Mar Vista Investment Partners, LLC
Strategic Growth
September 30, 2013

It has been said that the Federal Reserve's job is to pull away the punch bowl just before the party gets out of control. In these more heady times, many were hoping the Fed would merely water down the punch and keep the good times rolling, at least for the equity markets. The reality was even better: Bernanke kept the adult beverages flowing at full bore.

Largely fueled by anemic return opportunities in fixed income, more uncertain growth prospects in international markets, and a domestic monetary policy that is intentionally lowering the risk premium, the S&P 500® Index has rallied nearly 60% over the last two years. The conundrum lies in the fact that earnings for the index have increased only 11% during this time, while the earnings multiple has increased from 12x at the end of the 3rd quarter of 2011 to more than 16x trailing EPS during the most recent quarter. Today's average multiples are not at extreme levels, but nothing, including P/E multiples, grows to the sky. Earnings growth expectations, in the context of feeble, albeit broadening, recovery, are generally tepid.

To put the last two years of returns in historical context, there have only been three other periods *in the last fifty years* with these types of two-year returns: late summer-fall 1987, late 1998 / early 1999 and March 2011, exactly two years after the peak of the financial crisis. With this in mind, we remind ourselves that we are not here to judge whether the market seems cheap or expensive. Rather, what we do is to stand sober with our consistent, logical and unemotional analysis to identify wide-moat businesses that can compound intrinsic value at superior rates and whose stocks are offered at prices below that which a reasonable investor would pay.

Today, within our focused universe of durable franchises, the magnitude of expected returns is smaller and the size of the opportunity set is narrower than it has been since 2007. Our average margin of safety in the portfolio remains at 14%, near the lows of the last decade, and the number of stocks that are trading below our estimate of fair value is lower than is typical.

Nonetheless, by simply owning businesses that can compound intrinsic value at better than average rates, we still expect satisfactory risk-adjusted returns over our five-year time horizon despite our narrower discount to fair value. Our businesses, which have copious reinvestment opportunities, are expected to compound intrinsic value by 10-13% on average in a stable economy. Over time, prices should follow that growth. Our outlook for absolute returns is, however, diminished given current price levels.

To be clear, we aren't arguing that stocks are materially *overvalued*; we just have to incorporate fairly rosy outcomes to justify many stock valuations. Many investors, it seems to us, are willing to look optimistically further and further out into the future to justify current prices particularly in internet and biotech stocks.

For example, we would not disagree that Facebook's mobile advertising platform holds enormous promise, but the level of cash flows that are required to justify the current $120 billion market capitalization seem incredibly sanguine. To generate a 10% cash on cash return from today's valuation, Facebook would need to generate in excess of $12 billion in annual free cash flow or six times their

current level. We estimate revenues would need to reach $36 billion (versus $7 billion in 2013) and cash margins would need to reach 34% to achieve that level of cash flow.

Taking a step back to test the sanity of those assumptions, $36 billion in revenue would suggest the social network is commanding more than 22% of global online ad spending in five years compared to 7% today. Is this possible? Certainly, and we incorporate such an outcome in our scenario analysis. But we would rather incur an error of omission by sitting on the sidelines than need that type of outcome to generate an average return.

Conversely, Oracle's stock price presents what we think is an *asymmetrical* proposition. At a current 10% free cash flow yield, there is room for things to go wrong with the moat, growth rates and capital allocation, while we still earn an acceptable return over our horizon. Even if the cash flow doesn't grow from current levels, the per share intrinsic value of Oracle should be 25-30% higher over the next five years simply through their stock repurchase program. Should returns on capital, free cash flows or the depressed multiple expand as we expect, our returns will be more than acceptable.

Performance Update

For the quarter, Mar Vista's Strategic Growth portfolio (+6.1% net of fees) outperformed the S&P 500® Index (+5.2%) and underperformed the Russell 1000® Growth Index (+8.1%). The strongest performing sectors in the Russell 1000® Growth Index included energy and healthcare while consumer staples and telecommunication services underperformed.

Positive stock selection in consumer discretionary and consumer staples helped our relative performance while our overweight in financials and lack of biotechnology exposure detracted.

Over the last twelve months, the Mar Vista Strategic Growth portfolio has gained 19.2% net of fees, essentially in line with both the Russell 1000® Growth Index and S&P 500® Index returns of 19.3%.

The long-term outcomes of our process continue to be consistent with our goal: to provide exceptional absolute and relative investment returns while incurring less risk. Since the inception of our Strategic Growth portfolio on January 1, 2004, we have generated cumulative returns of 98% net of fees, with an alpha of 2%, a beta of 0.83 and down capture of 74%. Not only have we been successful in outperforming the Russell 1000® Growth Index and the S&P 500® Index returns of 92% and 85%, respectively, but we have also achieved it in a manner that exposes our clients to a lower level of aggregate risk.

Regardless of the macroeconomic environment, central bank policy or investor sentiment, the Mar Vista investment team will look under many rocks, think creatively and challenge our inherent assumptions and biases to uncover unique investment opportunities. We remain confident that our consistent and repeatable process should generate value-added returns for our investors as it has since our inception.

Annualized Returns:

	Gross	Net	Russell 1000 Growth Index	S&P 500 Index
1 Year	**19.56%**	**19.24%**	**19.28%**	**19.34%**
3 Years	**15.37%**	**15.02%**	**16.94%**	**16.26%**
5 Years	**9.80%**	**9.45%**	**12.07%**	**10.01%**

Mar Vista Investment Partners, LLC ("Mar Vista") is an investment adviser registered with the SEC. Performance presentations compliant with the requirements of GIPS® standards can be obtained by calling 800-993-1070. Mar Vista claims compliance with the Global Investment Performance Standards (GIPS). On 7/12/07, Silas Myers and Brian Massey formed Mar Vista to manage various large-cap equity strategies. On 12/1/07, all of the assets under their management at Roxbury transitioned to Mar Vista through a sub-advisory arrangement. Information provided for the period from January 2004 through November 2007 represents the performance of portfolios managed by Mr. Myers and Mr. Massey while employed by Roxbury. Mar Vista has been independently verified for the periods 12/01/07 through 9/30/13. The Strategic Growth composite has been examined for the periods 12/31/03 through 9/30/13. The verification and performance examination reports are available upon request. For the entire period presented, Mr. Myers and Mr. Massey have been substantially responsible for the all the investment decisions of the large-cap equity strategies. Performance prior to 12/01/07 meets GIPS® portability requirements.

The Strategic Growth Composite was created 12/01/07, with an inception date of 12/31/03. All returns are based in U.S. dollars and are computed using a time-weighted total rate of return. The composite is defined to include all fully discretionary, fee paying portfolios with no minimum or maximum account value, managed in accordance with Mar Vista's Strategic Growth strategy, and that paid for execution on a transaction basis. Prior to 1/01/06, the composite was defined to include only taxable portfolios with no minimum or maximum value. One non-fee paying portfolio is included in the composite for the following periods: 0.2% of the composite's assets for year end 2008; 0.1% of the composite's assets for 2009; and 0.1% of the composite's assets for 2010; and 0.1% of the composite's assets for the period ending 9/30/11. Beginning 10/1/11 there are no longer any non-fee paying accounts in the composite. The results in the column marked Net of Fees for the periods 8/01/08 through the present, include a standard management fee applied to any non-fee paying portfolio for performance calculation purposes. The primary benchmark is the Russell 1000® Growth Index, defined as an unmanaged, capitalization weighted index of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The secondary benchmark is the S&P 500® Index, defined as an unmanaged, capitalization weighted index of the common stocks of 500 major U.S. corporations. Index returns include dividends and/or interest income and, unlike composite returns, do not reflect fees or expenses. In addition, unlike the composite, which periodically maintains a significant cash position, the Russell 1000® Growth Index and the S&P 500® Index are fully invested. Investors cannot directly invest in an index. Net performance is net of any applicable performance fees and net of transaction costs and actual management fees, but before any custodial fees. All returns are calculated net of withholding taxes on dividends and interest. One non fee paying account is net down by the maximum fee. Actual results may differ from composite results depending upon the size of the portfolio, investment objectives and restrictions, the amount of transaction and related costs, the inception date of the portfolio and other factors. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

A complete list of portfolio holdings and specific securities transactions for the investment strategy during the preceding 12 months, the top contributors and underperformers calculation methodology and a list of every holding's contribution to the overall performance during the period is available upon request. The securities mentioned in this letter were held in the account of a Strategic Growth client that Mar Vista believes to be representative of the accounts that Mar Vista manages for this investment strategy during the period from June 30, 2013-September 30, 2013. Other Mar Vista clients managed by a different portfolio manager or with different investment objectives may hold different securities than those listed. The securities listed in this letter should not be considered a recommendation to purchase or sell any particular security. The reader should not assume that investments in the specific securities identified herein were or will be profitable. Past performance is no guarantee of future results. Not FDIC insured, no bank guarantee, may lose value.