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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Making Rational Decisions with a Consistent, Predictable and Repeatable Process

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SECTOR — GENERAL INVESTING

TWST: Let's start with a bit of history of Mar Vista Investment Partners.

Mr. Massey: Mar Vista started in 2007, but really, our story goes back to 2003 when we were at our prior firm managing the Focus strategy, which is our 15- to 20-stock portfolio. A year later, we started managing the Strategic Growth strategy, which is our more diversified 30- to 40-stock portfolio. So while the firm is eight years old, our track record goes back almost 13 years now. But to give you a sense of our history, we'd point to three key milestones.

The first milestone was in 2003 when we established and institutionalized our investment philosophy and process. At our prior firm, we watched the euphoria of rapid business growth in the late 1990s and the subsequent destruction of client capital in the early 2000s when the firm failed to adhere to the stated investment process. We made the decision then to clearly articulate the pillars of our beliefs, identify the unique insights our process provides and how those insights would be reflected in differentiated outcomes.

Articulating our unique beliefs, philosophy and process, we thought, was important, and it has given us a compass to guide us in a variety of environments. We wanted to remove, as much as possible, the external and internal pressures that we thought cause many active managers to make less rational decisions. And fortunately, over the last 13 years, our team has consistently implemented that process and generated outcomes that align with our original goals.

The second milestone was in 2007 when we had the opportunity to spin the Focus and Strategic Growth strategies out of our prior firm and establish Mar Vista Investment Partners. As students of our craft, we understand the influence economic incentives have on behavior and that a common attribute of successful multigenerational investment firms is equity ownership by the investment team. This incentive structure better aligns our decision-making with the objectives of our investors. We are more focused on building long-term wealth for our investors and our business, and less concerned with outpicking a benchmark over some short period of time.

The third milestone was earlier this year when we were able to complete that ownership process and we retired the class of preferred stock owned by our prior firm. So as we stand today, the four members of the investment team own 100% of Mar Vista. All of our compensation is based on the long-term success of the firm, which is ultimately based on the value, or alpha, we create for our clients. We cannot overstate how influential this incentive structure is on our culture, the consistency of our team and our long-term performance.

In terms of our business, we have gone from $80 million in assets when we started in 2007 to about $2.5 billion today. Our client base is broadly diversified across public and private pension funds, endowments, foundations and high net worth individuals. Our investment vehicles include separately managed accounts, subadvised portfolios and a mutual fund for our Strategic Growth strategy.

So over the last 13 years, we've methodically and patiently tried to build a brand by having a solid team that applies an unwavering and repeatable investment process with unique outcomes. In an environment that has, quite frankly, been a challenge for most long-only U.S. active managers, we are pleased we have built a more durable franchise with a differentiated investment philosophy, performance-focused culture and client-aligned economic incentives.

TWST: What is the investment philosophy of the firm?

Mr. Myers: Simply stated, we believe we create value for our investors by applying an owner-oriented, value-based investment framework that focuses on wide-moat compounding businesses with an adequate margin of safety. I'm sure we'll get into the specifics of our process later, but there are some key philosophical beliefs that really drive our decision-making.

First, we believe that economic value is created when returns on capital exceed the cost of capital. A business grows intrinsic value over the long term only by having durable competitive advantages that allow them to keep competition at bay. Without that economic moat, competition erodes those excess returns. This concept is different from the commonly held belief that earnings growth creates value. Earnings are an important part of the equation,

Highlights

Silas A. Myers, Brian L. Massey, Joshua J. Honeycutt and Jeffrey B. Prestine discuss Mar Vista Investment Partners, LLC and their strategies. Mar Vista manages three strategies: the Focus strategy, a 15- to 20-stock portfolio; the Strategic Growth strategy, a 30- to 40-stock portfolio; and the Global strategy, which holds 20 to 30 high-conviction ideas from around the world. In order to remove internal and external pressures, Mar Vista is guided by their clearly articulated beliefs, philosophy and process. The investment philosophy uses an owner-oriented, value-based framework to identify compounding businesses with a margin of safety. In addition, Mr. Myers, Mr. Massey, Mr. Honeycutt and Mr. Prestine use a team-based approach to maximize their analytical potential and make better decisions. Their process involves determining if the company has an economic moat, a business model that compounds intrinsic value and a shareholder-friendly management team. From there, they do extensive analysis to estimate intrinsic value.

Companies discussed: American Tower Corp. (NYSE:AMT); TransDigm Group Incorporated (NYSE:TDG); Markel Corporation (NYSE:MKL); Alphabet (NASDAQ:GOOG); Apple (NASDAQ:AAPL); Amazon.com (NASDAQ:AMZN); Visa (NYSE:V); Honeywell International (NYSE:HON); B/E Aerospace (NASDAQ:BEAV); Unilever plc (NYSE:UL); PepsiCo (NYSE:PEP); Allergan PLC (NYSE:AGN); Johnson & Johnson (NYSE:JNJ); Mettler-Toledo International (NYSE:MTD); Sensata Technologies Holding N.V. (NYSE:ST); Ecolab (NYSE:ECL); U.S. Bancorp (NYSE:USB); Wells Fargo & Co. (NYSE:WFC); Bank of America Corp. (NYSE:BAC); Citigroup (NYSE:C); Nike (NYSE:NKE); Tiffany & Co. (NYSE:TIF) and TJX Companies (NYSE:TJX).

but how much capital is required is equally important. A business may grow earnings at a high rate of return, but if the amount of capital required is growing faster, economic value is eroding.

Second, we believe stock prices follow intrinsic value over the long term, but they can diverge materially over the short term. As Ben Graham taught, we separate the price Mr. Manic Depressive places on a stock from our estimate of true intrinsic value. We can both increase expected returns and lower our risk by buying only when we are getting an adequate discount.

Third, we believe that capital preservation is just as important as capital appreciation. Investors misjudge risk when they myopically focus on the upside in the most probable outcomes rather than the downside if a thesis is wrong. History has shown repeatedly that long-term wealth creation is more about protecting capital on the downside and compounding off a higher base than outperforming in euphoric bull markets.

"Fourth, we define risk as the risk of permanent capital loss, not stock volatility or tracking error. In fact, we embrace stock volatility. By our definition, when the stock is down and well-below our estimate of fair value, it has less risk, and when it is up a lot and well-above our estimate of value, it has more risk."

Fourth, we define risk as the risk of permanent capital loss, not stock volatility or tracking error. In fact, we embrace stock volatility. By our definition, when the stock is down and well-below our estimate of fair value, it has less risk, and when it is up a lot and well-above our estimate of value, it has more risk. How much the stock oscillates relative to the market, which is really what beta measures, is largely irrelevant to us. We are looking for that asymmetric risk/reward payoff where, even when we are wrong on an idea, the risk of permanent capital loss is minimized.

Lastly, we believe in taking concentrated positions when the expected returns relative to the risks are favorable. Benchmark weightings or consensus thinking are really independent of our decision-making. Many investors are uncomfortable with the tracking error of a 30-stock portfolio, but we think, in the context of a sound process, it is the optimal structure to generate alpha. High active share alone doesn't mean you will outperform over time, but we think it stacks the odds of alpha generation when you put it together with a sound investment framework.

So to tie all that together with your question, it is our belief that to generate unique outcomes, you must have the conviction to be different. We think the tenants of our philosophy are timeless. Our success at generating alpha really comes down to our ability to effectively execute our process. As Brian mentioned, we think we have created an investment framework and culture that provides differentiated insight and allows us to make more rational decisions. We're fortunate to have executed that philosophy well so far over our tenure and to have generated value for our investors.

TWST: You use a team approach to investing. Can you talk about that?

Mr. Honeycutt: We think a team-based approach maximizes our analytical potential and helps us make better decisions. Three out of the four of us have worked together closely for 15 years, while Jeff was the newcomer almost 10 years ago. We think this long tenure with zero turnover leverages our intellectual strengths.

We all are students of the investment philosophy, share the same definition of value and risk, and have aligned our economic incentives with those of our clients. Each of us are sector specialists that collectively share the responsibility of allocating client capital to the best risk-adjusted investments. Although we use a collaborative process, all of us are mindful of avoiding the behavioral biases of groupthink. We are sensitive to maintain a culture that encourages diverse opinions, independent thinking and individual accountability.

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TWST: Tell us about your investment process.

Mr. Massey: We like to use the term "CPR" to describe our process: consistent, predictable and repeatable. We try and remove as much emotion as much as possible so that we are making very rational, owner-oriented decisions regardless of the market's euphoria or pessimism. We think a major reason active managers underperform over time is they fall prey to external and internal pressures, which influence decision-making. Thinking differently from the crowd, at the risk of being wrong, is a very uncomfortable place to sit emotionally and also probably holds the most amount of career risk for a portfolio manager.

We don't try and figure out where we are in a market or economic cycle, nor do we try and figure out what the market will favor next and position the portfolio to reflect those opinions. To us, that is a fool's game. Instead, we simply fall back on a very consistent four-step process, which helps us think like long-term owners of a business. The first three steps are really a qualitative assessment that allows us to evaluate anything $2 billion and up in market cap to identify our investable universe of about 150 to 170 durable growth franchises.

Our first step is to ask if the businesses have an economic moat. Have they erected barriers to entry that will allow the company to generate excess economic rents well into the future? As Silas mentioned, it is our belief that the way a company grows intrinsic value is by generating those excess economic returns. It is a rare business that allows us to look out five years from now, 10 years from now and have a lot of confidence that the moat is going to endure, but that is what we look for.

1-Year Daily Chart of American Tower Corp.

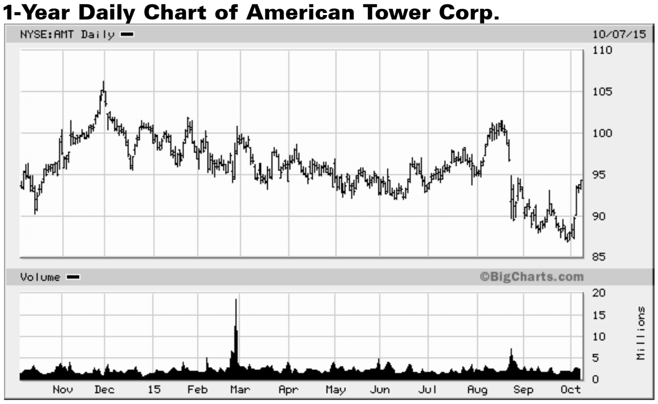

Chart provided by www.BigCharts.com

future free cash flows. Obviously, for any projection, there is an element of junk in and junk out. But the art of valuation is really about more accurately predicting the range of outcomes for all the key drivers — revenue growth, margins, capital intensity and tax rates — than the average investor. Hopefully, we build on the cumulative knowledge we've built covering our respective sectors for 15 to 20 years and make better assessments of the range of potential outcomes for a business and the industry.

We build detailed models on each of our companies to help us ascertain not just what the excess cash flows would be in the most probable scenario but what they could be in a range of bullish and bearish scenarios. What are the likely cash flows if we are wrong and the moat erodes over time? How much more cash would the business generate if our most optimistic scenario occurs? More outcomes can happen than will happen, but our job as analysts is to assess the probability of each scenario and come up with a single-point estimate of intrinsic value by probability weighing the various scenarios.

Once armed with this estimate for intrinsic value for a specific company, we can compare it to the price the market is placing on that business and determine its margin of safety, or discount to intrinsic value. We then rank our universe by the margin of safety and build a portfolio to maximize multiple factors — margin of safety, durability of the moat and intrinsic value growth — while minimizing the potential range of outcomes and the downside if we are wrong.

"It is important to note that our universe is not defined by a quantitative screen based on specific financial metrics, but it is really the qualitative assessment of the business and its competitive advantages that define our universe. As you can imagine, the universe of potential businesses changes only glacially."

Our second step is to ask: Is there a compounding-of-intrinsic-value aspect to the business model? Our favorite kind of businesses are what we call "compounding machines." These are businesses like an **American Tower** (NYSE:AMT), **TransDigm** (NYSE:TDG) or **Markel** (NYSE:MKL) that generate copious amounts of excess capital and then have plenty of opportunities to reinvest that capital at rates of returns better than what we could get ourselves. We think the market chronically underestimates and undervalues the power of those serial compounders.

The third step is to ask if this business is run by a management team that is focused on and incentivized by per share intrinsic value. Are they making capital-allocation decisions that widen and increase the durability of the moat, or do they have a track record of value-eroding acquisitions? We are looking for management teams that think like *Outsiders*, which is the title of a book that heavily influenced our thinking. The book profiled CEOs that think of themselves more as capital allocators and as shareholders rather than operators. So once we've done our analysis on the moat, the potential for intrinsic value growth and the shareholder-friendly nature of the management team, we perform an extensive analysis to estimate intrinsic value.

TWST: And tell us about that valuation process.

Mr. Prestine: As Silas mentioned, our belief is that stock prices over time follow the growth of intrinsic value and that the best gauge of the value of a business is the present value of all

TWST: How does a new idea initially come to you?

Mr. Myers: We each have sector specialties, and we've each been covering our respective sectors 15 to 20 years. That has allowed us, over time, to develop a fair amount of cumulative knowledge and a really deep understanding of companies, the value chain in which they operate, and the incentives and biases of the management teams. Just by monitoring trends in the industry, we will identify businesses that might have an improving moat or are entering our required market-cap size.

It is important to note that our universe is not defined by a quantitative screen based on specific financial metrics, but it is really the qualitative assessment of the business and its competitive advantages that define our universe. As you can imagine, the universe of potential businesses changes only glacially. Around five to 10 stocks may move in or out of our 150-business universe in any one year.

TWST: Why do you have a three- to five-year investment horizon, and how does that work exactly?

Mr. Honeycutt: Taking a long-term owner's vantage point to investing in a marketplace that has become maniacally focused on short-term events provides us with a time arbitrage advantage. By stretching our investment horizon to five years and beyond, the returns of the portfolio are more dependent on actual company fundamentals rather than changes in investor emotions. We see values in compounding business models that others don't, and we invest in them at discounted prices. In addition to uncovering hidden values, our long-term focus maximizes the tax efficiency of investing in compounding business models.

TWST: How do you see the market right now? What's the current situation like, and how is that impacting your investing?

Mr. Myers: We assess the cheapness or expensiveness based on the average margin of safety we are finding within our universe of stocks. While this metric has improved recently with market volatility, relative to what we have seen over the last decade, it remains compressed. Using the margin of safety of the portfolio as a valuation proxy, we don't expect appreciation in the next five years to be anywhere close to what we've generated since the market bottomed in 2009. At that time, 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, which is probably 10% to 12% on average, with a range of 7% to 20% assuming a stable economic environment. In other words, the compounding nature of our businesses should provide the excess returns we expect in this type of environment.

of competence and will only invest in areas of our expertise. Ultimately, the level of concentration is what differentiates our domestic large-cap strategies, and Global supplements those portfolios with compelling international opportunities. As you would expect, since they use the same investment process, the risk and return profiles of the three strategies have been similar, although Global's track record is over a shorter three-and-a-half-year period.

TWST: Right now, are there certain sectors you are favoring or certain sectors you are avoiding?

Mr. Myers: Generally, commodity-centric sectors, like materials and energy, will have fewer moats and fewer businesses that we find attractive. But there are almost always a few unique models that qualify, so we don't completely exclude any area. We've avoided biotech and many areas of social media and Internet just based on valuation and our lack of confidence that we can accurately predict the earnings power and returns on capital in five years. The growth potential of many biotech or Internet businesses are not in question. It's really a function of their valuations. We've spent an inordinate amount of time assessing the evolving disruptive factors in media and telecommunications, and have largely avoided making large bets on the winners and losers.

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Ultimately, we want to incur risks that are less than commensurate with the returns generated. The more extended valuations experienced over the last year or so work twofold against this objective. One, they increase the risk, while two, they lower the expected returns. Investors will only find out which managers generated excess returns via outsized risks when this extended bull market is over. Even the most defensive, wide-moat compounder poses a higher risk of permanent capital loss if the price paid is excessive. As the saying goes, "Time is the friend of the wonderful business," but if prices already reflect an unrealistic outcome, many quality stocks will generate subpar returns.

TWST: Right now Mar Vista has three strategies. You have the Strategic Growth, Focus and Global. How do those strategies differ?

Mr. Honeycutt: Our investable universe is defined by the investment process that Brian previously discussed. From that unique opportunity set, our three portfolio strategies are constructed. Strategic Growth is our most diversified domestic large-cap strategy, which generally holds 30 to 40 investments. Our Focus strategy is our high-conviction, 15- to 20-stock portfolio, which is a subset of Strategic Growth. Our third strategy is our Global portfolio, which leverages our entire circle of competence.

The goal with our Global strategy is to search the world for 20 to 30 high-conviction ideas that might already be owned in our Focus strategy but isn't confined to a domestic mandate. Mar Vista's Global is not a strategy designed to generate analytical opinions on every public equity around the world. We know the limits of our circle

We do have some secular themes that evolve from our bottom-up analysis. The proliferation of wireless data is the driver of our thesis in **American Tower**, **Google** (NASDAQ:GOOG) and **Apple** (NASDAQ:AAPL). The continued penetration of e-commerce is important to businesses like **Amazon** (NASDAQ:AMZN) and, again, **Google** and **Apple**. The digitization of transactions away from cash and checks is obviously a key theme for **Visa** (NYSE:V). We have significant exposure to the aerospace supercycle with wide-moat franchises like **Honeywell** (NYSE:HON), **TransDigm** and **B/E Aerospace** (NASDAQ:BEAV).

Mondelez, **Unilever** (NYSE:UL) and **Pepsi** (NYSE:PEP) all benefit from the emerging consumer class in developing markets that aspires to global brands. Aging demographics and health care innovation obviously benefit demand for products and services provided by **Allergan** (NYSE:AGN) and **Johnson & Johnson** (NYSE:JNJ). Those are the more interesting opportunities from a secular growth viewpoint at this point. But we also appreciate the eclectic and largely underappreciated businesses that Wall Street overlooks, like **Markel**, **Mettler-Toledo** (NYSE:MTD), **Sensata** (NYSE:ST) or **Ecolab** (NYSE:ECL).

TWST: Last quarter, you added U.S. Bank to your portfolio. Why did you add that name?

Mr. Massey: Yes, we recently purchased **U.S. Bank** (NYSE:USB) for Strategic Growth. As you would expect, the universe of wide-moat banks is pretty narrow, and given the levered business model, we require a hefty discount to warrant a position. We think **U.S.**

Bank is unique in their ability to generate and sustain attractive returns on capital in a very challenging interest rate environment for banks. The key difference is, **USB** generates as much revenue from fee-based services — like merchant processing, issuing credit and debit cards — and investment management services as they do from lending. So for every dollar of deposit, **USB** generates higher profitability with much better capital efficiency than the typical bank. Even in the current market where the average bank is earning high-single-digit returns on equity, **USB** is generating midteens returns.

1-Year Daily Chart of U.S. Bancorp

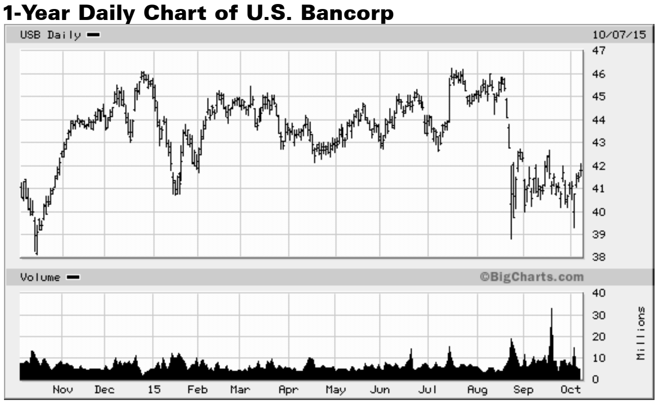

Chart provided by www.BigCharts.com

USB has also differentiated itself from its banking peers by growing revenue in the face of unprecedented challenges. Net interest margins, which 10 years ago were around 4.25%, have declined to 3% currently. Despite this 30% decline in the yield spread, management has been able to compound revenues 5% over the last decade. It is interesting to think through the type of growth **USB** will generate when and if interest rates normalize over our investment horizon.

Another important part of their moat is the management team. CEO Richard Davis has really led a conservative underwriting culture, which is critical to protecting the franchise value of a bank. Unlike nearly all its peers who experienced massive losses and shareholder dilution during the Great Recession, **USB** was profitable every quarter and was able to protect its fortress balance sheet. The company remains well-capitalized today, even across the more stressed scenarios, which — again — creates an important competitive advantage.

Lastly, we think they are in the sweet spot in terms of scale. It is big enough to compete nationally, but small enough that it isn't burdened by the regulatory and capital requirements of its bigger, globally significant banks, like **Wells Fargo** (NYSE:WFC), **Bank of America** (NYSE:BAC) and **Citigroup** (NYSE:C). As a result, **USB** enjoys a cheaper cost of capital.

As far as valuation, it's not lost upon the market that **U.S. Bank** has a unique and value-accretive financial model. But as we go through our scenario analysis, we think the market is still undervaluing the business. Even if net interest margins stay compressed where they are today — i.e., we are in a Japan-type situation for the next five to 10 years and lending growth remains anemic — we estimate we will still generate an adequate high-single-digit return on our investment. In the more bullish scenarios, if you assume that the U.S. economy is going to accelerate and that **USB** can enjoy the high-3% to mid-4% type of net interest margins that they had as recently as five to 10 years ago, we think their earnings power is as much as 70% higher than it is today, and we will enjoy midteen total returns on our investment.

So as we go through our process, there's definitely a durable moat, they should at least maintain and likely expand returns on capital in a range of outcomes, the management team has proven its ability to grow and protect value in a variety of environments, and finally, the margin of safety is attractive. We think **USB** will provide both safety of principal and an adequate return relative to its risk. The investment opportunity checked all our boxes, and we purchased the stock.

TWST: You previously mentioned American Tower and its exposure to the cellular demand. Can you expand a little bit on why you like that name?

Mr. Massey: American Tower is the largest global operator of cellular towers in the world with almost 100,000 towers that span across the U.S., Brazil, Mexico, India and Africa. We have been long admirers of the business model and the management team. We've owned the stock for about nine years now, and it has been a terrific compounder for our investors. We often hold it up as the poster child of the kind of compounding machines we prize. A single tower generates attractive amounts of excess capital, and management has plenty of opportunities to reinvest that capital either in new builds or acquisitions at very high rates of return.

American Tower's moat passes most every criteria on our checklist. It has significant scale advantages, and switching costs are very high. Once a tower is designed into a wireless network, it is expensive to remove it. Additionally, a geographic moat is created around a tower, as there is a certain radius where it doesn't make economic sense for another tower to be built. Incremental returns are almost 100% once you've built the tower since the amount of capital and operating expenses to maintain the tower are de minimis, so any incremental revenue from new tenants or amendments from existing tenants drop to the bottom line.

Secular growth drivers for the tower infrastructure around the globe are powerful. Wireless data demand is going to grow 50% per year, or seven times, over the next five years. Mobile video will only further drive that demand, not only in the U.S. but globally. While the U.S. is currently densifying the 4G network and will soon move onto 5G, regions like Mexico and Brazil are just rolling out 3G. In places like India and Africa, they're yet another generation behind that.

To give an example of the global opportunity, the U.S. has 1,500 subscribers per tower compared to almost 4,400 subscribers per tower in Brazil. The numbers are even more staggering in the other developing markets. We think there is a very long secular tailwind of densifying wireless networks that will allow **American Tower** to grow revenues organically 6% to 9%. Customers are locked into noncancellable 10-year contracts with 3% to 4% price escalators. So whether the global economy grows at 7% or 1%, **American Tower** should continue to expand their intrinsic value per share at an attractive rate.

We believe they can grow free cash flow per share at low double digits. At 15.5 times 2016's free cash flow, we think the market is materially undervaluing the business, and very little value is being applied to future value-accretive acquisitions or share repurchases. Also, the current dividend yield at 2% exceeds that of the market, and the dividend should double over the next five years.

TWST: Another name in the portfolio is TJX. Why do you like that one?

Mr. Honeycutt: Consumer companies typically build their economic moats around cost, scale and/or brand advantages. Unlike **Nike** (NYSE:NKE) or **Tiffany** (NYSE:TIF), who predominantly built their moats around global brands, **TJX** (NYSE:TJX) has built its economic moat around global scale and cost advantages. **TJX** is the largest off-price apparel and home goods retail chain in the world. The company operates a competitively advantaged global sourcing platform, which consists of 900 buyers and 16,000 vendors. This sourcing advantage allows **TJX** to acquire and sell consumer products 30% to 40% below department-store prices while turning inventory 40% faster.

The company should continue compounding intrinsic value low double digits through new store expansion and consistent same-store sales growth. With approximately 800 stores in Europe and Canada combined, **TJX** can triple its international store base. The management team at **TJX** are excellent stewards of capital. Future uses for free cash flow will be international store growth and smart share repurchases. **TJX** currently trades 18 time normalized free cash flow, which is a slight premium to the market. Although it is not as cheap as it once was, we think **TJX** represents an above-average business at an average price.

TWST: You touched a little bit on your views of volatility. Can you expand on that a little?

Mr. Myers: Stock volatility is largely irrelevant to our process. It tends to be emotionally driven, and what we have found is that emotion oftentimes rules in place of reason. That typically works to our advantage. Maybe the market is a voting machine in the short run, but in the long run, it's a weighing machine. To us, the process comes down to asking, "What is the intrinsic value of a business?" which doesn't shift on a day-to-day basis depending on what the market is doing.

Ultimately, with any investment, risk is determined by the price you pay relative to what it's worth, not by some volatility measure. So to us, again, it comes down to our definition of risk and how we implement the process to make sure we are understanding the potential outcomes. How do we mitigate the impact of being wrong on the portfolio? So for us, volatility provides an opportunity to reduce risk and increase expected returns in the portfolio.

TWST: Do you hold cash, or are you fully invested?

Mr. Prestine: The amount of cash we hold is an outcome of our investment process. It is reflective of the opportunity set within Mar Vista's vetted pool of investable stocks and not a reflection of our opinion of or call on the macroeconomic environment. When the opportunity set is large and the margins of safety are wide, we hold little cash. However, when the opportunity set is narrow and our investment pool is trading at or near intrinsic value, we hold higher levels of cash. Today, cash levels are at one of the highest points in the almost 13 years we have been managing the portfolios, but we have seen more opportunities with the recent volatility.

TWST: And then, what is your sell discipline?

Mr. Prestine: We've put a lot of thought into our sell discipline and believe it is as important as an effective buy decision in generating alpha. We aren't unique in our criteria, as everyone highlights the same three reasons. When an investment is trading at intrinsic value, a better opportunity arises with a wider margin of safety and a narrower range of outcomes, or when an investment thesis has been violated. These signals can and do trigger a sell.

But we've tried to incorporate specific governors in our process that hopefully minimize the cognitive errors that we think cause many active managers to make poor decisions. For example, we assign a devil's advocate to an investment to prevent the analyst and the team from falling in love with a stock. It is easy to do when a business has performed well, but the devil's advocate role is to make sure we stay grounded and rational in our analysis. Are we falling prey to confirmation and consistency bias, and is there disconfirming information that we are overlooking?

"Ultimately, with any investment, risk is determined by the price you pay relative to what it's worth, not by some volatility measure. So to us, again, it comes down to our definition of risk and how we implement the process to make sure we are understanding the potential outcomes."

Separately, when we have an underperforming stock, we will draw a line in the sand to reduce the probability of being caught in a value trap, which, given our contrarian nature, is probably the most common error we can make. When the line is drawn, the investment needs to deliver on specific quantitative fundamental factors or it will be sold. We also recognize that selling an underperforming stock can be one of the easiest things to do psychologically, so we always test the holding against Mar Vista's unemotional investment tenants to determine if our investment thesis has been violated. If it has, we sell the stock.

TWST: Tell us about your backgrounds.

Mr. Myers: We all come from fairly diverse backgrounds. I started my post-MBA career at Hotchkis and Wiley, a well-known value manager. Interestingly, Brian was on the other end of the growth-versus-value spectrum when he joined Roxbury Capital, a growth-oriented manager, after business school. Prior to joining the team in 2000, Josh was deep into forensic accounting for mergers and acquisitions. And prior to joining the three of us in 2006, Jeff was an analyst covering technology and energy businesses on both the sell side and buy side.

I think what's noteworthy is that, despite the diversity of our backgrounds, we came together and rallied around our common beliefs in this philosophy and process. We are all students of and passionate about the philosophy. What is less tangible to an outsider is the unique culture and chemistry we've built as a team. We are protective of this culture and business structure, and know it will be a key factor in our ability to generate value for our investors over the next couple of decades of our careers.

TWST: What is your general outlook?

Mr. Massey: We don't make calls on macroeconomic variables, like interest rates or how the stock market will perform over the next quarter, six months, year, even three years. Our assessment of likely future returns is really based on two factors: one, the intrinsic value growth of our businesses and, two, the average margin of safety. With higher overall market valuations and the more compressed margin of safety in our universe, we expect much of our return over the next five years to come from the intrinsic value growth of our businesses. But the more downside volatility the market provides in the near term, the higher those expected long-term returns will be.

TWST: Thank you. (LMR)

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