MAR VISTA

Focus

Portfolio Commentary | September 30, 2024

Summary

- The third quarter of 2024 marked another strong period for the U.S. stock market, with the S&P 500® Index rising for the fourth consecutive quarter - a feat not seen since Q4 2021. The S&P 500® Index is off to the best performance in the first three quarters of a year since 1997.

- Market sectors including utilities, real estate, industrials, and financials outperformed the technology sector, which had been driving much of the market's gains earlier in the year.

- Mar Vista's Focus strategy returned +3.39% net-of-fees in the third quarter of 2024. The Russell 1000® Growth Index and the S&P 500® Index returned +3.19% and +5.89%, respectively.

- The third quarter's top portfolio contributors were American Tower, Oracle, and Apple. The top detractors were Microchip Technology, Microsoft, and Alphabet.

- During the quarter, we initiated new investments in Linde and Visa. We completely liquidated our investments in GXO Logistics, Nike, and Microchip Technology.

- The market appears to be at the beginning of an easing cycle, with interest rates not exceptionally high by historical standards, which could support further gains. Years with strong starts like this have often finished even higher, with the S&P 500® Index typically ending the year on a high note after such robust performance in the first nine months.

Commentary

The third quarter of 2024 marked another strong period for the U.S. stock market, with the S&P 500® Index rising for the fourth consecutive quarter - a feat not seen since Q4 2021. Year-to-date, the index has surged over 22% through the first nine months, an achievement occurring only for the 10th time since 1950. The S&P 500® Index is off to the best performance in the first three quarters of a year since 1997.[1]

Interestingly, this quarter saw a shift in sector performance. Utilities emerged as the top-performing sector in the S&P 500®Index, gaining 18%, closely followed by real estate with a 16% increase.

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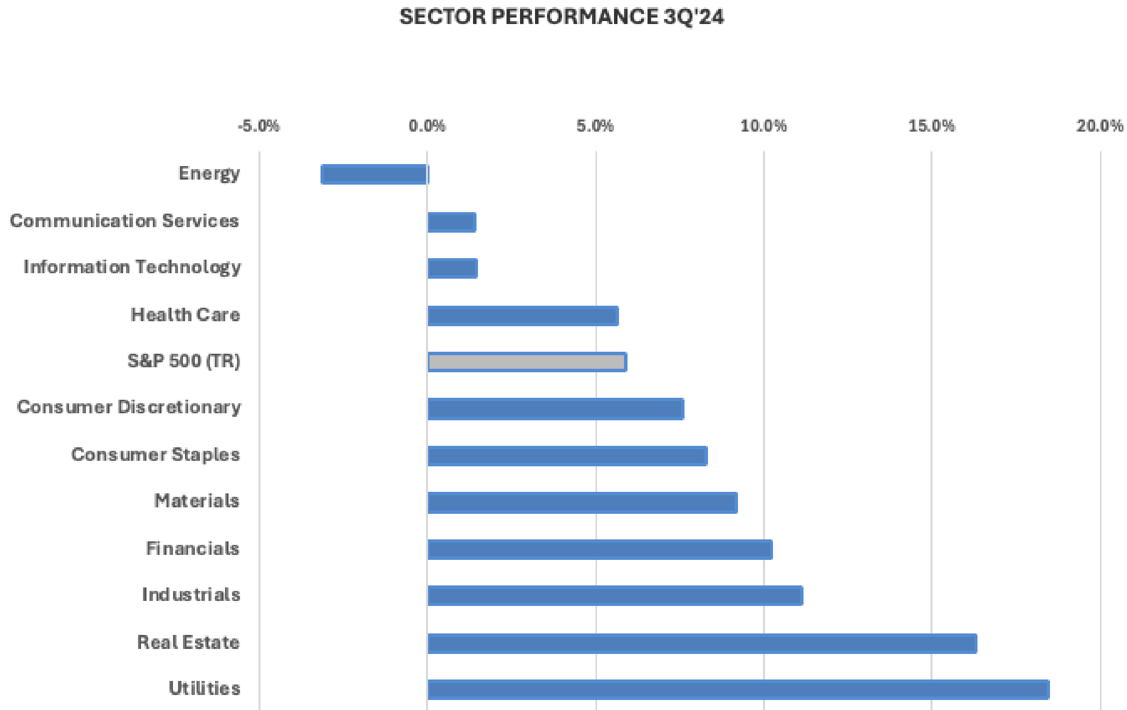
[1] Source: Karen Langley, "The Stock Market Isn't All About AI Anymore," Wall Street Journal, 9/30/24



Source: S&P Dow Jones Indices LLC.

Broad market sectors including industrials and financials outperformed the technology sector, which had been driving much of the market's gains earlier in the year. Value stocks beat growth stocks, and small-cap stocks outperformed their large-cap counterparts.

The tech sector, particularly the "Magnificent Seven" stocks, showed mixed performance. Nvidia, Alphabet, Microsoft, and Amazon pulled back after strong first-half gains, while Apple, Meta Platforms, and Tesla ended the quarter higher. This divergence likely reflected growing investor skepticism about the heavy AI spending by big tech companies, with the market entering what some analysts describe as a "zone of disillusionment," reminiscent of the internet boom in 2000.

Several economic factors contributed to the market's performance. Weaker inflation readings led the Federal Reserve to lower interest rates, and signs of economic strength increased confidence in a "soft landing" scenario. The U.S. economy showed continued expansion, with low unemployment. Corporate earnings remained robust and are expected to accelerate into 2025.

Performance Review

Mar Vista's Focus strategy returned +3.39% net-of-fees in the third quarter of 2024. The Russell 1000® Growth Index and the S&P 500® Index returned +3.19% and +5.89%, respectively. Stock selection within financials, industrials and real estate negatively impacted our performance during the quarter. **American Tower**, **Oracle**, and **Apple** were among the portfolio's top contributors for the quarter, appreciating +19.6%, +21.0%, and +10.7%, respectively. Alternatively, our investments in **Microchip Technology** (-16.4%), **Microsoft** (-3.5%), and **Alphabet** (-8.7%) were among the portfolio's biggest detractors.

American Tower's stock rebounded nearly 20% during the third quarter, helped by the tailwind of lower interest rates. The stock has now appreciated more than one-third since U.S. 10-Yr Treasury interest rates peaked in late April 2024. As a levered REIT, lower rates benefit AMT's equity value through a lower cost of debt and a higher value for its long-duration cash flows. Fundamental expectations did not change materially during the quarter as the company modestly increased their growth expectations for the year. The long-term global opportunities for 5G deployment, edge-of-network computing, and datacenters, remain attractive and are not fully reflected in the current stock price, in our opinion.

Oracle is seeing revenue acceleration as it benefits from several years of investing in cloud-based solutions, which are now driving demand. The company is seeing broad-based demand for multiple of its cloud offerings, including its Fusion ERP Suite, its NetSuite offering and the Oracle Database. In addition to those anchor products, Oracle is also gaining traction with its OCI Gen 2 platform-as-a-service offering, which is winning mindshare from leading cloud customers, including Open AI, due to its favorable performance and cost metrics. This OCI Gen 2 solution is well-positioned to become a viable hyper scaler offering, furthered by Oracle's recently announced partnerships with Microsoft Azure, Google Compute Platform, and Amazon's AWS, which have all agreed to host Oracle's flagship database in their respective hyper-scaler cloud environments. We believe this could support a third leg of growth for Oracle as its large installed base of database customers shift from on-premises to cloud deployments. As database customers migrate to a Cloud subscription model, Oracle could increase database software support revenues by 3-to-5 times. We continue to believe Oracle is well-positioned to grow intrinsic value strong double-digits over our investment horizon.

Apple stock was strong in the quarter as investors viewed the company's generative AI roadmap and iPhone 16 product cycle positively. The market was reminded of the strength of the Apple ecosystem as management demonstrated how generative AI solutions would be integrated into its iOS 18 operating system, which was broadly released in the iPhone 16 late in calendar Q3. We believe Apple's generative AI-enabled products should 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.

Microchip's stock was pressured in Q3 as the company continued to experience demand pressures due to a cyclical inventory correction in its end markets of microcontrollers and analog components. During the pandemic, microcontrollers and analog devices were difficult to secure and created bottlenecks in supply chains for broad-based industrial and automotive customers. This led to double ordering from direct and indirect customers, which ultimately resulted in a buildup of excess inventory. Microchip is working through this inventory correction, and it has shipped below end-demand for almost a year, in our opinion. We continue to believe that Microchip is well-positioned to grow intrinsic value double-digits once inventory in the channel clears. We believe this should likely occur exiting 2024 or in the first part of 2025.

Microsoft stock was pressured in the quarter as investors fretted over rising capex as Microsoft invests heavily in the burgeoning generative AI market. Investors are concerned about the rising capital intensity of the business and the uncertain return on that investment. We continue to believe that Microsoft occupies a strong competitive and strategic position and that it is poised to capture market share as businesses, both large and small, navigate the transition to a digital-first landscape and embrace generative AI-driven productivity tools. The company's commanding presence in the enterprise arena, combined with its comprehensive product portfolio encompassing Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS), and Software-as-a-Service (SaaS), establishes it as a crucial provider of IT solutions for companies of all scales. Microsoft is effectively executing its strategy in a sizable market by offering a roadmap for digital transformation and adoption of cutting-edge, AI-driven solutions, such as ChatGPT and its suite of Copilot applications, which enhance productivity and reduce costs. Consequently, we anticipate that Microsoft's solutions should exhibit resilience even in a more challenging macroeconomic environment, supporting low double-digit growth in intrinsic value within our investment horizon.

Alphabet recently lost an antitrust lawsuit related to its estimated $20 billion annual distribution agreement with Apple and other smartphone and web platforms. This legal setback negatively impacted Alphabet's stock price during the quarter. We anticipate significant uncertainty in the coming year as concerns about potential remedies cast a shadow over its lucrative search business. Despite this, we remain optimistic about Alphabet's overall business strength and ability to maintain leadership in various industries including search, artificial intelligence, video, and cloud computing. While we believe Alphabet is undervalued, we are exercising incremental caution due to the current legal challenges.

Portfolio Activity

During the quarter, we initiated new investments in **Linde PLC** and **Visa**. We completely liquidated our investments in **GXO Logistics, Nike,** and **Microchip Technology**.

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 and a challenging year-over-year comparable. 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 to negative economic signals. We believe these slower trends are transitory in nature, providing an opportunity to purchase shares in Linde at attractive prices.

After lagging the broader markets over the last one, three, and five years, we believe **Visa's** stock now reflects a more conservative and realistic expectation for future cash flow growth. The electronic transaction toll-taker has long enjoyed a highly defensible network effect that connects global buyers and sellers and scale advantages that keep upstart competitors from disrupting the industry's economics. At the same time, Visa directly benefits from the secular trend of replacing cash with e-payments. Penetration rates and transaction volumes in developed markets will inevitably slow over the next five years yet we expect Visa revenues to grow 8-10% over our investment horizon. Key value drivers remain global consumer spending growth, e-transaction penetration, "new flows" expansion in areas like business-to-business transactions, and lastly, value-added client service growth.

Visa's dominant position is reflected in its nearly pristine financials: 68% operating margins, greater than 70% incremental operating margins and only 3-4% capital expenditures as a percent of sales. Awash in excess capital, Visa is one of the more aggressive purchasers of its own stock. Shares outstanding over the last fifteen years have declined by one-third and we expect the company to continue to repurchase 2-3%

of shares outstanding annually. Since the 2016 acquisition of Visa Europe, total returns on capital have expanded from 25% to 50% and we expect the metric to approach 100% over the next five years as net operating profits expand roughly 60% on a flat capital base. Overall, Visa should compound per share intrinsic value at 10-13% over the next five years.

Although we believe in **GXO's** long-term growth outlook for logistics and warehouse automation, we decided to sell our investment to make room for investment opportunities with what we believe to be stronger, long-term expected returns.

We exited our **Nike** investment following an 18% stock price recovery from recent lows. This decision was prompted by Nike's revised fiscal year 2025 forecast, which projects negative mid-single-digit revenue growth. The company faces a significant slowdown in lifestyle product sales, expected to persist for at least another year. Our analysis indicates sales and earnings will likely fall 15-20% below management's previous conservative estimates. This downward revision stems from insufficient product innovation, wholesale channel shifts, and intentional supply reduction in lifestyle franchises. While reduced guidance and new leadership might provide a catalyst for the stock's performance, the path to fundamental improvement is still unclear.

Despite maintaining its position as the global sportswear leader, Nike's intrinsic value has stagnated. The company's efforts to reinvigorate innovation and re-engage with wholesale channels may eventually yield growth, but our skepticism regarding management's execution has increased. We believe Nike needs to reset investors' expectations on margins and profits while revitalizing its top-line prospects. A short-term profit sacrifice, though painful, could provide the necessary reset to achieve financial expectations in future years. We will continue monitoring Nike's turnaround and reassess the investment if fundamentals and management execution improve.

We sold our position in **Microchip Technology** for new investment opportunities in Linde and Visa, which we believe provide more favorable risk-rewards with narrower ranges of financial outcomes.

Outlook

Looking ahead, historical trends paint an optimistic picture for the remainder of 2024. Years with strong starts like this have often finished with the S&P 500® Index typically ending the year on a high note. In fact, since 1950, only once - during the 1987 crash - has the index fared significantly worse by year-end following such a strong initial showing. The market's proven resilience offers hope for continued strength, but investors should understand that economic soft landings are typically uncommon.

The market appears to be at the beginning of an easing cycle, with interest rates not exceptionally high by historical standards, which could support further gains. As equities move into the final quarter of 2024, we are monitoring signs of continued economic resilience and AI's impact on corporate profitability. The economy's strength could support a continued rally across various industries, particularly given the Federal Reserve's successful implementation of a soft landing and the broadening of the market beyond the "Magnificent Seven". Despite the potential for an expanding earnings recovery, we remain vigilant about risk allocation. With a significant market correction seemingly less likely given the easing monetary conditions, the rally may be somewhat overstated.

Prudent investment strategies should balance the opportunities presented by AI's technological innovation with a long-term, value-accretive philosophy. This approach can help navigate current market dynamics, positioning portfolios to benefit from enduring market trends while maintaining resilience against unrealized risks. Our investment approach is focused on businesses with strong competitive moats that can compound intrinsic value across various economic conditions.

Notice

Mar Vista is pleased to announce that, effective January 1, 2025, our Focus portfolio will be renamed U.S. Quality Select. This rebranding is designed to more accurately reflect the portfolio's underlying investments and align with evolving marketplace terminology. The investment team, management, and portfolio objectives will remain unchanged, as will our commitment to delivering long-term value to our investors.

Focus Annualized Returns as of September 30, 2024

	Net of Fees	S&P 500® Index	R1000®G Index
1 Year	27.48%	36.34%	42.19%
3 Years	7.61%	11.91%	12.02%
5 Years	13.30%	15.98%	19.74%
10 Years	12.86%	13.38%	16.52%
Since Inception	11.43%	11.16%	12.80%

Investors in Mar Vista's Focus 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 to manage various large-cap equity strategies. 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. 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. 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 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 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, 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. 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.

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,

The dispersion in gross-of-fees 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 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.

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 sector performance and securities mentioned in this letter were held in the account of a Focus client that Mar Vista believes to be representative of the accounts that Mar Vista manages for this investment strategy during the period from June 30, 2024-September 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 Focus 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.