January 10, 2014

Dear Investor:

Success in investing, as with most things in life, is far more likely to come to those who focus on the process rather than the outcome. If the process is sound and executed with preparation, discipline, patience and decisiveness, the odds of achieving the desired result are vastly improved.

It was with those guiding principles that, more than ten years ago, the Mar Vista team articulated an investment philosophy and process that we believed would lead to our goal: *to enhance the purchasing power of our investors' capital at better than average rates while protecting it against permanent losses*.

We knew our philosophical framework was sensible: businesses with durable competitive advantages generate superior shareholder value growth which, over time, determines stock prices. We were also confident that our unemotional and consistent process stacked the odds of success in our favor: myopically focus on wide-moat businesses that compound free cash flow, possess the opportunity to produce expanding returns on invested capital, and trade at significant discounts to their intrinsic value. Finally, we believed managing a concentrated portfolio with an atypically long investment horizon would lead to differentiated outcomes.

Now, with two products older than a decade, we are encouraged that the results are aligned with the original objectives. Both Focus and Strategic Growth have generated excess returns, after fees, relative to their benchmarks while, equally as important, incurring less risk.

	Net Return ITD*	Annualized Alpha	Beta	Down Capture	Up Capture
Focus (15-20 holdings)	**186.4%**				
S&P 500	*162.9%*	**2.34**	**0.91**	**79.0%**	**96.5%**
Russell 1000 Growth	*175.6%*	**2.14**	**0.88**	**77.1%**	**92.9%**
**Inception 12/31/02*					
Strategic Growth (35-45 holdings)	**118.8%**				
S&P 500	*104.3%*	**1.93**	**0.88**	**77.8%**	**92.8%**
Russell 1000 Growth	*112.4%*	**2.00**	**0.83**	**71.8%**	**86.4%**
**Inception 12/31/03*					

The Mar Vista investment team is pleased with this performance but not satisfied. As students of our profession, we've seen the humbling impact the market has on investor hubris. We know Mar Vista's first decade of success was partly due to our ability to be, as Charlie Munger bluntly put it, "consistently not stupid instead of trying to be very intelligent." Looking forward, we have the good fortune of being in a business where the compounding of our collective knowledge and experiences will make us even more "consistently not stupid" in our second decade.

We are also privileged to have investors who have taken the interest and time to deeply understand our framework. It is when other investors are embracing risk that our prudence is especially valuable so we are humbled and pleased that a number of our clients have increased their allocation to our strategies in recent months.

The Bumpy Road to Long-Term Outperformance

Evidence of our team's investment skill is not borne from consistent short-term excess returns. While our high active share, concentrated positions, contrarian tendencies, unwavering process and longer time horizon are core features of our portfolios, they also lay the seeds for short-term underperformance. The capacity to suffer through those periods--and stick with the process-- ultimately bears the fruit of unique investment results.

In a study published in July 2013[1], Vanguard looked at 15-year track records of all actively managed U.S. domestic equity funds that existed at the start of 1998 and survived to 2013. The fact that only 18% of funds survived and generated long-term outperformance during the period was not surprising but the persistence of inconsistent shorter-term returns was:

- 97% of the outperforming funds experienced at least five calendar years in which they lagged their benchmarks.
- More than 60% had seven or more calendar years of underperformance.
- Two-thirds of this exclusive group had at least three years of consecutive underperformance.

In that vein, our strategies modestly lagged the nearly unabated 53% run for the benchmarks over the last three years, a string that was surpassed only a handful of times in history. Our strategies still captured 92%-94% of the market's appreciation during this period which, as the prior chart shows, is better than our historical up capture. Note that the 15% to 18% spread between our up capture (86%-93%) and down capture (72%-79%) since inception has been the key to our 200 to 214 basis points of alpha generation.

In 2013, our Strategic Growth (+32%) and Focus (+29%) portfolios captured much, but not all, of the passive benchmarks' appreciation (S&P 500 +32%, Russell 1000 Growth +33%). Our cash levels, which were elevated for both strategies most of the year, were a drag on our relative performance by 1% to 2%. This past year's environment was consistent with other periods when we experienced median or below returns (2nd halves of 2007, 2010, and 2013): when the market has largely underpriced risk, our discipline leads us to forgo returns that expose our investors to excessive downside.

For example, we are content to watch the celebration of many social media, biotechnology and IPO darlings from the sidelines. In many cases, their massive market capitalizations and 100% to 300%+ stock moves require astounding futures to justify their valuations. We think investors are applying inappropriately low odds of negative outcomes and valuing near-term earnings momentum as though they will continue well into the future. As we've seen many times in our careers, the ride can be thrilling as earnings momentum and upward estimate revisions drive these stocks to levels that are disconnected from fair value. These "growth traps," as we call them, often result in permanent capital losses once earnings expectations reset to realistic levels and multiples contract.

With these elements of greed and euphoria, we are mindful of Buffett's axiom: "The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs."

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[1] The Bumpy Road to Outperformance, Vanguard, Wimmer, Chhabra, Wallick, July 2013.

As we have discussed in recent quarters, our average margin of safety, or upside to fair value, is currently less than 10%, the lowest since our inception. With this discount between current prices and fair values unusually compressed, we are often questioned about expected future returns. Admittedly, we don't expect appreciation in the next five years to be anywhere close to the 17%-18% annualized returns we've enjoyed over the last five years when the starting margin of safety was 76% and the economy and investor sentiment was moribund. From today's prices, we would anticipate returns over our time horizon to more closely correlate with our companies' per share intrinsic value growth (10%-12% average with a range of 7% to 20% assuming a stable economic environment) and only a modest return from the discounted price. In other words, the compounding nature of our businesses should provide the excess returns we expect in this type of environment.

The Importance of Compounding Machines

> **"Remember that Money is of a prolific generating Nature. Money can beget Money, and its Offspring can beget more, and so on….The more there is of it, the more it produces every Turning, so that the Profits rise quicker and quicker."**

Advice to a Young Tradesman
Benjamin Franklin, 1748

One of the more persuasive books our investment team read over the last year was *The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success.* The book examines the common attributes of owner-oriented managers that *maximized per share intrinsic value* and *expanded moats* to build enormous shareholder value. Note that these attributes are distinct from generating rapid earnings growth which can be done through value-destroying acquisitions or poor internal projects. *Outsider* CEO's are willing to suppress current earnings power to increase the durability and scale of excess economic rents. At the same time, they are willing to sit on the sidelines when investment opportunities are uninteresting or present undue risk.

Our process identifies exactly the type of CEO who views capital allocation, not operations management, as their primary role; they are stewards of the excess capital a business generates. Their ability to fully exploit the abundant opportunities for redeploying capital at high rates of return creates the compounding machine.

This seemingly logical management framework is surprisingly unorthodox among publicly traded companies. The institutional imperative, created by a myopic Wall Street, and the economic incentive for many CEO's is to simply grow earnings. *Outsider* CEO's understand that the amount of capital required is equally important to value creation. However, the advantages of the *Outsider* model may not be immediately evident by just focusing on the revenue or earnings growth side of the equation. As a result, investors continually underappreciate the power of serial compounders while overestimating the durability of stocks with earnings momentum.

Since intrinsic value per share growth is such an important driver of returns, especially when the market is largely fairly valued, we wanted to highlight the unique attributes of several of our businesses run by *Outsider*-type managers:

American Tower (AMT)

American Tower's business model passes every criteria on our checklist: *scale advantages* create enormous barriers to entry, non-cancellable 5 to 10 year leases with 3.5% price escalators create *high switching costs* and only 1% to 2% customer churn, low capital and operating expense requirements for tower maintenance drive

high incremental returns on capital, new tenants and more equipment add revenue with *95%+ incremental operating margins*, exponential wireless data growth requires more network density and drives *acyclical and durable high-single digit organic growth*, and global wireless penetration trends create *prodigious opportunities to redeploy excess capital at high rates of return*.

CEO Jim Taiclet and his team have ably exploited these competitive advantages by almost tripling their tower base over the last five years. Emerging regional moats in Mexico, South America and Africa should provide platforms for further reinvestment and value creation. Since an individual tower can generate 12% to 20% returns on capital as more tenants are added, management's capital allocation decisions have generated enormous shareholder value. Going forward, we expect the *current* tower base to generate 10%-12% intrinsic value growth. Adding 3%-5% new towers a year should drive growth to mid-teens or better.

Markel Corporation (MKL)

Following Berkshire Hathaway's well-designed blueprint, Markel combines intelligent underwriting of risk with disciplined investing to build a powerful and unique business model. Insurance float, underwriting profits and investment returns combine to generate low-cost investable capital that is nearly three times the size of book value but whose returns all accrue to equity holders. In other words, a 4% return on Markel's investment portfolio yields about 11% to equity holders. As the virtuous circle builds capital beyond that required by insurance regulators, an increasingly large portion of the portfolio can be redeployed into higher returning public equities or wholly-owned private companies, further enhancing book value growth over the long-term.

To work properly, this tax-efficient, levered investment vehicle must be in the hands of a talented, capable and honest management team. Tom Gayner and Steve Markel have developed a long track record of prudent underwriting and tremendous equity returns. The public equity portion of their portfolio has outperformed the S&P 500 by 2% per year over the last twenty years while the insurance side has generated far superior underwriting results in niche markets for many decades. As a result, book value has compounded at a 20% rate since 1986. Size will likely dampen future returns but we think Markel can grow per share intrinsic value at 10%-15% annualized rates over the next decade.

Liberty Global (LBTYK)

John Malone, the chairman of Liberty Global, was one of the eight CEO's profiled in *Outsiders* for his ability to identify high return on invested capital opportunities over many eras, and, as importantly, know it is time to collect his chips and walk away before the table goes cold. Mr. Malone learned early in his career that the cable industry held the tenants of a capital allocator's wish list: utility-like revenues, highly predictable cash flows, natural monopolies, and ample opportunities to redeploy capital at attractive rates of return. As CEO of Tele-Communications Inc. (TCI), he consolidated underperforming cable systems in the US and delivered a compound annual return of 30% to TCI's shareholders over a twenty-five year period, ending in 1998 by selling TCI to AT&T at a healthy multiple of cash flows.

Through Liberty Global, Mr. Malone is looking to repeat his success overseas and has turned his attention to consolidating the highly fragmented European cable industry. Liberty is the largest cable operator in the region with over 85% of its assets in duopoly markets. Their market leading economies of scale and natural local monopolies provide the durable competitive advantage our philosophy requires.

With John Malone's role as chief capital allocator, Liberty Global employs a levered equity strategy to acquire underachieving cable systems at 4 to 8x operating cash flows and liquidate non-core assets at 10x operating cash flows. This strategic model is generating 14%-16% annualized intrinsic value growth with ample

opportunities for additional capital outlays. More recently, Liberty Global made its largest capital expenditure ever by acquiring Virgin Media for $16 billion. The horizontal acquisition of Virgin's cable systems will start the next three year cycle of 15%-20% annual value creation by eliminating redundant operating expenses and enhancing Liberty's scale of economies.

TransDigm Group (TDG)

This mid-sized aerospace components manufacturer run by W. Nicholas Howley was also mentioned in *Outsiders* for its unique ability to combine internal growth with an exceptionally effective acquisition program. The execution of this strategy has led to 25% annualized cash flow growth since 1993. The company, which specializes in the manufacture and distribution of highly engineered aviation parts and components, has forged a defensible advantage and a high degree of customer lock-in by creating a recurring revenue stream with 90% proprietary and 75% sole sourced products. These products, which require regular maintenance, cannot be easily replaced by competitors and are critical to the performance and safety of the aircraft. Moreover, there are no substitutes and their relative cost to the customer is insignificant when compared to the overall cost of the aircraft. As a result, TransDigm is able to raise prices 5% annually which, combined with volume growth and the synergistic integration of acquisitions, has led to EBITDA margins well in excess of 40%.

When acquisition prices are dear, management lays a foundation of confidence by paying special dividends, even in times of financial crisis. With Howley's team focused on improving the profitability of acquired companies and compensated on creating value for shareholders, we think intrinsic value will compound at low to mid-teens rates for the foreseeable future.

While we won't necessarily be right on all four of the above examples, we think the expected rewards relative to the amount of risk taken, especially with the tailwind of compounding intrinsic value growth, is well worth our clients' investment in the business. In an environment with few bargains, we think a concentrated portfolio focused on these types of companies has higher odds of exceptional returns.

Our Commitment to Our Investors

Though there are never guarantees in investing results, the Mar Vista team remains committed to the foundations of our success:

- Focus on the process, not the outcomes
- Emphasize capital protection as much as upside potential
- Think like rational business analysts first, not traders of individual stock
- Identify good capital allocators that think and act like *Outsiders*
- Exploit the manic-depressive nature of Wall Street
- Take concentrated positions when the expected returns relative to the risks are favorable
- Align our economic incentives with our investors

As always, we appreciate the trust you have instilled in us as stewards of your capital. Our role as fiduciary is paramount to everything we do and open communication about how we are managing your capital is an important part of that responsibility.

Please let us know of any questions, comments or concerns you have. We look forward to the opportunity to discuss our investment philosophy and thoughts with you through these updates, conference calls and personal meetings. You can reach us by phone at 310.917.2800, via email at info@marvistainvestments.com or visit our website at www.marvistainvestments.com.

All the best,

The Mar Vista Investment Team

Strategic Growth Annualized Returns as of December 31, 2013

	Net	R1000®G	S&P 500®
1 Year	32.3%	33.5%	32.4%
3 Years	15.7%	16.5%	16.2%
5 Years	17.5%	20.4%	17.9%
10 Years	8.2%	7.8%	7.4%

Focus Annualized Returns as of December 31, 2013

	Net	R1000®G	S&P 500®
1 Year	28.8%	33.5%	32.4%
3 Years	15.3%	16.5%	16.2%
5 Years	18.8%	20.4%	17.9%
10 Years	8.0%	7.8%	7.4%

Mar Vista Investment Partners, LLC, a Delaware limited liability company, offers investment advisory services to individuals, pension and profit sharing plans, trusts, estates, corporations, as well as other institutional clients. Mar Vista also serves as a sub-adviser to Roxbury Capital Management, LLC ("Roxbury"), a Delaware limited liability company. Mar Vista has a contractual agreement with Roxbury through which Roxbury provides various administrative, operational, and business services, including trading, marketing, client service, compliance, and accounting. For purposes of compliance with GIPS®, Mar Vista has defined itself to not include bundled/WRAP fee accounts in the firm's assets. Mar Vista maintains a complete list and description of firm composites, which is available upon request.

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 claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Mar Vista has been independently verified for the periods 12/01/07 through 12/31/13. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Strategic Growth composite has been examined for the periods 12/31/03 through 12/31/13. The Focus composite has been examined for the periods 12/31/02 through 12/31/14. The verification and performance examination reports are available upon request. Benchmark returns are not covered by the report of independent verifiers. 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. ACA served as the verifier, conducted a verification and examined the composite's performance history that was ported over to Mar Vista prior to 12/01/07.

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 Focus composite was created 12/01/07, with an inception date of 12/31/02. 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, taxable and tax-exempt portfolios with no minimum or maximum account value, managed in accordance with Mar Vista's Focus strategy, which is a concentrated portfolio invested in 15 to 20 equities, and that paid for execution on a transaction basis. Effective 10/1/05, portfolios with directed commissions were excluded from the composite. Prior to 4/1/04 the composite was defined to include tax-exempt portfolios with a minimum portfolio value of $500,000. From 12/31/02 forward, the composite includes portfolios without restrictions and also portfolios with minor restrictions that affect up to a maximum of 5% of the portfolio's value based on the cost of the restricted securities at the time of purchase by other similarly managed portfolios. One non-fee paying portfolio is included in the composite for the following periods: 16% of the composite's assets for year end 2004; 100% of the

composite's assets for year end 2005 and 2006. Three non-fee paying portfolios are included for the following periods: 42% of the composite's assets for year end 2007; 17% of the composite's assets for year end 2008; 19% of the composite's assets for 2009; 0.1% of the composite's assets for 2010; 0.1% of the composite's assets for 2011; 0.1% of the composite's assets for 2012; 0.1% of the composite's assets for 2013. The results in the column marked Net of Fees for the periods 4/01/04 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 1,000 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. The dispersion in composite returns shown herein was measured using an asset-weighted standard deviation formula. Gross performance is net of all transaction costs, and net performance is net of any transaction costs, applicable performance-based fees and actual management fees, but before any custodial fees. All returns are calculated net of withholding taxes on dividends and interest. In the Focus composite, two non-fee paying accounts are 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 month 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 September 30, 2013-December 31, 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. Risk data is being provided as supplemental to the Strategic Growth & Focus GIPS performance presentation, which is available upon request. Past performance is no guarantee of future results. Not FDIC insured, no bank guarantee, may lose value.