polen capital

December 11, 2024

Dear Clients, Consultants, and Friends,

Thank you for your continued trust in Polen Capital.

This year highlighted the importance of maintaining discipline and conviction in our investment process. While we delivered returns in line with our long-term targets of mid-teens returns across many of our strategies, most of our equity portfolios underperformed their market-weighted benchmarks. We recognize that our patient approach to investing based on company fundamentals may be less popular now, but by sticking to our time-tested strategy, we have stayed true to our historic value proposition and delivered sustainable, risk-adjusted returns for our clients across equities and credit. As we celebrate the 35th anniversary of our Focus Growth strategy, we take pride in compounding returns at 14% annually since the strategy's inception. For long-term investors, slow and steady wins the race.

Given the recent performance of active equity managers worldwide, it's important to step back and take a look at market dynamics. Over the last five years, we've faced an unprecedented pandemic, along with the fastest rise in inflation and interest rates in our investing careers. It has already been a tumultuous period, and now we are witnessing the highest levels of equity index concentration since 1964. Today, our Focus Growth strategy, a concentrated portfolio, is more diversified than the Russell 1000 Growth index, where the top 10 holdings account for more than 60% of the index.

No one has experienced this much concentration of equity returns in our investing lifetime, challenging commonly held beliefs that passive indices help ensure diversification and risk mitigation. While recent events presented contextual headwinds for Polen, our portfolios are structured to be resilient and consistently perform, no matter what appears on the horizon. Ultimately, if concentration self-corrects and the market broadens, that will reward active management.

The credit market's environment is different but equally historical, seeing very tight spreads. This environment requires an experienced manager that has been through multiple cycles to navigate credit selection carefully. We are that experienced manager, which has led to strong performance for our credit strategies across the board. Patient yield advantage compounding continues to win in a risk-on, risk-off environment that continually oscillates with the news cycle. Although the flood of capital into private credit makes our search for opportunities more onerous, when there's a market correction, we expect to see a shakeout that our portfolios, designed to achieve long-term outperformance, will benefit from. We are already seeing the premium between private and public loans tighten dramatically.

As a privately owned firm, we can be more agile and prioritize reinvention as an annual practice, allowing us to address specific client needs more effectively. In 2024, we strengthened our investment teams by adding analysts and investment specialists to support fundamental research and our growing global client base. Recognizing AI's current and future impact on efficiency, we have identified relevant use cases, including creating a proprietary language AI model through our data science program. Our credit solutions are also expanding, particularly in active ETFs and global high yield, where four experienced colleagues will start next year. We continue to speak to the marketplace in search of other ways to offer differentiated compounding to the market.

With all these investments, we've seen noteworthy growth in our consultant and platform ratings, along with our continued global expansion, including licenses obtained to operate in the UAE. Following the key hires for our CLO offering last year, this year's capital raise coincides with an ideal time to invest in the product, given the favorable market. Finally, this month, we were recognized for the ninth consecutive year as one of Pensions & Investments' "Best Places to Work in Money Management," a testament to our team's commitment to each other and our clients.

As we look ahead to 2025, I'm excited about the consistency we expect from our equity portfolios' growth and the selective opportunities with quality, durable businesses. We believe that mid-teens compounding will always have a place in helping clients meet their long-term objectives. Although we've encountered some obstacles in the current environment, the market will inevitably shift back to favor patient investors focused on fundamentals. And when it does, we'll be ready. We're also expecting a strong year for our credit strategies. With a resilient economy and inflation not yet tamed, the Fed has some challenges as it attempts to move towards a more neutral stance. 2025 will likely favor individual credit selection and patient managers waiting for the right opportunities. Our team is poised to take advantage of what experience has shown them cycle after cycle.

Like a fad diet promising dramatic results and better health, over time, people realize these diets don't last because they take a concept to the extreme. A consistent, balanced diet leads to better outcomes. It's the same thing with high-quality active investing. There is power with steady compounding. As we continue our journey together, we remain dedicated to delivering on our mission to preserve and grow client assets.

Wishing you all happiness, health, and prosperity in the coming year. Thank you for entrusting us with your financial future.

Sincerely,

Stan C. Moss
Chief Executive Officer