January 2016

“Everyone has a plan ‘til they get punched in the mouth”
-- Mike Tyson

Instead of a gentle peck on the cheek to welcome in 2016, the New Year landed a solid blow to the kisser, knocking away any sense of complacency that might have remained. Globally coordinated money printing helped absorb the big punches thrown at the markets over the last few years but we are now in a decidedly different fight. With the Fed lifting rates from their seven year floor, the impact of desynchronized monetary policies on exchange rates, commodity prices and capital flows while regions like China, Brazil, the Middle East and Russia are facing crises is especially worrisome. Data over the last few weeks showing decelerating growth in China, a devaluation of its currency, weaker U.S. industrial production and a historic collapse in oil prices has staggered the markets. Those investors and businesses that had relied on the artificial defenses of an accommodative Fed to deftly bob and weave are, for now, left standing with their gloves by their side.

Among the lessons learned from the greats of our profession, ***Mar Vista invests from the bottom-up but worries from the top down***. Growing our investors’ capital at better-than-benchmark rates is predicated on our ability to identify serial compounding machines while avoiding the major risks that result in permanent capital loss. As we’ve discussed in our letters over the last two years, there have been plenty of top-down reasons to keep the defenses up:

- Broad valuation metrics (Total Market Value to GDP, Shiller P/E, Median P/E) imply less-than-stellar returns from current levels.
- Investor euphoria in rapidly growing segments of the economy such as e-commerce, biotechnology, cloud computing and social media have left valuations reflecting overly optimistic scenarios.
- An increasingly narrow group of growth stocks are driving positive benchmark returns and masking broader weakness.
- “Growth” has outperformed “Value” to a degree not seen since the internet-crazed late ‘90’s.
- Massive capital flows into passive investment vehicles have created a huge crowd of valuation-agnostic buyers who will someday be valuation-agnostic sellers.
- Weak industrial demand for the U.S. economy is only magnified by the stronger dollar as many sectors tied to manufacturing, exports and commodities are already in a recession, if not depression.

While these are among our list of top-down worries, we know our crystal ball on these issues is no better than that of others. Our investment decisions are made based on the merits of each individual business using a consistent, predictable and repeatable process. Our high-conviction strategies own under- to fairly-valued businesses with fortress balance sheets, durable moats, attractive reinvestment opportunities and talented management teams that can, in our estimate, better withstand, if not take advantage of, negative externalities.

We’ve Seen This Movie Before…

In addition to beautiful people, outsized egos and incessant paparazzi (see Martin Shkreli), Hollywood and Wall Street shared something else in 2015: a small handful of blockbusters enjoyed outsized performance while the vast majority were duds. The narrowness for Tinseltown was notable: the five largest box office movies, comprising only 3% of national releases, accounted for 22% of industry revenues. The other 97% of films were collectively flops.

Similarly, on Wall Street, a very narrow group of large-cap stocks drove positive returns for the S&P 500® Index and Russell 1000® Index but nowhere was the impact felt more than in the Russell 1000® Growth Index. An elite clique of only 11

growth stocks, accounting for 25% of the Russell 1000® Growth Index's weight, appreciated 20% while the remaining 75% of the benchmark, or 632 stocks, were flat. Put differently, those ***eleven large-cap growth stocks accounted for 350% of the benchmark's return***.

Without question, the secular trends driving these stocks are powerful – the transition to over-the-top media, penetration of e-commerce and proliferation of social media and cloud computing will remain for many years. But the sense of security many growth investors have placed on them is largely misplaced, in our opinion. Several in this group have the classic characteristics of "Growth Traps" with outsized multiples, lofty sell-side expectations and accelerating earnings growth that will each eventually turn the other direction, as will many of the stocks, in our opinion.

Looking back at history, the narrowness of this market was only surpassed by the heady days of 1999 when just six stocks accounted for one-quarter of the benchmark and the group outperformed by a whopping 47%. As the Nifty Fifty of the '60's and '70's and the tech-telco stocks of the late '90s demonstrated, history is typically not kind to many of those stocks (remember Lucent?), or investors heavily exposed to them.

Sitting on the sidelines watching benchmark-heavy stocks go parabolic can cause emotional suffering and irrational decisions. But caving to this "performance envy" is a quick way to permanently damage investor capital and suffer an exit from the money management business.

Mar Vista's Outcomes

For the year, Mar Vista's Strategic Growth appreciated 3.2% net of fees, ahead of the S&P 500® Index's 1.4% but below the Russell 1000® Growth Index's 5.7%. For the 4th quarter, our composite appreciated 6.1% net of fees versus the S&P 500® Index's 7.0% and the Russell 1000® Growth Index's 7.3%. Our longer-term performance and risk metrics are below:

Annualized Returns as of December 31, 2015

	Net	S&P 500®	Alpha	R1000®G	Alpha
1 Year	3.2%	1.4%	2.27	5.7%	-1.47
3 Years	16.7%	15.1%	2.49	16.8%	0.57
5 Years	13.2%	12.6%	1.48	13.5%	0.74
10 Years	8.6%	7.3%	2.35	8.5%	1.64
Since Inception	8.4%	7.4%	2.12	8.1%	1.96
"Peak-to-Peak"	8.8%	6.5%	3.09	8.1%	2.09

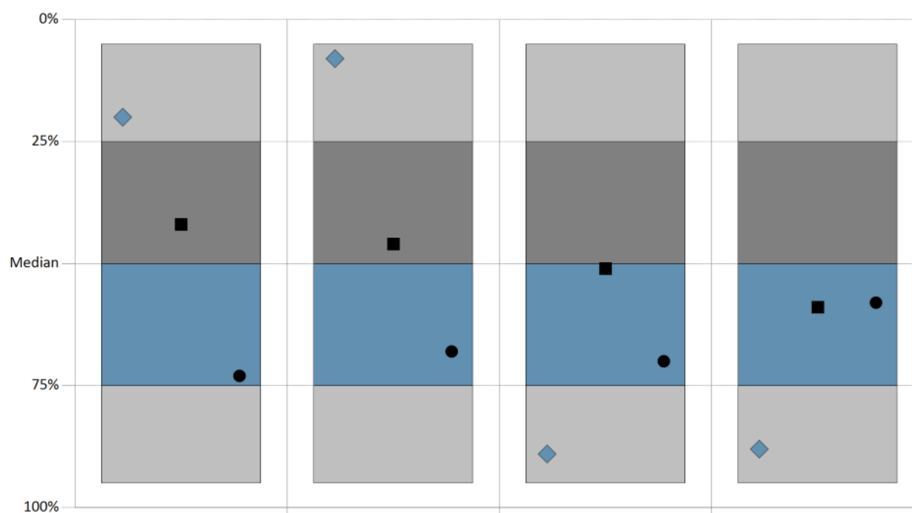
** Peak-to-Peak represents returns generated January 1, 2008 through December 31, 2015.*

Over time, the expected returns of our portfolio should reflect two components: (1) the intrinsic value growth of our businesses and (2) the discount we are paying relative to fair value. There will be times, like the last few years, when the sentiment pendulum swings towards euphoria, portfolio returns exceed the underlying intrinsic value growth and margins of safety contract. Conversely, fear, skepticism and lower stock prices provide opportunities for both higher expected returns and less risk. Early results from this year suggest the pendulum is rapidly swinging toward the latter.

Judging whether our, or any manager's, returns are due to skill or luck is a challenging task. Over shorter periods, returns are largely a random walk. Over the longer term, the road to alpha generation is bumpy and typically marked by extended periods of underperformance. However, ***a manager's skill should be more evident over a full market cycle***, which we would define as "peak-to-peak."

The chart below is an unambiguous report card of Mar Vista's peer ranking for each of the key components of our outcomes since the prior market peak: Total Returns, Alpha (excess returns relative to the level of risk incurred), Beta (volatility relative to the market) and Down Market Capture or "DMC" (measure of protection of capital).

Peak to Peak Analysis
January 2008-December 2015



Universe:
eVestment US Large Cap Growth Equity

	Returns	Rk	Alpha[1]	Rk	Beta[1]	Rk	DMC[1]	Rk
5th percentile	10.13		2.31		1.15		114.98	
25th percentile	8.85		0.74		1.06		106.63	
Median	7.70		-0.23		1.00		101.84	
75th percentile	6.42		-1.33		0.95		96.66	
95th percentile	4.86		-3.21		0.83		84.48	
# of Observations	269		269		269		269	
Strategic Growth	9.08	20	1.74	8	0.90	89	90.10	88
Russell 1000 Growth	8.06	42	0.00	46	1.00	51	100.00	59
S&P 500	6.52	73	-1.17	68	0.97	70	100.13	58

Results displayed in US Dollar (USD)

[1] Russell 1000 Growth

Source: eVestment

The risk-return profile is consistent with the goals of Mar Vista's process: generate value for our investors (Alpha = 8th percentile) through superior compounding of capital (Absolute Returns = 20th percentile) while incurring less risk (Beta = 89th percentile) and better capital protection (DMC = 88th percentile).

Changes to Our Portfolio

In the 4th quarter, we reduced our weightings in four stocks whose prices raced ahead of their intrinsic value growth - *Amazon*, *Visa*, *Adobe* and *Starbucks*. The secular drivers of the four are well understood - penetration of e-commerce and cloud computing, transition from cash to electronic transactions, burgeoning digital media and advertising, and the all-powerful caffeine addiction. Since year-end, we sold the remaining small position we had in *Amazon*.

We reallocated the capital to laggards *Apple*, *Berkshire Hathaway* and *Liberty Global*.

Apple's stock declined 5% during the year on concerns that the wildly successful iPhone 6 launch marked the peak of unit growth. In our opinion, the more important value driver is the 25% expansion of new iPhone users whose loyalty to the brand will likely drive adoption of future product iterations. Excluding the $150 billion (!!) of excess capital on their balance sheet, Apple's 15% free cash flow yield suggests the market is overemphasizing the mid-product cycle earnings trough and underestimating management's ability to leverage its expanding ecosystem over the long-term. We believe we added to the stock with a 40%+ margin of safety, or discount to intrinsic value.

Berkshire Hathaway was a material laggard in 2015 (-12%) due mostly to its industrial exposures, namely Burlington Northern, and margin pressure from higher accident claims at Geico. Both moats are intact and these issues should prove transitory. A more secular issue is the overcapitalization of and declining prices for the reinsurance industry but Berkshire's

insurance platform and underwriting discipline are built to withstand extreme environments. We believe the stock is at least 30% undervalued.

Liberty Global's stock declined 20% from its summer highs creating the opportunity to reinvest with an above average margin of safety. Despite executing on all fundamentals last year, the sell-off in US media and 10% decline in the Euro pulled the stock lower. We think paying 14-15x free cash flow (FCF) for a company that is compounding intrinsic value by 12-15% is attractive.

We purchased one new business during the quarter, *Advance Auto Parts (AAP).*

Advance Auto Parts (AAP)

Advance Auto competes in the highly attractive automotive parts aftermarket segment, one we've long appreciated for its wide moat attributes: fragmented market share (AAP is the largest at 9%) creates significant scale advantages, customers care more about product availability and service than the best bargain which leads to price inelasticity, and demand is more tied to miles driven and the aging car population than to economic cycles making revenue growth highly defensive.

O'Reilly Automotive (ORLY) has been our investment of choice for the industry in recent years as management expertly managed to exploit these competitive advantages with industry-leading margins and returns on capital. But with ORLY up more than 80% over the last eighteen months, the stock reflects a fair valuation and we have scaled back our position.

Advance Auto now represents the best risk-reward in the group, in our opinion. The company originally built their franchise around the "Do It Yourself" (DIY) segment but has assembled a dominant commercial business over the last decade via internal and external investments. We believe AAP is in the process of building an even stronger moat with the recently acquired CARQUEST daily distribution network. Once the integration is complete, we expect commercial customers will enjoy improved inventory selection and service quality. Similar to what we witnessed during our investment in O'Reilly, the transition to a more robust distribution system should drive accelerating same-store sales growth, operating margin expansion and higher incremental returns on capital. Advance Auto's operating margin is currently only 60% of the industry average leaving 600 basis points of opportunity over the next decade.

We are also encouraged that activist investor Starboard Value recently acquired a position and joined the board of directors. Starboard's capital allocation expertise and amicable relationship with management should ensure that AAP continues to build value for all stakeholders. The stock has declined since our original purchase after the company reported soft third quarter operating results and announced that CEO Darren Jackson was being replaced. We are confident that a new Starboard-backed CEO will better execute the required strategy to unlock significant shareholder value.

The company should deliver intrinsic value growth of 15-20% through a combination of improving same-store sales growth, operating margin improvement and additional stores. With the stock trading at 14x normalized free cash flow, we believe the market is giving little credit to fundamental improvements and shares have as much as 70% upside if the company successfully closes the operating efficiency gap with its peers.

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 stocks
- 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
- Expand our circle of competence and latticework of mental models
- 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, 2015

	Net	S&P 500®	Alpha	R1000®G	Alpha
1 Year	3.2%	1.4%	2.27	5.7%	-1.47
3 Years	16.7%	15.1%	2.49	16.8%	0.57
5 Years	13.2%	12.6%	1.48	13.5%	0.74
10 Years	8.6%	7.3%	2.35	8.5%	1.64
Since Inception	8.4%	7.4%	2.12	8.1%	1.96
"Peak-to-Peak"	8.8%	6.5%	3.09	8.1%	2.09

Focus Annualized Returns as of December 31, 2015

	Net	S&P 500®	Alpha	R1000®G	Alpha
1 Year	4.1%	1.4%	2.99	5.7%	-1.33
3 Years	16.1%	15.1%	2.36	16.8%	0.04
5 Years	13.3%	12.6%	1.44	13.5%	0.56
10 Years	9.0%	7.3%	2.81	8.5%	1.93
Since Inception	10.1%	8.9%	2.50	9.6%	2.08
"Peak-to-Peak"	9.0%	6.5%	3.32	8.1%	2.13

** Peak-to-Peak represents returns generated January 1, 2008 through December 31, 2015.*

Global Annualized Returns as of December 31, 2015

	Net	MSCI World® (Net)	Alpha
1 Year	0.2%	-0.9%	1.74
3 Years	9.7%	9.6%	1.87
Since Inception	11.1%	11.2%	2.25

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 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 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; 100% of the composite's assets for 2015. 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 World Index, defined as a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. In addition, unlike the composite, which periodically maintains a cash position, the MSCI World 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 September 30, 2015-December 31, 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.