Mar Vista Investment Partners, LLC
Strategic Growth
March 31, 2014

Not unlike the recent tremors that have reawakened Los Angeles to the risk of "The Big One," the market experienced its own subterranean shifts during the first quarter of 2014. The damage was largely superficial as the Russell 1000® Growth Index and the S&P 500® Index posted positive returns for the quarter, up 1.1% and 1.8%, respectively, though biotechnology, social media and momentum stocks were jolted in the last month. A pause that potentially rattles the momentum investors should not be a surprise given the nearly unabated 75% run for the S&P 500® in the last ten quarters. On the other hand, after a long period of complacency, are these tremors precursors to a more substantial shift in the tectonic plates of the market?

Our answers to questions on the direction of the markets or the economy are predictably the same ("We have no idea.") but, as we've discussed with our investors over the last several quarters, we are generally finding only *fair* prices for certain businesses with compounding-type characteristics. We are also seeing *excessively optimistic* valuations placed on many other segments of the market. Our research is uncovering fewer asymmetric opportunities, or return propositions where the stock is already reflecting a worst case scenario. Given the compressed margin of safety, we continue to expect the majority of our three- to five-year returns will be generated more from the growth in intrinsic value and less from discounted prices relative to fair value.

Mar Vista's Strategic Growth portfolio outperformed both the Russell 1000® Growth Index and S&P 500® Index, with a return of 2.6% net of fees. Good relative returns in healthcare, financials and industrials contributed positively while our investments in energy, consumer discretionary and staples lagged the benchmark's sector performance. Our leaders were TransDigm (+15%), B/E Aerospace (+13%), Union Pacific (+12%) and Allergan (+12%), while Twenty-First Century Fox (-9%), Boeing (-8%), Starbucks (-6%) and Nike (-6%) lagged.

Over the last twelve months, the Mar Vista Strategic Growth portfolio has gained 23.1%, net of fees, while the Russell 1000® Growth Index has advanced 23.2% and the S&P 500® Index 21.9%. On a cumulative trailing three year basis, our Strategic Growth portfolio is up 54.4%, net of fees, compared to 50.6% for the Russell 1000® Growth Index and 50.7% for the S&P 500® Index. Just as importantly, we have incurred less volatility and better down capture compared to the benchmarks while generating our excess returns.

Annualized Returns as of March 31, 2014

	Net	S&P 500	Alpha	R1000G	Alpha
1 Year	23.1%	21.9%	3.06	23.2%	2.94
3 Years	15.6%	14.7%	1.59	14.6%	1.97
5 Years	19.9%	21.2%	-0.01	21.7%	0.12
10 Years	8.1%	7.4%	1.88	7.9%	1.92
"Peak-to-Peak"	8.6%	6.3%	3.14	7.5%	2.41

** Peak-to-Peak represents returns generated January 1, 2008 through March 31, 2014.*

As one would expect in a global economy that is growing well below potential, an investor must look deeper to find both the secular growth opportunities and the wide-moat companies that are positioned to benefit from them. At the same time, we myopically search for businesses whose capital generation and allocation opportunities are not appropriately understood and valued by the market.

While we are purely bottom-up investors, our research has identified several disruptive secular trends that are highly likely to occur regardless of the macroeconomic pressures and are well represented in our portfolio:

- rapid penetration of electronic commerce (*Visa, Google*)
- continued proliferation of wireless devices and data (*American Tower, Qualcomm, Apple*)
- expanding opportunities to distribute and monetize digital media (*Comcast, Liberty Global, Fox, Disney*)
- booming demand for aerospace supply (*TransDigm, Boeing, Honeywell, B/E Aerospace*)
- aging global population's need for healthcare services (*Covidien, Allergan, St. Jude Medical, Johnson & Johnson*)
- aspiration for global brands by the emerging consumer class in developing markets (*Budweiser, Mondelez, Nike, Starbucks, Pepsi*).

None of these long-term trends will develop in a straight line but we believe our companies, whose stocks are at an appropriate margin of safety, are well positioned to compound intrinsic value at superior rates.

Market volatility is a friend of the patient investor and we embrace the opportunity to invest in a business whose stock price has dislocated from its intrinsic value. With the return of dramatic swings in investor sentiment, we reallocated capital from a couple of stocks that had little, if any, margin of safety left towards stocks with larger discounts without sacrificing on the portfolio's quality.

Most notably, after nine years of ownership, we sold both *United Technologies* and *Thermo Fisher Scientific* for distinct yet similar reasons. Both investments were homeruns as they returned three and four times our original investment, respectively. While the businesses still have the attributes we look for, their stock valuations appropriately reflected their futures. We are optimistic that our two new investments in lesser known *Mettler-Toledo* and *B/E Aerospace* will enjoy similar compounded returns over the next decade.

As we often remind our investors, we don't grade ourselves on the outcomes of a quarter but rather on the execution of our process; the grade for decisions made this quarter will only be known over time and judged by how well our businesses expand returns on capital and create shareholder value. We are pleased that our long-term outcomes continue to align with the goals of our process.

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 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. 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 December 31, 2013-March 31, 2014. Other Mar Vista clients managed 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.