The Polen Equity Heat Map: Factors in Degrees of Expected Return

5 Year Annualized Return Scenarios[1]

P/E Multiple: Contraction (–), Expansion (+)

Compounded Earnings Growth Rate (% 5 Year EPS CAGR)	-67%	-50%	-33%	-25%	-10%	0%	10%	25%
0%	-20.0	-13.0	-8.0	-6.0	-2.0	0.0	2.0	5.0
1%	-19.0	-12.0	-7.0	-4.0	-1.0	1.0	3.0	6.0
3%	-18.0	-11.0	-5.0	-3.0	0.0	2.0	4.0	7.0
4%	-17.0	-10.0	-4.0	-2.0	2.0	4.0	6.0	8.0
5%	-16.0	-9.0	-3.0	-1.0	3.0	5.0	7.0	10.0
6%	-15.0	-8.0	-2.0	0.0	4.0	6.0	8.0	11.0
8%	-14.0	-6.0	-1.0	1.0	5.0	8.0	10.0	12.0
9%	-13.0	-5.0	0.0	3.0	6.0	9.0	11.0	14.0
10%	-12.0	-4.0	2.0	4.0	8.0	10.0	12.0	15.0
11%	-11.0	-3.0	3.0	5.0	9.0	11.0	13.0	16.0
13%	-10.0	-2.0	4.0	6.0	10.0	13.0	15.0	18.0
14%	-9.0	-1.0	5.0	7.0	11.0	14.0	16.0	19.0
15%	-8.0	0.0	6.0	9.0	13.0	15.0	17.0	20.0
16%	-7.0	1.0	7.0	10.0	14.0	16.0	18.0	22.0
18%	-6.0	2.0	8.0	11.0	15.0	18.0	20.0	23.0
19%	-5.0	3.0	10.0	12.0	16.0	19.0	21.0	24.0
20%	-4.0	4.0	11.0	13.0	17.0	20.0	22.0	25.0
21%	-3.0	6.0	12.0	14.0	19.0	21.0	24.0	27.0
23%	-2.0	7.0	13.0	16.0	20.0	23.0	25.0	28.0
24%	-1.0	8.0	14.0	17.0	21.0	24.0	26.0	29.0
25%	0.0	9.0	15.0	18.0	22.0	25.0	27.0	31.0

Interpreting the Polen Equity Heat Map:

1. **The y-axis:** Compounded earnings growth rate of a company over a five-year period. Over the long term, we believe that earnings growth is a key determinant of expected returns (x, y) and has a solid correlation with long-term market returns.
2. **The x-axis:** % change in P/E multiple over a five-year period. The P/E multiple is the price investors are willing to pay per dollar of earnings. In the short term, the market might be swayed by various external factors like news and sentiment. These factors can positively or negatively influence the P/E multiple. Long term, we observe that the market factors in company fundamentals, and returns primarily reflect a company's earnings trajectory (the y-axis).
3. **Result (x,y):** Expected return.

Example: Consider company ABC growing at a 15% rate.

If ABC's EPS CAGR is **15%** with no change to its P/E Multiple (**0%**), then the expected return would match the company's earnings stream, with an expected return of **15%**.

Valuations would need to compress by **more than 50%** before an investor experiences a **negative return**.

If the multiple expands by **25%**, then ABC's expected return would be **20%**.

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At Polen Capital, the value of truly understanding a business cannot be overstated. We focus our efforts on deeply understanding a company's fundamentals, its growth potential, and the sustainability of that growth. Then, we assess a valuation. Through this lens, we evaluate the long-term expected return potential of a company and our Focus Growth, Global Growth, and International Growth portfolios.

We target a mid-teens earnings growth rate or higher for our portfolios and require the same growth threshold for any company in which we invest. This double-digit growth threshold can provide a cushion amid periods of market contraction and helps us to understand the level of multiple compression a company can withstand.

We believe this investment discipline supports our ability to own compelling growth businesses at a discount to their intrinsic value while also reaping the benefits of wide competitive moats, sound financials, and durable earnings growth.

[1] Excludes dividends.

The y-axis = EPS CAGR over five-year period. EPS (earnings per share) measures a company's profits per share of stock. CAGR (compounded annual growth rate) is the average annual growth rate over time. Together, the EPS CAGR is the annual rate at which a company grows it earnings per share.

The x-axis = % change in P/E multiple for a five-year period. The P/E multiple or ratio measures the price investors are willing to pay per dollar of earnings. It can be used to determine a company's valuation. In times of multiple expansion, investors pay more per dollar of earnings and the reverse is true in times of multiple contraction. This affects expected returns for a particular investment.

Methodology and Assumptions:

The calculation methodology assumes that the 5-year EPS CAGR will match 5-year annualized return excluding dividends if there is no change in the P/E multiple. The calculation is as follows: $[(1+\%\ \text{Change in PE Multiple})*[(1+\text{EPS CAGR})^5]^{1/5}$.

There are numerous other factors which have not been fully accounted for in the preparation of these results which could adversely affect actual results. There is no guarantee that performance will follow earnings growth.

This example is for illustrative purposes only and has been prepared based on assumptions believed to be reasonable; however, there is no guarantee that any forecasts made will come to pass. There may be several unexpected developments and market factors which may affect these scenarios, potentially adversely. There are certain inherent limitations. No representation is being made that any investment will or is likely to achieve future results similar to those shown.

This information is not intended to be construed to equate to the expected or projected future performance/returns of a Polen Capital investment or portfolio.