MAR VISTA

Global

Portfolio Commentary | September 30, 2024

Summary

- The third quarter of 2024 marked another strong period for the U.S. and international stock markets, 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 Global strategy returned +7.23% net-of-fees in the third quarter of 2024. The MSCI World Net Index and the MSCI All Country World Net Index returned +6.36% and +6.61%, respectively.

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

- During the quarter, we completely liquidated our investments in Microchip Technology.

- The global 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.

Commentary

The third quarter of 2024 marked another strong period for the global 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 U.S. 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 in some of the developed markets. Utilities emerged as the top-performing sector in the S&P 500®Index, gaining 18%, closely followed by real estate with a 16% increase.

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.

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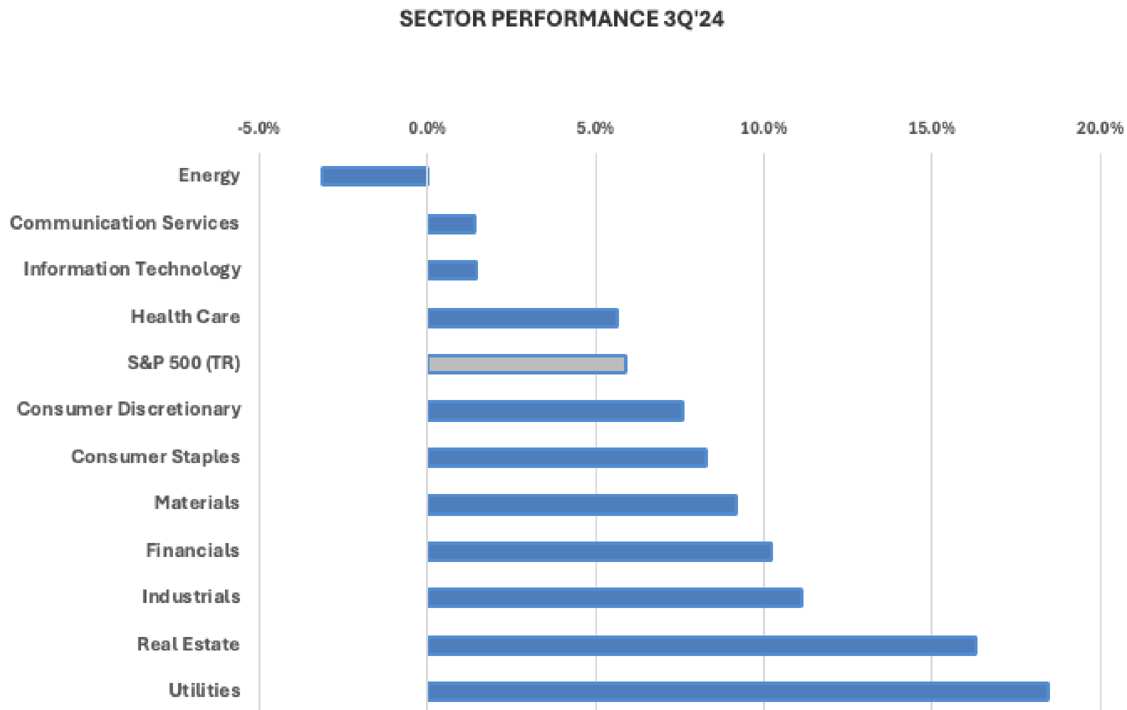
[1] Source: Karen Langley, "The Stock Market Isn't All About AI Anymore," Wall Street Journal, 9/30/24



Source: S&P Dow Jones Indices LLC.

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

Performance Review

Mar Vista's Global strategy returned +7.23% net-of-fees in the third quarter of 2024. The MSCI World Net Index and the MSCI All Country World Net Index returned +6.36% and +6.61%, respectively. Stock selection within consumer discretionary and communication services negatively impacted performance during the quarter. **Unilever**, **American Tower**, and **Oracle** were among the portfolio's top contributors for the quarter, appreciating +19.1%, +19.6%, and +21.0%, respectively. Alternatively, our investments in **Alphabet** (-8.7%), **Microsoft** (-3.6%), and **Microchip Technology** (-12.3%), and were among the portfolio's biggest detractors.

Unilever's recent quarterly performance stands out amidst a challenging consumer landscape. The company delivered robust volume growth and margin expansion, showcasing its resilience and strategic prowess. Despite economic headwinds, Unilever's deep-rooted brand portfolio and extensive emerging market presence continue to drive value creation.

While the stock price has appreciated significantly, reflecting growing investor confidence, Unilever's strong brand portfolio and strategic positioning still offer a compelling investment opportunity. The company's ability to navigate a challenging economic environment and deliver consistent results positions it well for continued success.

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.

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.

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.

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.

Portfolio Activity

During the quarter, we completely liquidated our investment in **Microchip Technology** and trimmed our investment in **SAP** after strong stock price appreciation. We increased our **Analog Devices** investment with the Microchip Technology proceeds. We think Analog Devices provides a more favorable risk-reward with correlated exposure to long-term secular tailwinds in semiconductors.

Outlook

Looking ahead, historical trends paint an optimistic picture for the remainder of 2024. Years with strong starts like this have often finished with global markets typically ending the year on a high note. The market's proven resilience offers hope for continued strength, but investors should understand that economic soft landings are typically uncommon.

The global 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 central banks’ 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 Global portfolio will be renamed Global Quality. 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.

Global Equity Annualized Returns as of September 30, 2024

	Net	MSCI World Net Index	MSCI All Country World Net Index
1 Year	29.66%	32.42%	31.76%
3 Years	6.94%	9.08%	8.09%
5 Years	10.17%	13.04%	12.19%
10 Years	9.65%	10.07%	9.39%
Since Inception	10.76%	11.44%	10.64%

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 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 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.