



## Strategic Growth Commentary June 30, 2020

Equities posted their best quarterly gain since 1998. This quarter's increase appears to be driven by optimism around the economic reopening and coronavirus treatment. The central bank's pledge to save our virus ravaged economy has provided financial reassurance for equity and credit markets. Businesses are adapting to social distancing, but recovery patterns differ by industry. Subdued economic activity and employment are pandemic related headwinds that may prove difficult to remedy. Public policies designed to slow the spread of the virus are accelerating digital trends that benefit a select group of technology companies. This highly concentrated cohort has an outsized impact on equity market performance. The path forward for asset prices will depend on policy actions taken by all levels of government to support the economic recovery.

For the second quarter, Mar Vista's Strategic Growth strategy returned +21.3% net of fees, underperforming the Russell 1000® Growth Index (+27.8%) and outperforming the S&P 500® Index (+20.5%). Positive stock selection in real estate combined with an underweight in healthcare contributed to relative performance during the quarter, while financials, consumer discretionary and information technology detracted from short-term results. Top contributors were Apple (+43.8%), Amazon (+41.5%), Adobe (+36.8%), Intuit (+29.1%) and Microchip Technology (+56.0%), while Berkshire Hathaway (-2.4%), Markel (-0.5%), Charles Schwab (+0.9%), US Bancorp (+8.1%) and Allergan (+9.9%) detracted from returns.

During the quarter, we initiated a new position in Amphenol and our investment in Allergan was acquired by AbbVie.

### **Buy: Amphenol**

We initiated a new position in Amphenol ("APH") during the quarter. It is a leading manufacturer of interconnect and sensor products targeting a diverse set of end markets that include industrial, automotive, datacenter, aerospace and defense, and consumer electronics. APH benefits from content gains as products across all of its end markets become smarter and more connected. APH's competitive advantages stem from its intellectual property, high switching costs and effective capital allocation. APH engineers its products to operate in inhospitable environments while performing critical functions in the most technologically demanding products such as aerospace, automotive, and industrial equipment. APH benefits from high switching costs given that its products are highly reliable even in the toughest environments and require an OEM to redesign a product to switch vendors, an uneconomic proposition. Additionally, APH has a long history of effective capital allocation that includes organic R&D and inorganic M&A, while returning capital to shareholders via buybacks and dividends. We expect APH to compound intrinsic value over our investment horizon in the low teens. Therefore, we initiated a position in APH when the margin of safety relative to our estimate of its intrinsic value opened up to create a beneficial risk-reward.

### **Outlook**

Extraordinary fiscal and monetary stimulus is fostering stock price appreciation that is outpacing the growth of underlying business values. The risks of a second virus outbreak and negative effects from the lockdown are being displaced by investor optimism. With the portfolio's average discount to intrinsic value near all-time lows, we expect future returns to closely correlate with our companies' intrinsic value growth. The coronavirus will

continue to dominate the headlines, but ultimately profits will steer equity prices over the long-term. Our portfolio is navigating the pandemic with well-capitalized serial compounders. The current environment may be unnerving, but it provides opportunities to increase the future return potential of our portfolio.

***Strategic Growth Annualized Returns as of June 30, 2020***

	<u>Net</u>	<u>S&amp;P 500®</u>	<u>Alpha</u>	<u>R1000®G</u>	<u>Alpha</u>
<b>1 Year</b>	10.0%	7.5%	2.72	23.3%	-9.24
<b>3 Years</b>	12.8%	10.7%	2.58	19.0%	-3.07
<b>5 Years</b>	11.8%	10.7%	1.73	15.9%	-1.52
<b>10 Years</b>	14.4%	14.0%	1.40	17.2%	-0.27
<b>15 Years</b>	9.9%	8.8%	2.05	11.3%	0.54
<b>Since Inception</b>	9.6%	8.6%	2.05	10.5%	1.09

*Investors in Mar Vista's Strategic Growth strategy acknowledge and agree that (I) any information provided by the Firm is not a recommendation to invest in the strategy and that the Firm is not undertaking to provide any investment advice to the investor (impartial or otherwise), or to give advice to the investor in a fiduciary capacity in connection with an investment in the strategy and, accordingly, no part of any compensation received by the Firm is for the provision of investment advice to the investor and (II) Mar Vista has a financial interest in the investor's investment in the strategy on account of the fees and other compensation the Firm expects to receive from the client.*

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. For purposes of compliance with GIPS®, Mar Vista has defined itself to include bundled/WRAP fee accounts in the firm's assets. Prior to January 1, 2018, Mar Vista 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.

On 7/12/07, Silas Myers and Brian Massey formed Mar Vista to manage various large-cap equity strategies. On 12/1/07, all of the assets under their management at Roxbury transitioned to Mar Vista through a sub-advisory arrangement. Information provided for the period from January 2004 through November 2007 represents the performance of portfolios managed by Mr. Myers and Mr. Massey while employed by Roxbury. On 1/25/15, Mar Vista finalized an agreement whereby the preferred share class that was owned by Roxbury was extinguished and 100% of Mar Vista is employee owned. All assets under management are managed by Mar Vista. Mar Vista claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Mar Vista has been independently verified for the periods 12/01/07 through 12/31/19. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Strategic Growth composite has been examined for the periods 12/31/03 through 12/31/19. The verification and performance examination reports are available upon request. Benchmark returns are not covered by the report of independent verifiers. For the entire period presented, Mr. Myers and Mr. Massey have been substantially responsible for the all the investment decisions of the large-cap equity strategies. Performance prior to 12/01/07 meets GIPS® portability requirements. ACA served as the verifier, conducted a verification and examined the composite's performance history that was ported over to Mar Vista prior to 12/01/07.

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 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. The results in the column marked Net of Fees for the periods 8/01/08 through the present, include a standard management fee applied to any non-fee paying portfolio for performance calculation purposes.

The primary benchmark is the Russell 1000® Growth Index, defined as an unmanaged, capitalization weighted index of those Russell 1000 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. Benchmark returns are provided for informational purposes only and are not calculated or verified by ACA Compliance Group or Mar Vista.

The dispersion in composite returns shown herein was measured using an asset-weighted standard deviation formula. Performance results presented reflect the reinvestment of dividends and other earnings. 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 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.

A complete list of portfolio holdings and specific securities transactions for the investment strategy during the preceding 12 months, the top contributors and underperformers calculation methodology and a list of every holding's contribution to the overall performance during the period is available upon request. The securities mentioned in this letter were held in the account of a Strategic Growth client that Mar Vista believes to be representative of the accounts that Mar Vista manages for this investment strategy during the period from March 31, 2020-June 30, 2020. 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 GIPS® performance presentation, which is available upon request. Past performance is no guarantee of future results. Not FDIC insured, no bank guarantee, may lose value.