capital expenditures by storing data on the internet through a provider who manages and operates data storage as a service.

According to a Bloomberg Intelligence report, the shift from on-premise infrastructure and applications is the primary driver of revenue growth in the technology industry, and Bloomberg expects it to remain robust as global economies emerge from the pandemic and companies become more digital. The public U.S. cloud market, including infrastructure and applications, may reach \$1.1 trillion by 2026 from \$405 billion in 2021, growing 21% annually as seen below.

### Total U.S. Cloud Market Spending Forecast (\$ Billions)

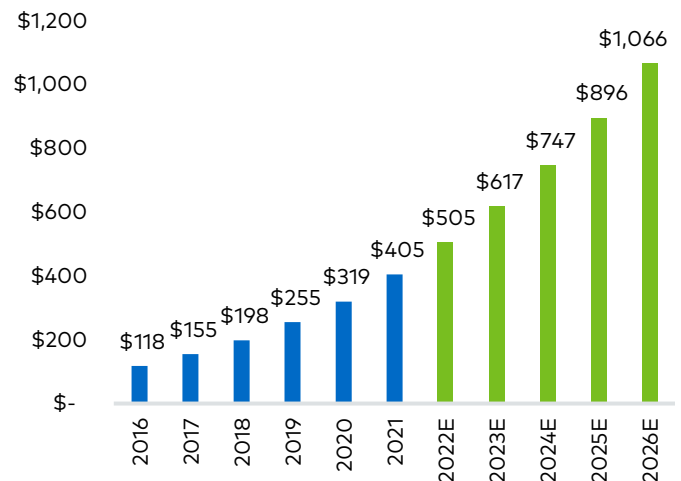


Figure 2: Source: IDC, Bloomberg Intelligence. As of May 2022.

## Megatrend 3: AI and the Intelligent Enterprise

AI is another of those technologies that we expect to improve how we live and work. Through AI, computers can harness massive amounts of data and use algorithms to make decisions or automate behaviors in fractions of the time it takes a person. Many businesses are increasingly leveraging AI technology to decrease operational costs, increase efficiency, grow revenue, and enhance the customer experience.

For example, AI is at the core of various systems commonly used today, such as chatbots, voice assistants, augmented-reality applications, and facial recognition products. The more information it gathers, the better it becomes at providing insights and predictions or noticing trends and patterns.

Cloud computing and machine-learning algorithms have fueled the jump in AI, keeping costs in check while reducing security risks. AI's ability to identify patterns and track data has been valuable to advances in cybersecurity innovations. Today, some of the most data-intensive tasks are done by machines that can compute at faster and higher rates than humans.

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While the U.S. and China have historically been leaders in AI development, new global hubs such as Ireland have emerged in recent years. A Eurostat survey<sup>1</sup> published in April 2021 found that Ireland had the highest share of enterprises (20%) using artificial intelligence among E.U. members (6%), as seen below.

### Share of Enterprises Using Artificial Intelligence in the European Union

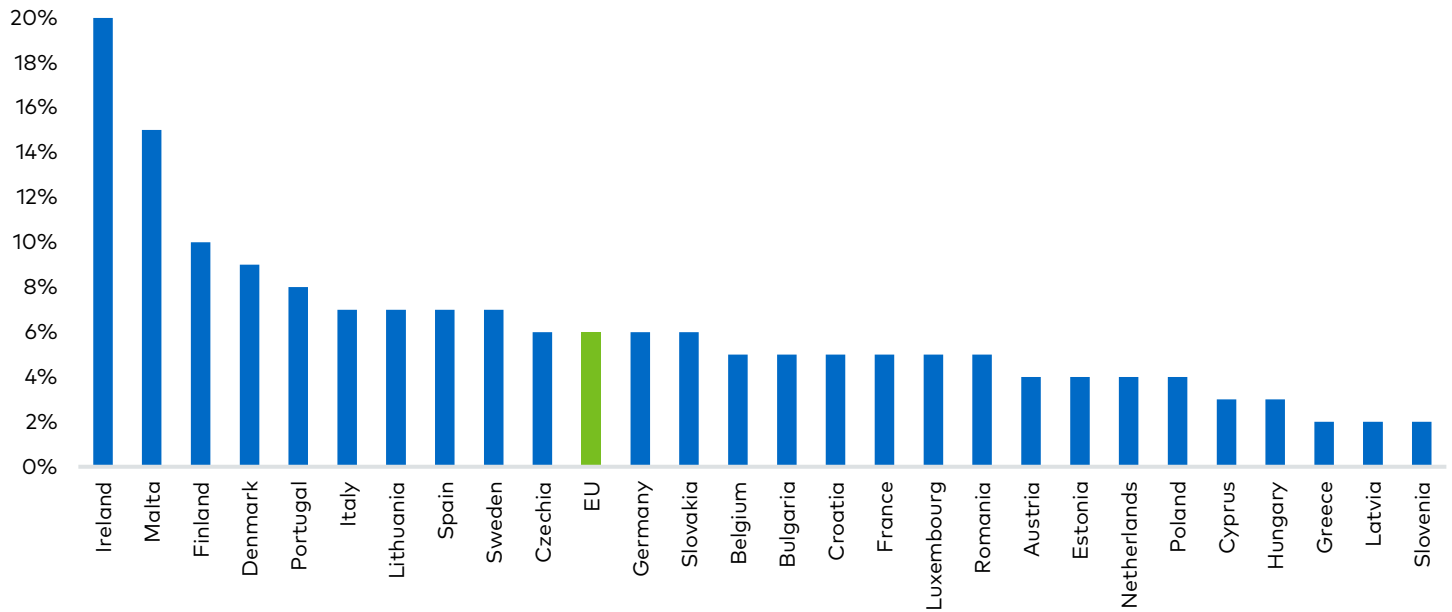


Figure 3: Source: Eurostat. As of December 2020.

1 Artificial intelligence in EU enterprises - Eurostat. (2021, April 13). Retrieved from <https://ec.europa.eu/eurostat/en/web/products-eurostat-news/-/ddn-20210413-1>. Methodology: Data from the Community survey on ICT usage and e-commerce in enterprises and refer to all enterprises with at least 10 people employed (excluding the financial sector).

## Megatrend 4: Telehealth

The pandemic may not have brought many positive developments, but there were a few bright spots. For example, advancements in telehealth and virtual care provided a bridge for patients who continued to access medical services even if they couldn't meet face-to-face with their doctors.

According to Bloomberg Intelligence<sup>2</sup>, telehealth visits reached about 50% of total outpatient visits in some regions of the U.S. at the height of the pandemic. Going forward, the study projects telehealth to remain around 15% of total outpatient visits based on the shifts in behavior and investments in technology due to the pandemic and the proliferation of virtual primary-care offerings coming to market.

According to the study, the 15% estimate shouldn't be viewed as a peak but rather a waypoint as digital increasingly becomes the front door to health care. New health care delivery models combining in-person and remote care will likely emerge in the coming years. But just like flexible work models are likely to redefine the labor market, we expect telemedicine to be part of the future of health care delivery.

### U.S. Breakdown of Medical Outpatient Visits

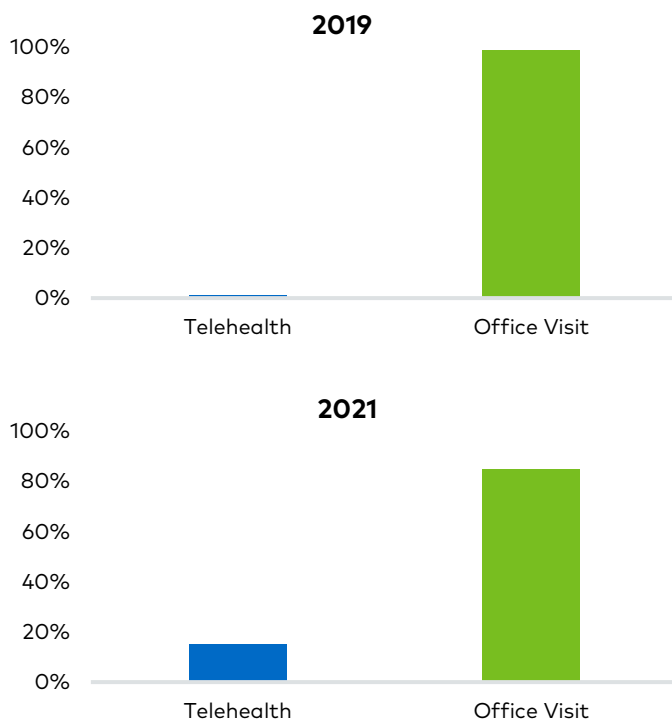


Figure 4: Source: Bloomberg Intelligence. As of March 2022.

2 Bloomberg Intelligence. (2022, March 4). The future is now: Health care's path to digital transformation. Bloomberg's methodology is based on a bottom-up analysis. It establishes an upper bound by cross-referencing claim trends from multiple sources (pre-, during, post-pandemic) by category against the CDC's 2018 National Ambulatory Medical Care survey.

## Megatrend 5: Digital Payments

When the pandemic shut down businesses in 2020, the need for digital, touchless payments accelerated as people gravitated towards e-commerce or naturally avoided transacting in cash. Mirroring the acceleration of digital transformation, customer demand for increased convenience and security has elevated the appeal of going contactless.

However, while debit cards and smartphones have become a common alternative to traditional currency—particularly across developed nations—other regions remain largely unbanked and represent an untapped market for global investors (see Figure 5).

Experts believe that omnichannel tools that became widely used during the pandemic (such as Q.R. codes or point-of-sale devices) are likely to become more prevalent along with other kinds of touchless payments. Q.R. codes have served for making orders, payments, verifying vaccinations, and sharing information, among their many uses.

### Share of Population with Ownership of a Debit Card

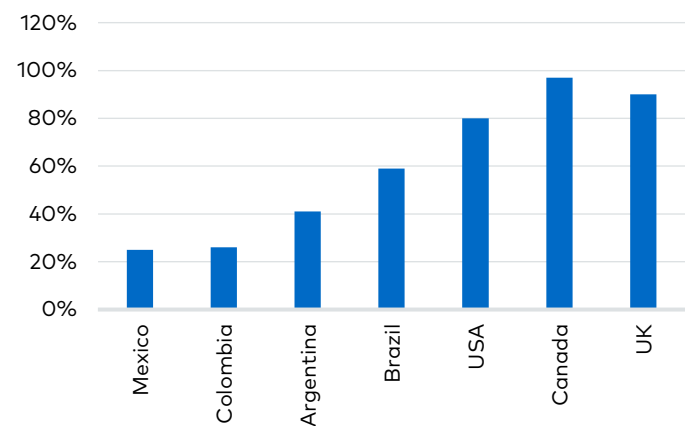


Figure 5: Source: MercadoLibre. As of 12/31/2021.

### Takeaway: Time, Not Timing, Is What Matters

In our view, today's investment landscape is vastly different from that of the last decade. Yet, we think that the old adage, "It's not about timing the market, but about time in the market," still rings true today. By removing emotions from the decision-making process, we at Polen Capital look at market dislocations as opportunities to become owners of great businesses that rarely go "on sale" given their competitive leadership and resiliency.

As equity investors, we aim to center our attention on long-term fundamentals rather than short-term market noise. This is especially true in global markets, where risks can create temporary bumps from time to time. These headwinds are often difficult to predict in both timing and scale, so we keep our eyes on long-term structural themes that have the potential to prevail throughout the years.

## Going Beyond with Polen Capital

Polen Capital is a team of experienced investment industry professionals who share an unwavering commitment to our clients, investors, community, and each other. We have been dedicated to serving investors by providing concentrated portfolios of the highest-quality companies for more than three decades. At Polen Capital, we have built a culture of results, and in this, an inherent belief in going beyond what's expected for the people and communities we serve.

We believe that an important part of growing our clients' assets also includes preserving it. To ensure this, we adhere to a time-tested process of researching and analyzing the highest-quality companies around the globe—selecting only the best to build highly concentrated portfolios. Then, we invest for the long haul and with a business owner's mindset—giving these companies time to grow.

### Important Disclosures

This information is provided for illustrative purposes only. Opinions and views expressed constitute the judgment of Polen Capital as of June 2022 may involve a number of assumptions and estimates which are not guaranteed, and are subject to change without notice or update. Although the information and any opinions or views given have been obtained from or based on sources believed to be reliable, no warranty or representation is made as to their correctness, completeness or accuracy. Opinions, estimates, forecasts, and statements of financial market trends that

Given the power of compounding over time, we believe that once we invest in a great business, the best way forward is to stay the course through a multiyear approach. This independent mindset—a pillar of our investment philosophy—has allowed us to look past temporary market noise and deliver consistent results for more than 30 years to our clients.

## Connect with Us

For more information on Polen Capital visit [www.polencapital.com](http://www.polencapital.com) and connect with us on [LinkedIn](#).

**Past performance is not indicative of future results.** There can be no assurances that any portfolio characteristics depicted herein shall be replicated in the future.

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Past performance does not guarantee future results and profitable results cannot be guaranteed.