July 2015

Building a Durable Moat in Active Management

As we learned in Finance 101, shareholder value is created when returns on an investment exceed the cost of capital employed. But sustaining those excess returns is only possible when durable competitive advantages can keep competition at bay. Otherwise, new entrants decrease pricing power, increase capital intensity, and erode margins until the opportunities for value creation fade away. Therein lies the challenge for all businesses: how to build an economic moat that allows for the compounding of intrinsic value well into the future.

By the same token, Mar Vista only creates value for our investors if we generate risk-adjusted returns that exceed the opportunity cost of investing in a passive index. As history has proven, outperforming passive benchmarks is no easy task. The fact that we have generated value, or *alpha*, for our investors over most time horizons does not prove that we can perform this feat in the future. For that reason, we've consciously built ***durable advantages*** into our investment framework, culture, business structure and economic incentives that we believe will minimize the internal and external pressures that cause most active managers to underperform over time.

Investment Framework

- Our **value-based investment framework focused on wide-moat growth franchises** is, in our opinion, the optimal path to generate value over the long term;
- We **emphasize capital preservation as much as we do capital appreciation**;
- We take **concentrated positions when the expected returns relative to the risks are favorable** and make decisions **independent of benchmark weightings** or consensus thinking;
- We focus on our **consistent, predictable and repeatable process**, not the outcomes;
- We **think like rational business analysts first**, not traders of individual stocks;
- Our patience, discipline and understanding of behavioral biases allow us to **exploit the manic-depressive nature** of the market while at the same time, minimize the impact cognitive biases have on our own decision-making;

Culture

- We are **protective of our rewarding and enjoyable culture** that fosters learning, openness, camaraderie, accountability and client-aligned economic incentives;
- We are **students of investing** and the investment philosophy that we employ. Our investment skills, circle of competence and latticework of mental models will continually expand and improve over the coming decades;
- We instill a **team-based approach yet favor diverse opinions and independent thinking** so that we don't fall prey to "group think";

Business Structure

- We have structured our business affairs to **maximize time spent thinking about capital allocation** and minimize time spent on day-to-day business operations;
- We are fortunate to have **attracted like-minded investors** who share our fundamental values, risk tolerances, return objectives and time horizons. Aligned investors allow us to invest with fewer external pressures that often influence inferior or irrational decision-making;
- Our **Circle of Competence is well-defined** and our strategies stay firmly within that universe.

Economic Incentives

- Our **economic incentives drive client-aligned behavior** and connect the investment team's decision-making to the long-term objectives of our clients;
- Our investment team owns and controls Mar Vista which ensures **focus on long-term performance and not asset gathering**. We will close our strategies to new assets should it hinder our investors' performance;
- Substantially all of our **partners' personal equity investments are in Mar Vista products** or in businesses that are owned by one of our strategies;

- Lastly, our team is in the **sweet-spot for an investment manager's career**; we can exploit advantages from two decades of accumulated experience and knowledge yet we are young enough to have **several decades of compounding our investors' capital ahead of us**.

In sum, most active managers underperform, in our estimate, due to institutional imperatives that generate irrational decisions, the fallacy that "average performance is safe" and the loneliness of contrarian thinking at the risk of being wrong. We have removed as many of those externalities and biases as possible and instead fully aligned ourselves with our investors. Ultimately, Mar Vista will provide value and our clients will win if we intelligently invest at the intersection of growth and value.

Market Overview

Domestic equity markets largely marked time during the 2nd quarter of 2015 as optimism for a self-sustaining U.S. economic rebound was balanced against fears emanating mostly from international markets. The European Union played a wicked game of brinksmanship while Chinese investors learned the always painful lesson that losses hurt twice as bad as gains feel good. Their government's efforts to apply a salve by restricting sales and pumping up prices only deepened global investors' distrust in their market reforms. Overshadowed by Europe and China headlines were a looming Brazilian recession, expected to be the worst in twenty-five years, and fading Indian optimism as Modi's reforms have proven frustratingly slow. Finally, the dollar's status as safe-haven sustained its strength but weakened global commodity prices and international profits for U.S. companies. As a result of all these factors, overall profit expectations further moderated during the quarter. Consensus now anticipates flat to declining earnings compared to high single digit growth at the start of 2015.

Corporations continued to take full advantage of cheap capital as share repurchases and acquisitions remain on torrid paces. Fewer shares outstanding and scale-driven consolidation may help underpin market valuations but they aren't as effective at enhancing economic expansion compared to investments in productivity growth.

Low interest rates also continue to prop up valuations. As we discussed in our year-end letter, several overall market measures suggest valuations are extended. Total market value to GDP (>120%), Shiller's ten-year trailing P/E (>27x) and the median P/E for all NYSE listed stocks (21x) all remain at the extreme ends of historical ranges.

Speculation versus Investing

> *"An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative."* — Ben Graham

As is typical for long bull market runs, especially in late stages, there are mounting signs of excessive optimism and speculation built into certain areas, especially biotech. While we would never claim to have an informational edge on the scientific merits of earlier-stage pipelines, we are skeptical that companies with small amounts of current revenue will eventually justify their lofty valuations. Just as one example among many, Abbvie's $21 billion acquisition of Pharmacyclics requires Imbruvica, a drug approved for blood cancers, to generate annual revenues exceeding $10 billion just to produce an *acceptable* rate of return. The drug, whose profits are partially shared with Johnson & Johnson, is expected to provide revenues of just $1 billion in 2015. Perhaps we are on the cusp of a biotechnology revolution that will deem our conservative assumptions irrelevant but many valuations are suggesting the revolution is *fait accompli*. There will undoubtedly be big winners, for both investors and patients, but if reality falls short of the lofty expectations, biotech stocks promise neither safety of principle nor an adequate return.

Changes to Our Portfolio

The lack of volatility and dispersion in recent quarters has limited changes to the opportunity set of investments and to our portfolio. One new business, *U.S. Bank (USB)*, was added during the quarter while *Analog Devices (ADI)* was sold after appreciating almost 50% over the prior six months.

U.S. Bank

We believe U.S. Bank is a rare wide-moat banking institution that will sustain top-tier returns on shareholder capital over our investment horizon. USB's unique banking model generates as much revenue from fee-based services, such as merchant processing, credit/debit cards and trust/investment management, as it does from lending. The additional revenue platforms allow it to enjoy industry-leading returns per dollar of deposits even as net interest margins remain compressed. Led by CEO Richard Davis, USB's conservative underwriting culture is also an important aspect of its economic moat. Unlike nearly all of its peers who experienced massive losses and shareholder dilution during the financial crisis, USB remained profitable every quarter and preserved a fortress balance sheet. Finally, USB is at a sweet spot in terms of scale. The regional bank is large enough to compete for national accounts yet it enjoys meaningful cost advantages to larger competitors who must maintain higher capital levels and more infrastructure as Global Systemically Important Banks (G-SIBs). As a result, USB's lower cost of capital and overhead should drive better loan growth compared to the industry.

USB's superior model is not lost on Wall Street but we believe investors are undervaluing USB's earnings power over the next five years. Our thesis is not predicated on a rising interest rate environment yet we believe earnings can expand 60-70% should net interest margins improve only modestly from their current historically low levels and could double in more bullish interest rate scenarios. With more conservative economic and lending spread assumptions, USB's loan growth, fee revenues and capital distributions should still generate an attractive return while providing safety of principal. As we weigh the probabilities of various outcomes, we believe we purchased the stock at a 25% discount to intrinsic value.

Portfolio Outlook

Our average margin of safety, at 13%, has improved but still remains compressed compared to the historical averages of 20-35% discounts. Our expectations for future returns remain the same: with the discount between prices and intrinsic values unusually compressed, we would anticipate returns over our time horizon to more closely correlate with our companies' ability to compound per share intrinsic value (10-12% average with a range of 7% to 20% assuming a stable economic environment) and only a modest return from discounted prices.

Mar Vista's investment philosophy and process are built around the belief that capital *preservation* is equally important as *appreciation*. So while we are pleased to have enhanced the purchasing power of our investors' capital relative to passive benchmarks over nearly every time horizon, we are equally proud that we have achieved it with materially better down capture (72% and 78% versus the Russell 1000® Growth Index and S&P 500® Index, respectively) and lower beta (0.84 and 0.89, respectively) yet still attractive up capture (89% and 96%, respectively) since our inception.

Please see the attached Appendix for the performance and risk profiles for each of Mar Vista's strategies.

As always, the investment team appreciates the trust you have instilled in us as stewards of your capital. We take our role as fiduciary seriously and open communication about how we are managing your capital is an important part of that responsibility. Please don't hesitate to let us know of any questions, comments or concerns you may have. We look forward to the opportunity to discuss our investment philosophy and thoughts through these quarterly updates, conference calls, and personal meetings with you. If you care for copies of prior quarterly commentaries, please let us know. 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 June 30, 2015

	Net	S&P 500®	Alpha	R1000®G	Alpha
Year-to-date	2.8%	1.2%	--	4.0%	--
1 Year	8.6%	7.4%	1.06	10.6%	-1.46
3 Years	18.7%	17.3%	1.68	18.0%	1.72
5 Years	17.0%	17.3%	1.18	18.6%	0.90
7 Years	11.4%	9.4%	3.05	10.5%	2.54
Since Inception	8.7%	7.7%	2.17	8.3%	2.14
"Peak-to-Peak"	9.2%	6.9%	3.25	8.4%	2.38

Focus Annualized Returns as of June 30, 2015

	Net	S&P 500®	Alpha	R1000®G	Alpha
Year-to-date	3.9%	1.2%	--	4.0%	--
1 Year	10.8%	7.4%	3.57	10.6%	0.91
3 Years	17.6%	17.3%	2.23	18.0%	1.36
5 Years	17.1%	17.3%	1.36	18.6%	0.87
7 Years	12.0%	9.4%	3.80	10.5%	3.11
Since Inception	10.5%	7.7%	2.61	8.3%	2.29
"Peak-to-Peak"	9.5%	6.9%	3.55	8.4%	2.47

** Peak-to-Peak represents returns generated January 1, 2008 through June 30, 2015.*

Global Equity Annualized Returns as of June 30, 2015

	Net	MSCI ACWI®	Alpha
Year-to-date	0.7%	2.7%	--
1 Year	2.5%	0.7%	2.44
3 Years	12.4%	13.0%	1.35
Since Inception	12.9%	12.8%	2.95

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 jointly owns its back office service provider, Roxbury Capital Management, with Hood River Capital Management, a registered investment advisor. Roxbury provides various administrative, operational and business services, including trading, marketing, client service, compliance, accounting and IT. 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.

Mar Vista claims compliance with the Global Investment Performance Standards (GIPS®).

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; 0.1% of the composite's assets for 2014; 0.1% of the composite's assets for Q2 2015. 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. 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 is fully invested. Investors cannot directly invest in an index. 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 S&P 500® Index is 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. The firm's Strategic Growth and Focus fee schedule is as follows: First $25 million – 0.75%; Next $25 million - 0.60%; Next $50 million – 0.50%; Over $100 million - Negotiable. Special circumstances may cause fees to vary from this schedule and Mar Vista reserves the right to negotiate fees with clients. Fees are payable quarterly in arrears or advance based on 1/4th of the annual rate.

The Global Equity composite was created in 2012, with an inception date of 12/31/11. 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 for at least one month in accordance with Mar Vista's Global Equity strategy, which is a portfolio invested in 15-30 equities, and that paid for execution on a transaction basis. The benchmark is the MSCI All Country World Index. Two non-fee paying portfolios are included in the composite for the following periods: 100% of the composite's assets for 2012; 100% of the composite's assets for 2013; 100% of the composite's assets for 2014. The results in the column marked Net of Fees for the periods 1/01/12 through the present, include a standard management fee applied to any non-fee paying portfolio for performance calculation purposes. The benchmark is the MSCI ACWI Index, defined as a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indices comprising 23 developed and 23 emerging market country indices. In addition, unlike the composite, which periodically maintains a cash position, the MSCI ACWI Index is 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. Three 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. Past performance is no guarantee of future results. Not FDIC insured, no bank guarantee, may lose value.

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 and a presentation that complies with GIPS for each strategy mentioned are available upon request by contacting Mar Vista directly at (310) 917-2800 or by emailing at info@marvistainvestments.com. 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 March 31, 2015-June 30, 2015. 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. Risk data is being provided as supplemental to the Strategic Growth, Focus and Global Equity GIPS performance presentations, which are available upon request. Past performance is no guarantee of future results. Not FDIC insured, no bank guarantee, may lose value.