

MAR VISTA

Global

Portfolio Commentary | June 30, 2024

Summary

- The MSCI All Country World Index Net advanced 11.30% in the first half of 2024, one of its strongest performances since the late 1990s tech boom.
- Six "megacap" firms (Nvidia, Alphabet, Microsoft, Amazon, Meta, and Apple), benefiting from artificial intelligence (AI) enthusiasm, have contributed approximately 49% of the global market's year-to-date gains. Nvidia stands out with a 24% contribution to the first-half advance.
- Mar Vista's Global strategy returned +2.04% net-of-fees in the second quarter of 2024. The MSCI World Net Index and the MSCI All Country World Net Index returned +2.66% and +2.92%, respectively.
- The second quarter's top contributors were Apple, Alphabet and Oracle. The top detractors were Salesforce, Walt Disney and Sartorius.
- We established new investments in Broadcom, Meta Platforms, Linde, and added capital to Apple. Investments in Adobe, Alphabet, Amazon, and Walt Disney were modestly reduced, while Brookfield Asset Management, GXO Logistics, Novartis, and Veralto were liquidated.
- After a strong rally in the first half of the year, global equities appear to be headed into the second half with powerful tailwinds. The outlook remains positive, buoyed by healthy enterprise spending, lower inflation, and strong corporate earnings.

Commentary

The MSCI All Country World Index Net appreciated 11.30% in the first half of 2024, one of its strongest performances since the late 1990s tech boom, though still slightly below 2023's exceptional start. This year's growth has been primarily driven by six major tech companies: Nvidia, Alphabet, Microsoft, Amazon, Meta, and Apple. These "megacap" firms, benefiting from artificial intelligence (AI) enthusiasm, have contributed approximately 49% of the global market's year-to-date gains. Nvidia stands out with a 24% contribution to the first-half advance. The market impact of AI has drawn comparisons to other transformative technologies, but the rapid rise in AI stock valuations is noteworthy. Nvidia's market capitalization now exceeds the value of the German, French, and UK stock markets combined.

While artificial intelligence might ultimately affect companies throughout the economy, this AI-focused rally has created a noticeable market divide. AI and AI-adjacent sectors have been driving most of the global market gains since March, while other sectors underperformed. The concentration of gains in AI-related stocks is evident in the U.S. performance gap between the S&P 500® Index and the S&P 500® Equal-Weight Index. The equal-weight index is up 5.1% year-to-date, underperforming the S&P 500® Index by 10 percentage points - the largest such gap in the first half of a year on record.

Key questions remain about the broader economic impact of AI and whether the benefits will be limited to a select few tech giants. As the rally continues, we are closely analyzing our AI investments to assess their potential to deliver on their perceived revolutionary promise.

Performance Review

Mar Vista's Global strategy returned +2.04% net-of-fees in the second quarter of 2024. The MSCI World Index Net and the MSCI All Country World Index Net returned +2.66% and +2.92%, respectively. Stock selection within information technology, healthcare and communication services negatively impacted performance during the quarter. **Apple**, **Alphabet**, and **Oracle** were among the portfolio's top contributors for the quarter, appreciating +23.0%, +20.6%, and +12.8%, respectively. Alternatively, our investments in **Sartorius** (-40.1%), **Walt Disney** (-18.8%), and **Salesforce** (-14.6%) were among the portfolio's biggest detractors.

Investors were reminded of the strength of the **Apple** ecosystem as management demonstrated how generative AI solutions would be integrated into Apple's 1.2 billion iPhone installed base. Apple plans to integrate generative AI features into its iOS 18, which will be broadly released in the fall with the iPhone 16. We believe Apple should benefit from generative AI as it will spur a meaningful iPhone upgrade cycle and create new avenues of monetization through its app store and advertising offerings. We believe this will support intrinsic value growth that will range between high-single-digits and low-double-digits over our investment horizon.

Alphabet reported robust quarterly financials, demonstrating accelerated revenue growth and improved margins from restructuring efforts. The company's core advertising business is rebounding after a challenging 2022-2023 period, when advertisers curtailed spending due to economic concerns. While this quarter's exceptional growth rate may not persist, Alphabet's performance indicates it is likely to exceed our annual projections.

Following Meta's lead, Alphabet is adopting a more stringent approach to expenses. The company continues to reduce headcount and consolidate teams, aiming to counterbalance the impact of infrastructure investments on profitability. Alphabet's better-than-expected revenue and earnings underscore both the resilience of its core business and management's early success in sustainably restructuring the cost base.

Notably, AI advancements are already showing promising results, enhancing consumer engagement, and improving advertiser performance. These developments position Alphabet favorably in an increasingly AI-driven digital landscape.

Oracle is seeing revenue acceleration as it benefits from several years of investing in cloud-based solutions that are now driving demand. Oracle's OCI offering is recognized as a viable hyper scaler offering and is winning mindshare from leading cloud customers including Open AI. This is driving accelerating demand as it offers a strong value proposition to customers due to its favorable performance and cost metrics. This coupled with Oracle's recently announced partnerships with Microsoft Azure and Google Compute Platform, which could help facilitate the migration of the Oracle Database to the cloud. We believe this should support a third leg of growth for Oracle as its large installed base of database customers shift from on-premise to cloud deployments. As database customers migrate to the cloud, Oracle could increase database software support revenues by two-to-three times. We continue to believe Oracle is well positioned to grow intrinsic value low-double-digits over our investment horizon.

Sartorius' stock declined materially during the quarter as first quarter results fell short of guidance and expectations for second half growth were reduced. Management has struggled in recent years to accurately predict demand as bioprocessing spending boomed during the pandemic and busted when spending slowed and customer inventories were built to unsustainable levels. The lumpiness of near-term results has been surprising but the secular trends for bioprocessing industry and competitive positioning for Sartorius should drive steady mid-teens or better intrinsic value growth for the company as we enter 2025.

Disney's shares declined after its earnings release, even though the company exceeded recently upgraded financial forecasts. While Disney+ and Hulu reached a milestone by turning their first quarterly profit, the company cautioned about theme park attendance returning to pre-pandemic norms. This signals a deceleration following a period of exceptional growth, impacting the stock as theme parks and experiences account for roughly 60% of Disney's earnings. Despite broader consumer worries, Disney's stock is still trading with a significant discount to fair value. We expect the gap between Disney's market price and its intrinsic value to shrink as its streaming division evolves and increases profitability over time.

Salesforce's stock came under pressure in Q2 as the company modestly missed Street expectations for software bookings and reduced its FY2025 subscription revenue guidance to "around 10%" year-to-year growth from "greater than 10%." We believe Salesforce is experiencing cyclical pressures as software demand across the industry is pressured at the margin. This has led to longer sales cycles; smaller deal sizes and budgets being allocated away from enterprise software to emerging areas like generative AI. We continue to believe that Salesforce will see a tailwind to demand from its generative AI offerings as many AI use cases are found in front office software like customer relationship management. This, coupled with Salesforce's treasure trove of customer data, positions it well to exploit the evolution of next-generation AI offerings.

Portfolio Activity

During the quarter, we established new investments in **Broadcom**, **Linde**, **Meta Platforms**, and added capital to **Apple**. Investments in **Adobe**, **Alphabet**, **Amazon**, and **Walt Disney** were modestly reduced, while **Brookfield Asset Management**, **GXO Logistics**, **Novartis**, and **Veralto** were liquidated.

We initiated a position in **Broadcom** in Q2. As a skilled aggregator, Broadcom acquires firms, streamlines their operations, and invests R&D dollars in mission critical products that generate industry leading profit margins, robust cash flows and high returns on invested capital. Its primary markets include AI accelerators targeting generative AI applications, networking & wireless semiconductors, and mission-critical infrastructure software solutions.

Broadcom is well-positioned to benefit from the rapidly expanding demand for custom AI accelerator chips that support the evolution of the generative AI market. The company is the second-largest producer of AI accelerator chips behind Nvidia and leads the market in custom AI ASIC chips. Its customers include leading hyper scalers like Alphabet and Meta who are turning to Broadcom for custom silicon due to its performance and cost advantages. We believe the company is a direct beneficiary of a multi-year capital cycle driven by hyper scalers building out next-generation AI factories.

Broadcom recently acquired VMware, the leader in virtualization software targeting the enterprise market. The integration of VMware is tracking ahead of plan as management has simplified its product bundles, transitioned to a subscription revenue model, and reduced operating costs. We believe this simplified go-to-market structure will result in strong top-line revenue growth and expanding operating margins. We believe Broadcom will compound intrinsic value per share in the mid-20% range over the intermediate term as it benefits from the AI-infrastructure build-out, a cyclical recovery in its legacy semiconductor business, and modestly accelerating growth from its infrastructure software business as VMware is successfully integrated.

Linde PLC is the world's largest, global industrial gas producer. The company enjoys the highest profit margins and returns on capital in the industry. Linde's primary products are atmospheric gases and process gases. Industrial gases have benefitted from secular growth trends in decarbonization and carbon sequestration. Moreover, the opportunity in blue and green ammonia and hydrogen are substantial. Projects in these areas are quickly being added to its backlog for future growth. We see these secular trends as long-term positives for Linde and the entire industrial gas industry.

Linde believes it can grow its volumes with new applications; the buildout of small, on-site plants using its technologies; and focusing on growing geographies such as India, Malaysia, Vietnam, China and Brazil. Despite the long-term growth opportunities, recent demand trends have slowed due to weak global industrial production. Among the regions, the U.S. remains resilient, with volumes flat to slightly negative. Europe, Latin America, the Middle East, and China are all sending mixed economic signals. We believe these slower trends are transitory in nature, providing an opportunity to purchase shares in Linde at attractive prices.

We previously divested from **Meta** during a period of stagnant advertising growth and the company's initial, significant investment in the metaverse project. At that time, investors appeared complacent to the risks associated to an increasingly competitive landscape, and the Street's robust financial expectations as the company transitioned towards monetizing short-format video (Reels). The subsequent decline in Meta's stock price during 2022 reflected these concerns.

Since then, Meta has demonstrably shifted its strategic focus. The company has prioritized operational efficiency, implemented strategies to monetize Reels effectively, and initiated a robust artificial intelligence (AI) development program. We believe the focus on AI represents a more prudent capital allocation strategy compared to the earlier metaverse initiative. Meta AI holds significant potential to unlock substantial monetization opportunities and enhance user engagement, while maintaining tight controls on operating costs.

Meta's unparalleled global reach, fostered by its extensive suite of applications, translates to a dominant position within digital advertising. This competitive advantage is further bolstered by the difficulty of replicating Meta's user base. We anticipate that the company's ability to expand its global advertising market share and leverage AI for innovative business ventures should translate into 13-15% intrinsic value growth per annum.

Undoubtedly, Meta faces ongoing challenges regarding user data privacy and content control. While regulatory scrutiny is likely to persist, we believe the long-term impact on intrinsic value should be minimal. Although increased legal costs are a consequence, greater data and content supervision could strengthen Meta's competitive moat.

Strong price appreciation compelled us to exit our investments in **Brookfield Asset Management**, **Novartis**, and **Veralto**, while lower conviction in **GXO Logistics'** long-term growth motivated our sale.

Outlook

After a strong rally in the first half of the year, stocks appear to be headed into the second half with powerful tailwinds. The outlook remains positive, buoyed by healthy enterprise spending, lower inflation, and strong corporate earnings. While risks persist, the market's momentum appears poised to continue.

The global economy's resilience in the face of significantly higher interest rates has been a major surprise over the past two years. Most developed stock markets remain optimistic, grounded on the revolutionary impact of artificial intelligence. We are believers in the long-term transformative effect of AI, but many of the benefits are going to accrue gradually, and the market is pricing in immediacy.

Our investment approach focuses on businesses with strong competitive moats that can compound intrinsic value across various economic conditions. This strategy aims to capitalize on both the business value creation of our holdings and favorable investment entry points. By patiently investing in high-conviction companies and maintaining disciplined capital allocation, we strive to deliver competitive risk-adjusted returns over the long term.

Our portfolio is designed to benefit from enduring market trends while maintaining resilience against potential economic headwinds. As the market continues to evolve, particularly in response to AI developments, we remain committed to our long-term, value-accretive investment philosophy. This approach positions us to navigate current

market dynamics, balancing opportunities presented by technological innovation with prudent, sustainable investment strategies.

Global Equity Annualized Returns as of June 30, 2024

	Net	MSCI World Index Net	MSCI All Country World Index Net
1 Year	13.82%	20.19%	19.38%
3 Years	3.73%	6.86%	5.43%
5 Years	8.94%	11.78%	10.76%
10 Years	8.69%	9.16%	8.43%
Since Inception	10.37%	11.13%	10.29%

Investors in Mar Vista's Global 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, is a registered investment adviser under the Investment Advisers Act of 1940. The Firm 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. On 12/1/07, all of the assets under their management at Roxbury Capital Management, LLC transitioned to Mar Vista through a sub-advisory arrangement. On 1/20/15, Mar Vista finalized an agreement whereby the preferred share class that was owned by Roxbury was extinguished. All assets under management are managed by Mar Vista. Mar Vista claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. 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 all the investment decisions of the Global Equity strategy.

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, 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 20-30 equities, and that paid for execution on a transaction basis. 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 primary benchmark is the MSCI World (Net) 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 secondary benchmark is the MSCI ACWI (Net) Index, defined as a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indices comprising 23 developed and 23 emerging market country indices. In addition, unlike the composite, which periodically maintains a cash position, the MSCI ACWI Index is fully invested. Investors cannot directly invest in an index. The dispersion in gross-of-fee 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 GIPS® Composite Reports are available upon request.

The Firm's Global Equity 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 Global Equity 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, 2024-June 30, 2024. 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. A Global Equity GIPS® Composite Report is available upon request by contacting Mar Vista directly at (800) 993-1070 or via email at info@marvistainvestments.com. Past performance is no guarantee of future results. Not FDIC insured, no bank guarantee, may lose value.