MAR VISTA

U.S. Quality Select

Portfolio Commentary | December 31, 2024

Summary

- The S&P 500® Index ("S&P 500®") climbed 25.0% for the year, marking its second consecutive annual gain above 20%, and capping a remarkable two-year run with a 58% total return — its best since the late 1990s. In the fourth quarter, the S&P 500's® appreciation of 2.4% was its fifth consecutive positive quarter for the first time since 2021.

- BATMMAAN — Broadcom, Apple, Tesla, Microsoft, Meta Platforms, Amazon, Alphabet, and Nvidia — all boasting market valuations exceeding $1 trillion, delivered an average 2024 return of 63.3%, significantly outperforming the S&P 500®. Excluding the BATMMAAN stocks, the S&P 500® rose by just 10.5% over the same period.

- Mar Vista's U.S. Quality Select strategy returned +0.39% net-of-fees in the fourth quarter of 2024. The Russell 1000® Index and the S&P 500® Index returned +2.74% and +2.41%, respectively.

- The fourth quarter's top portfolio contributors were Broadcom, Salesforce, and Amazon. The top detractors were American Tower, Mettler-Toledo, and Danaher.

- During the quarter, we built a new position in Equifax. We reduced our investment in American Tower and completely liquidated our investment in Disney.

- The market expects mid-teens growth in S&P 500® earnings for 2025, driven by two key catalysts: the transformative potential of artificial intelligence and the expected deregulatory environment under a Trump administration.

Commentary

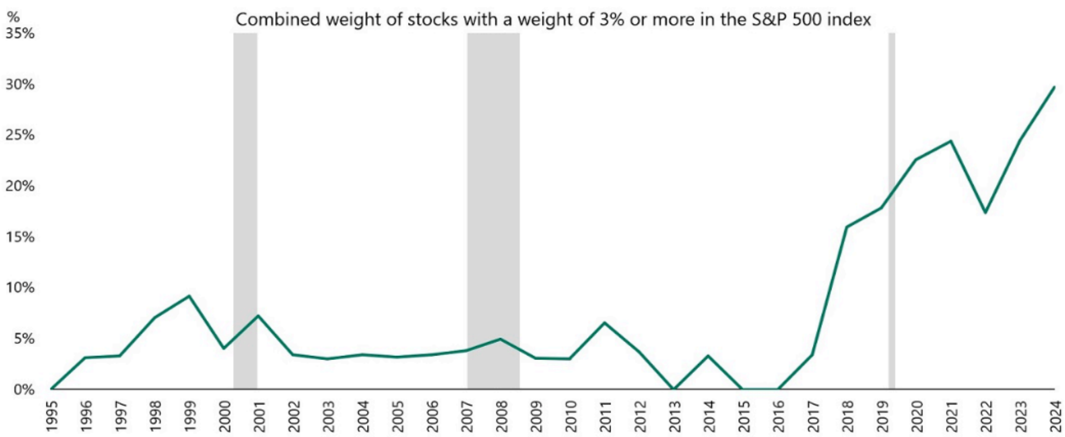
The stock market surged in 2024 and continued through Q4 as investors embraced the expanding exuberance post the presidential election. The S&P 500® Index ("S&P 500®") climbed 25.0% for the year, marking its second consecutive annual gain above 20%, and capping a remarkable two-year run with a 58% total return — its best since the late 1990s. In the fourth quarter, the S&P 500's® appreciation of 2.4% was its fifth consecutive positive quarter for the first time since 2021.

A new addition to the megacap club has led to a fresh nickname for the technology giants. What started as FANG, then evolved to FAANG, FAMANG, and most recently the Magnificent Seven, is now being referred to as BATMMAAN. This updated group includes Broadcom, Apple, Tesla, Microsoft, Meta Platforms, Amazon, Alphabet, and Nvidia, all boasting market valuations exceeding $1 trillion. In 2024, these eight stocks delivered an average 2024 return of 63.3%, significantly outperforming the S&P 500®. Excluding the BATMMAAN stocks, the S&P 500® rose by just 10.5% over the same period.

Aside from a brief selloff in early August and the last week of December, the declines were few and best used as opportunities to reload. External events that should have sent agitations through the market - the presidential election, escalating conflicts overseas, and uncertainty about the path of inflation and the Federal Reserve's rate-cutting plans - elicited a limited response.

The concentration of returns in large capitalization technology stocks continued to pose a challenge for investment firms with policies that restrict the amount of capital invested in any single stock. While financial history advocates for investment diversification, simply investing in the S&P 500® may not provide the level of diversification many investors assume. Currently, the S&P 500® is highly concentrated, with a historically high and still rising combined weight of stocks representing 3% or more of the index reaching approximately 30% (as illustrated in the accompanying chart).

S&P 500: High concentration continues to be a major problem



Source: Bloomberg, Apollo Chief Economist

While passive investing in the S&P 500® may appear to get a diversified portfolio of 500 different stocks, the reality is that this growing concentration presents a significant obstacle to achieving true diversification.

Performance Review

Mar Vista's U.S. Quality Select strategy returned +0.39% net-of-fees in the fourth quarter of 2024. The Russell 1000® Index and the S&P 500® Index returned +2.74% and +2.41%, respectively. Stock selection within information technology, healthcare, and real estate negatively impacted our performance during the quarter.

Broadcom, Salesforce, and **Amazon** were among the portfolio's top contributors for the quarter, appreciating +34.74%, +22.29%, and +17.74%, respectively. Alternatively, **American Tower, Mettler-Toledo,** and **Danaher** detracted from performance**,** declining -19.85%, -18.41%, and -17.34%, respectively.

Broadcom reported a strong fiscal year Q4 2024, exceeding expectations and reinforcing its leadership in custom AI accelerator solutions. Investors reacted positively to the company's robust performance and outlook, particularly for its AI semiconductor-related revenues and its long-term growth potential.

The outlook for continued demand for Broadcom’s custom AI accelerator products surprised many who expected a slowdown ahead of its new product, which is set to ramp in the second half of fiscal year 2025. The announcement of a long-term service addressable market (SAM) of $60-to-$90 billion further highlighted Broadcom’s significant growth runway and market opportunity in the custom AI accelerator market.

Broadcom's software business continues to deliver stable results, with the VMware acquisition integration performing ahead of plan. The stability in software business, coupled with Broadcom’s strong execution and promising outlook in high-growth areas like AI semiconductors, should position the company for continued shareholder value creation.

Investors cheered a solid fiscal year Q3 performance from **Salesforce**, with results driven by strength in subscription revenues, current remaining performance obligations (CRPO), and operating margin. Both the Sales and Service Clouds returned to double-digit growth, fueled by strong adoption of multi-cloud and vertical-specific solutions. These results highlight Salesforce's ability to address diverse customer needs and sustain growth across its core offerings.

Management expressed significant excitement about Agentforce, an organically developed generative AI product that is garnering enthusiasm from both system integrator partners and customers alike. This innovation underscores Salesforce's commitment to delivering innovative solutions that enhance customer engagement and drive productivity. While Agentforce's contributions to subscription revenues and CRPO bookings are still immaterial for now, the growing pipeline provides a solid foundation for optimism around Salesforce’s ability to productize and monetize its generative AI offerings.

Amazon's profitability was the key highlight of the third quarter financial results, with AWS and International Retail achieving record operating margins, and North America Retail posting its second-best margin in five years. Even more impressive was the fourth quarter operating income forecast, projecting up to $20 billion, significantly exceeding the expected $16 billion and suggesting a record 11% margin. This exceptional performance was driven by economies of scale, logistics efficiencies, successful AI implementations, increasing ad revenue, and accelerated AWS growth.

We keep our investment in Amazon due to several factors: AWS growth has further potential, Amazon Prime Video monetization is in its initial stages, and the company is expanding into promising sectors like Pharmacy and Logistics. Furthermore, with strengthening profitability and cash reserves exceeding $100 billion, the possibility of substantial capital returns increases. By continuing to innovate and invest in technologies like AI and cloud computing, Amazon is well-positioned to keep its competitive edge.

After appreciating by almost 40% during the prior two quarters, **American Tower’s** stock declined 21% in the fourth quarter as expectations for more aggressive Federal Reserve interest cuts moderated and longer-term interest rates rose. The fundamental outlook for American Tower did not change materially during the period, with management providing guidance that was in line with consensus expectations. The long-term global opportunities for 5G deployment, edge-of-network computing and datacenters are still attractive and are not fully reflected in the current stock price, in our opinion.

Healthcare stocks in general, and Life Science tool businesses more specifically, ended 2024 on a downbeat as investor sentiment is still cautious on the market’s post-Covid recovery. Hopes for an above-average industry growth rebound in 2025 were muted by managements’ more cautious guidance. Investor concerns over the Trump administration’s healthcare leadership and policies further dampened optimism for a strong 2025. Tariff impacts, NIH funding and Biotech/pharma spending top the list of investor concerns. We believe **Mettler-Toledo's** and **Danaher's** secular growth opportunities stay intact. Both businesses compete in key, defensible segments of the industry's value chain and have strong pricing power and margin expansion opportunities. Long-term secular drivers for scientific research and commercialization of biologic therapeutics and molecular diagnostic should drive above-average growth for both businesses.

Portfolio Activity

During the quarter, we built a new position in **Equifax.** We reduced our investment in **American Tower** and completely liquidated our investment in **Disney**.

We initiated a position in **Equifax** (EFX), which is a leader in the credit bureau and income and employment verification industries. These are data-intensive, asset-light businesses that enjoy high barriers to entry and scale advantages. Given the fixed cost structure of these markets, EFX enjoys strong operating leverage and expanding returns on capital. Although the credit bureau market is relatively mature, EFX continues to invest in new product development, geographic expansion and in acquisitions that grow its addressable market, which we believe should support above industry average growth.

EFX's Workforce Solutions, the income and employment verification segment, is its largest and fastest growing business. The economic moat of the Workforce Solutions segment is tied to the ~125 million unique, non-farm payroll records it maintains, which provide a differentiated and comprehensive dataset. EFX continues to expand the Workforce Solutions offering to address multiple end markets that include mortgage, credit card, auto, government and employee background screening. We believe these investments, coupled with EFX's market leading position and a normalization in the mortgage market, will support 20% intrinsic value growth over our investment horizon.

Over the past year, our investment in **Disney** unfolded as expected. With one of the most compelling combinations of global content and consumer brands, Disney's media business has finally reached a positive turning point. The company is successfully adapting its operations to address the ongoing transformation of the media industry. This progress has been reflected in its stock performance, closing the gap to its intrinsic value.

As friction costs diminish within the media ecosystem, companies with global audiences are receiving help from their unmatched scale advantages. While Disney is setting up itself as a long-term leader in the digital streaming space, the landscape of content distribution is still in flux. Platform giants like Netflix, Alphabet, Amazon, and Apple are rapidly dismantling competitive barriers, further intensifying the pace of change.

This secular disruption places Disney and other traditional media companies in a precarious position. With the risk-reward profile for Disney no longer favoring significant upside, we exited our investment during the quarter.

Outlook

The market expects mid-teens growth in S&P 500® earnings for 2025, driven by two key catalysts: the transformative potential of artificial intelligence and the expected deregulatory environment under a Trump administration. Artificial intelligence stands out as a particularly exciting prospect, drawing parallels to the revolutionary impact of automobiles in the 1920s. Industry experts believe artificial intelligence will meaningfully enhance worker productivity and generate efficiencies across various sectors, potentially justifying the current elevated market valuations. Complementing this technological optimism is the new administration's expected policy shift, with predictions of large deregulation that could particularly help financial services, manufacturing, and energy sectors.

The investment landscape favors more dynamic and economically sensitive sectors over traditional defensive plays. Notably, most of the BATMMAAN tech stocks continue to show a unique combination of growth potential and defensive characteristics. We do not expect this dynamic to change until either the next recession occurs, or AI enthusiasm significantly diminishes.

The S&P 500's® price-to-earnings ratio, currently hovering around 22 times calendar year 2025 projected earnings, is approaching dangerously elevated levels. The positive sentiment surrounding the economy and financial markets has fueled a surge in optimism, extending beyond equities to Bitcoin and even art. However, it is crucial to acknowledge the potential for heightened volatility and economic disruptions that could pose significant risks to equities. The economy may encounter trade complications, inflationary pressures, and the delicate task of managing Federal Reserve monetary policy. While high valuations may be uncomfortable, investors should embrace a certain level of discomfort as there has not been a convergence of deregulation and technological innovation since the 1920s. Given the already elevated valuations, the market's trajectory in 2025 is likely to be more influenced by earnings growth rather than multiple expansion.

With the market showing promising prospects, we support a balanced approach, employing valuation discipline to mitigate potential downside risks. We continue to manage a well-rounded yet growth-oriented portfolio. Our investment strategy focuses on companies with competitive advantages and strong fundamental growth, particularly those positioned to capitalize on the opportunities presented by artificial intelligence and technological advancements. We embrace the economy's growth potential but remain vigilant about the inherent risks in an increasingly complex market environment.

The investment landscape is a delicate equilibrium between opportunities and uncertainties. We strive to navigate this complexity through a combination of differentiated investments, a deep understanding of technological trends, and the adaptability to rapidly evolving market conditions.

Notice

Mar Vista is pleased to announce that, effective December 1, 2024, our Focus portfolio was renamed U.S. Quality Select. This rebranding is designed to reflect the portfolio's underlying investments and align with evolving marketplace terminology more accurately. The investment team, management, and portfolio goals will remain unchanged, as will our commitment to delivering long-term value to our investors.

U.S. Quality Select Annualized Returns as of December 31, 2024

	Net	**R1000® Index**	**S&P 500® Index**
1 Year	13.62%	24.51%	25.02%
3 Years	4.36%	8.41%	8.94%
5 Years	12.00%	14.28%	14.52%
10 Years	12.20%	12.87%	13.10%
Since Inception	11.31%	11.25%	11.15%

Investors in Mar Vista's U.S. Quality Select 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 U.S. Quality Select composite was created 12/01/07, with an inception date of 12/31/02. On 12/01/2024 the name of the composite changed from Focus to U.S. Quality Select. 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 U.S. Quality Select 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® Index, defined as an unmanaged, capitalization weighted index of those Russell 3000 companies with larger capitalizations. Index returns include dividends and/or interest income, and do not reflect fees or expenses. In addition, the Russell 1000® Index is fully invested. Investors cannot directly invest in an index. Investors cannot directly invest in an index. On 12/1/24, the primary benchmark changed from the Russell 1000® Growth Index to the Russell 1000® Index. The benchmark changed for all historical periods.

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 U.S. Quality Select 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 U.S. Quality Select client that Mar Vista believes to be representative of the accounts that Mar Vista manages for this investment strategy during the period from September 30, 2024-December 31, 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 U.S. Quality Select 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.