MAR VISTA
INVESTMENT PARTNERS

July 2016

The Price You Pay

"You make up your mind, you choose the chance you take
You ride to where the highway ends and the desert breaks
Out on to an open road you ride until the day
You learn to sleep at night with the price you pay"

- Bruce Springsteen, "The Price You Pay"

One of life's great conundrums, whether in the pursuit of happiness or alpha, is that near-term suffering is practically a prerequisite for a successful outcome. What is true for Mount Everest climbers, Ironman triathletes and diaper-changing parents also holds true for investors: fulfillment comes from following an uncomfortable and often indirect path rather than chasing a series of happy moments.[1] Only with steadfast conviction in their respective ethos can a climber, triathlete, parent or investor persevere through the valleys and stay on the winning course.

Mar Vista's path to happiness, at least in the investment realm, fixates on one pursuit: to provide long-term value for our investors by adhering to our set of guiding principles. If an active manager is unable to create economic value by producing risk-adjusted returns exceeding the opportunity cost of investor capital (i.e., the returns of passive benchmarks), the outlook for the business is not favorable.

The typical direct investment path – a myopic focus on near-term relative returns, risk-agnostic appreciation and high batting averages – routinely leads to disappointing long-term results. Conversely, an investor pursuing the indirect path typically suffers from the loneliness of being a contrarian, extended periods of underperformance, higher tracking error, poor batting averages and sitting on their hands during euphoric stock runs - all in the name of generating alpha. The experience can lead to mental distress but, as Berkshire Hathaway's vice chairman Charlie Munger has said, "Investing is not supposed to be easy. Anyone who finds it easy is stupid."

Mar Vista's unwavering process is guided by four simple principles:

- Stock prices follow intrinsic value over the long-term
- Intrinsic value is created when returns exceed the cost of capital employed
- Sustaining excess returns requires durable competitive advantages
- Capital preservation is equally important as appreciation

Note that our "indirect" approach to creating value ignores what style is in vogue or which sectors could outperform over short periods. Instead, we focus on barriers to entry, capital intensity, reinvestment opportunities, price relative to intrinsic value, as well as the probability and magnitude of permanent capital loss. The inevitable short-term anguish derived from owner-oriented thinking should, in the fullness of time, provide more capital at the end of our investors' time horizon while also dampening the magnitude of drawdowns.

[1] The concept of "indirect paths" to investing success was first brought to our attention five years ago by Lattice Strategies' Q2 2011 letter "The Indirect Path to Growing Capital" and their reference to the thought-provoking book *Obliquity*, by John Kay. We have replicated and updated certain of the publicly available S&P 500 historical data that Lattice Strategies also presented in their erudite and eloquent letter. Mar Vista owes a debt of gratitude to their team for the thoughtful research.

It is a mathematical truism that superior down capture in negative periods provides more capital for compounding in the ensuing positive periods. Using S&P 500® Index monthly total return data for the last thirty years, the chart below demonstrates the expansive value created by preserving capital in the down periods even with subpar returns in the positive periods. Each column shows the ending amount of capital with $100,000 invested in the S&P 500® Index over thirty and ten years with various combinations of monthly up and down capture.

Ending Capital with $100,000 invested in S&P 500 versus Monthly Up/Down capture series

		10% Mthly Up/Down Spread			20% Mthly Up/Down Spread			30% Mthly Up/Down Spread		
	S&P 500	100/90	90/80	80/70	100/80	90/70	80/60	100/70	90/60	80/50
30 Years (Jul '86-Jun '16)	$1,660,084	$2,728,834	$2,121,708	$1,637,532	$4,468,438	$3,461,281	$ 2,661,678	$ 7,289,673	$ 5,626,052	$ 4,310,947
Beta	1.00	0.95	0.85	0.75	0.90	0.80	0.70	0.84	0.74	0.65
10 Years (Jul '06-Jun '16)	$204,649	$243,983	$229,302	$214,981	$290,487	$272,649	$255,293	$345,401	$323,774	$302,782
Beta	1.00	0.94	0.84	0.74	0.89	0.79	0.69	0.83	0.73	0.63
Maximum 5Yr Drawdown [2]	-29%	-21%	-18%	-15%	-12%	-9%	-5%	-2%	2%	5%
1987-2005 Calendar Batting Avg[3]		100%	48%	34%	100%	69%	48%	100%	79%	52%

[2] The maximum capital decline over any 5 year period during the last 30 years.

[3] The percentage of calendar years that the monthly up/down series outperformed the S&P 500

We would highlight the following:

- The impact that a small 10% spread has on capital growth and risk is remarkable. Capturing 90% of the upside in positive months and 80% of its downside in negative months produced almost 30% more capital ($2.12m vs. $1.66m for the S&P 500) with 15% less volatility over the last thirty years.
- Over a shorter ten year period, a 90/70 spread enjoyed one-third more capital ($272k vs. $205k) and 20% less volatility (beta = .79).
- Better down capture lowers the risk of material capital losses should investors need their capital in the midst of a bear market. Over any five-year holding period during the last thirty years, the maximum drawdown for a 90/70 spread was -9% compared to -29% for the S&P 500.
- Batting averages are not the drivers of alpha-generation. An 80/60 spread had a poor 48% calendar year batting average since 1987 but ended up with 60% more capital ($2.66m vs. $1.66m for the S&P 500) with 31% less risk over the last thirty years.

Below is a comparison of the outcomes for a more conservative 90/70 manager to that of an aggressive 130/130 manager:

	90/70	130/130
30 Years (Jul '86-Jun '16)	$3,461,281	$ 3,336,228
Beta	0.80	1.30
10 Years (Jul '06-Jun '16)	$272,649	$241,898
Beta	0.79	1.29
Maximum 5Yr Drawdown	-9%	-40%
1987-2005 Calendar Batting Avg	69%	79%

While the more aggressive manager enjoys outperforming the vast majority of the months and only suffers in the infrequent down months, their investors lose over the long run. The conservative manager provides more capital at the end of both ten and thirty year holding periods with materially less volatility (beta = 0.79 vs. 1.29) and a meaningfully lower maximum drawdown (9% vs. 40%).

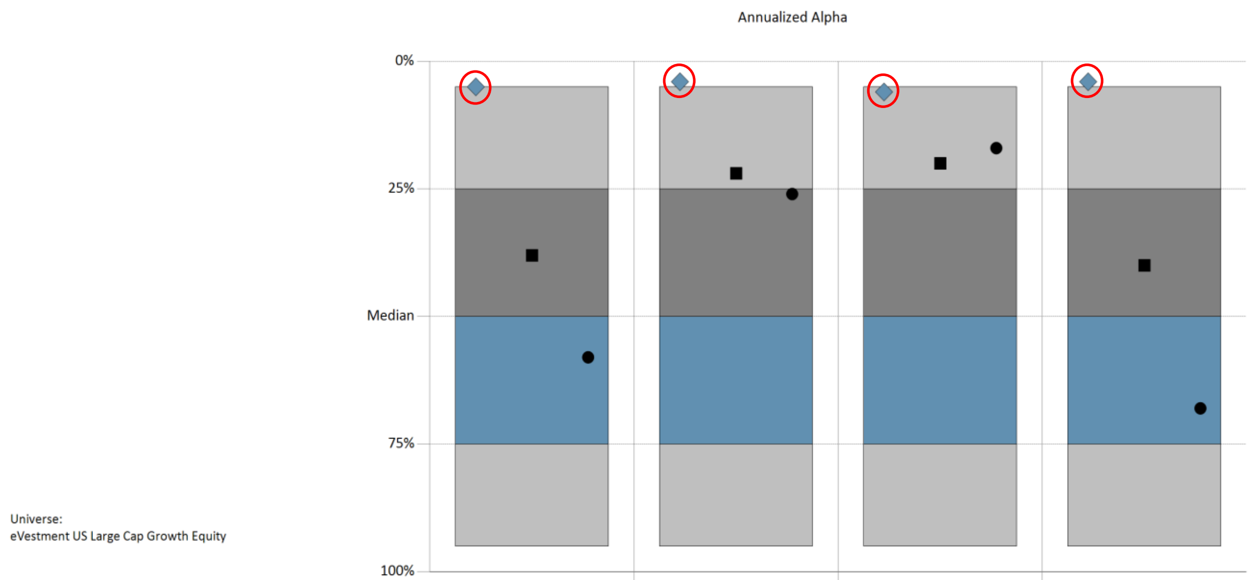
With that scenario, we are reminded of the following excerpt from Seth Klarman's legendary book *Margin of Safety*:

> *"An investor who earns 16% annual returns over a decade, for example, will, perhaps surprisingly, end up with more money than an investor who earns 20% a year for nine years and then loses 15% the tenth year. There is an understandable, albeit uneconomic, appeal to the latter pattern of returns, however. The second investor will*

outperform the former nine years out of ten, gaining considerable psychic income from this apparently superior performance. If both investors are money management professionals, the latter may also have a happier clientele (90% of the time, they will be doing better) and thus a more successful company. This may help to explain why risk avoidance is not the primary focus of most institutional investors."

Performance

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 our risk-adjusted returns (alpha) since the prior market peak (8 ½ years ago starting January 1, 2008) as well as the rolling three, five and ten year periods:



	8.5 Years	Rk	3 Years	Rk	5 Years	Rk	10 Years	Rk
5th percentile	2.35		1.86		2.31		1.79	
25th percentile	0.60		-0.32		-0.38		0.58	
Median	-0.55		-1.94		-1.56		-0.25	
75th percentile	-1.75		-3.41		-2.90		-1.30	
95th percentile	-3.54		-6.57		-5.52		-2.87	
# of Observations	247		281		266		226	
Strategic Growth	2.40	5	1.99	4	1.86	6	1.83	4
Russell 1000 Growth	0.00	38	0.00	22	0.00	20	0.00	40
S&P 500	-0.81	58	-0.42	26	0.16	17	-0.99	68

Results displayed in US Dollar (USD)

Russell 1000 Growth

Equally as important, our risk-return profile over the 8 ½ year "peak-to-peak" cycle is consistent with the goals of Mar Vista's process: generate value for our investors (Alpha = 2.40, 5th percentile) through superior compounding of capital (Absolute Returns = 9.1% gross of fees, 7th percentile) while incurring less risk (Beta = 0.85, 93th percentile) and better capital protection (Down Market Capture = 79.6%, 95th percentile).

Up until the fateful Brexit referendum, equity markets in the 2nd quarter largely held their recovery from February's nadir. The Russell 1000® Growth Index and the S&P 500® Index finished up 0.6% and 2.5%, respectively, helped by a 25% recovery in brent crude and a 40 basis point decline in 10-year U.S. Treasury yields to a near record low of 1.4%. The period will be remembered, however, for the tumultuous response to the United Kingdom's vote to leave the European Union. As investors struggle to assess its long-term geopolitical and economic impact, capital has rushed into "safe" assets, if one can define "safe" as negative yielding government and corporate debt with maturities as long as fifty years in the case of Swiss government bonds.

For the 2nd quarter, Mar Vista's Strategic Growth portfolio (+3.0%, net of fees) exceeded the returns of both primary benchmarks. Our leaders were *St. Jude Medical* (+41%), *TransDigm* (+20%), *Mondelez* (+14%) and *American Tower* (+12%) while *Allergan* (-14%), *Liberty Global plc* (-19%), *Liberty Global (LiLAC)* (-14%) and *Advance Auto Parts* (-10%) lagged.

Portfolio Changes

After several quarters with very little activity, we invested in two new business this quarter and sold three of our holdings.

New Buy: Amazon

Amazon, one of the most competitively advantaged businesses in our investable universe, is a platform company that uses data, infrastructure, membership, and content to deliver powerful network effects and economies of scale. The company is fundamentally changing consumer behavior around the world and their continuous expansion into new product categories provides a combined $1 trillion market share opportunity. The influential forces of cloud computing (AWS) and third party selling (3P) should continue to produce higher margins, market shares, free cash flows, and returns on incremental capital.

This is not our first Amazon rodeo and our periods of ownership in the past have proved lucrative. Within the last year, however, the volatile stock price exceeded our estimate of Amazon's business value and we sold our investment. Since that exit, the company reached key inflection points with the magnitude of revenue growth and operating margin expansion exceeding even our most optimistic scenarios. Consequently, our fair value estimate increased by almost 25% while, at the same time, the stock corrected 10% on Brexit-related fears. We were happy to pay a fair price to once again own this dominant and disruptive serial compounder.

New Buy: Nike

Nike's global brand and unparalleled scale have created a durable economic moat that we think will only strengthen as the company transitions from an athletic footwear and apparel maker into an innovative global consumer products company. New manufacturing technologies and direct-to-consumer (DTC) distribution should eliminate an estimated $1 billion in wasted materials and allow the company to capture an increasing portion of the retail value chain. Nike's virtuous cycle of profit growth and reinvestment opportunities in athletic endorsements and emerging markets will lead to above average per share intrinsic value growth and capital returns for shareholders, in our opinion. After a 20% decline in the stock, Nike's stock was offered at its first discount to our estimate of fair value since we sold the stock in 2014.

Sold: Liberty Global plc

We restructured our Liberty Global plc investment during the quarter with a sale of Liberty Global Group (LBTYK) and an increase of our Latin American and Caribbean Group (LiLAC) position. Liberty Global plc wholly owns LBTYK's cable and wireless assets in Europe and holds an intergroup interest in the cable and wireless operations of LiLAC. With approximately 40% of LBTYK's operating assets in the United Kingdom, the dramatic hit to the British pound after the Brexit referendum lowered the dollar value of the company's foreign cash flows and skewed our estimates of LBTYK's fair value lower.

Sold: Advance Auto Parts

Our original thesis for Advance Auto centered on the competitive advantages of adding same-day delivery via the CARQUEST acquisition. In our estimate, migrating to daily replenishment would accelerate market share gains, improve operating margins by 600 basis points over time and lead to 15-20% compounded intrinsic value growth per annum. After making our investment, the company underperformed expectations and the CEO stepped down. Interim management blamed the shortfall on unexpected supply chain disruptions which lowered our conviction in management's ability to integrate the CARQUEST assets and reduced our estimate of intrinsic value.

To avoid the behavioral biases associated with "value-traps", we require chronically underperforming businesses to meet unambiguous near-term fundamental metrics. AAP failed to meet our "line in the sand" metrics by underperforming on both market share and operating margins. Further, we now believe the supply chain issues will take longer and require more capital to fix. With a lower estimate of intrinsic value, a potentially deteriorating moat and a wider range of outcomes skewed to the downside, we concluded Advance Auto was no longer an attractive risk-reward opportunity.

Sold: St. Jude Medical

In late April, Abbott announced their intention to acquire St. Jude Medical for a 30%+ premium to its closing price. While we appreciate the combined companies' broader scale, the full valuation led us to sell the position.

Outlook

As we are well into the eighth year of this bull market, our process is uncovering fewer asymmetrical opportunities within our focused universe of durable franchises. Our average margin of safety, or discount to intrinsic value, in the portfolio is at 13%, 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. Accordingly, the magnitude of expected returns is smaller and the size of the opportunity set is narrower than it has been during the last decade.

Nonetheless, by simply owning businesses that can compound intrinsic value at better than average rates, we still expect satisfactory risk-adjusted returns over our 5-10 year time horizon despite our narrower discount to fair value. Our businesses, which have copious reinvestment opportunities, are expected to compound intrinsic value at better than average rates in a stable economy. Over time, prices should follow that growth. Our outlook for absolute returns is, however, diminished given current price levels.

Mar Vista's 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 June 30, 2016

	Net	S&P 500®	Alpha	R1000®G	Alpha
YTD 2016	4.5%	3.8%	--	1.4%	--
1 Year	5.0%	4.0%	1.80	3.0%	2.56
3 Years	13.7%	11.7%	2.64	13.1%	1.99
5 Years	13.4%	12.1%	1.84	12.4%	1.86
10 Years	9.0%	7.4%	2.63	8.8%	1.83
Since Inception	8.4%	7.4%	2.13	7.9%	2.17
"Peak-to-Peak"	8.8%	6.6%	3.05	7.8%	2.40

Focus Annualized Returns as of June 30, 2016

	Net	S&P 500®	Alpha	R1000®G	Alpha
YTD 2016	4.8%	3.8%	--	1.4%	--
1 Year	5.1%	4.0%	1.45	3.0%	2.30
3 Years	14.1%	11.7%	2.82	13.1%	1.94
5 Years	13.3%	12.1%	1.76	12.4%	1.66
10 Years	9.3%	7.4%	2.94	8.8%	1.94
Since Inception	10.1%	8.9%	2.52	9.3%	2.29
"Peak-to-Peak"	9.0%	6.6%	3.31	7.8%	2.47

** Peak-to-Peak represents returns generated January 1, 2008 through June 30, 2016.*

Global Equity Annualized Returns as of June 30, 2016

	Net	MSCI World (Net)	Alpha
YTD 2016	2.1%	0.7%	--
1 Year	1.5%	-2.8%	4.89
3 Years	7.9%	7.0%	2.64
Since Inception	10.3%	10.0%	2.48

Source data tables: Yahoo! Finance; Source graph: eVestment. 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 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. 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; 0.1% of the composite's assets for Q2 2016. 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; 100% of the composite's assets for Q2 2016. 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 March 31, 2016-June 30, 2016. 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.