

MAR VISTA

Global Quality

Portfolio Commentary | December 31, 2024

Summary

- The MSCI World Net Index climbed 18.7% for the year, marking its second consecutive annual gain above 15%, and capping a remarkable two-year run with a 47% total return.
- 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 global market.
- Mar Vista's Global Quality strategy returned -3.31% net-of-fees in the fourth quarter of 2024. The MSCI World Net Index and the MSCI All Country World Net Index returned -0.16% and -0.99%, respectively.
- The fourth quarter's top portfolio contributors were Broadcom, Salesforce, and Amazon. The top detractors were American Tower, Nestle, and Novonesis.
- During the quarter, we increased our investments in Alphabet, Brookfield Corp, Danaher, Intuit, Meta Platforms, and established a new position in ASML Holdings. We reduced our position in American Tower and completely liquidated our investments in Disney and Roper Technologies.
- The global market expects low-double-digit growth in MSCI World 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 global stock market climbed in 2024 as investors embraced lower interest rates and inflation in developed markets. The MSCI World Net Index climbed 18.7% for the year, marking its second consecutive annual gain above 15%, and capping a remarkable two-year run with a 47% total return.

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 global market.

Aside from a brief selloff in early August and in the fourth quarter, the declines were few and best used as opportunities to reload. External events that should have sent agitations through the market - the U.S.

presidential election, escalating conflicts overseas, and uncertainty about the path of global trade - elicited a limited response.

The concentration of returns in large capitalization technology stocks continued to pose a challenge for investment firms. While financial history advocates for investment diversification, simply investing in passive benchmarks may not provide the level of diversification many investors assume. The reality is that growing concentration in global markets present a significant obstacle to achieving true diversification.

Performance Review

Mar Vista's Global Quality strategy returned -3.31% net-of-fees in the fourth quarter of 2024. The MSCI World Net Index and the MSCI All Country World Net Index returned -0.16% and -0.99%, respectively. Stock selection within consumer staples, industrials, and real estate negatively impacted 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**, **Nestle**, and **Novonesis** detracted from performance, declining -19.85%, -18.84%, and -21.58%, 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.

Nestlé's third-quarter financial results met revised expectations but fell short on revenue. New CEO Laurent Freixe faces significant challenges in driving improvements. The critical question remains whether Nestlé's struggles stem from executional shortcomings or broader economic factors—something we will closely monitor. With the stock trading at historic valuation lows, any early signs of progress could trigger a strong recovery in its price.

During the fourth quarter, **Novonesis'** underlying stock declined 15% with another 6% hit due to a weaker Danish Krone compared to the U.S. dollar. Investors had applauded the closing of Novozyme's and Chr. Hansen's merger earlier in the year with the stock up by one-third through the third quarter. Short-term concerns over tougher comparisons for flavor, fragrance, and beauty segments as well as cyclical challenges in U.S. ethanol production pressured the stock. We remain bullish on Novonesis' dominant market share and market-leading innovation in the promising biosolutions business.

Portfolio Activity

During the quarter, we increased our investments in **Alphabet, Brookfield Corp, Danaher, Intuit, Meta Platforms**, and established a new position in **ASML Holdings**. We reduced our position in **American Tower** and completely liquidated our investments in **Disney** and **Roper Technologies**.

We initiated a position in **ASML Holdings** (ASML) due to its unmatched leadership in semiconductor lithography equipment and its pivotal role in enabling the next generation of chip production. ASML's extreme ultraviolet (EUV) technology remains unrivaled in the industry, leading to dominate market share and strong customer relationships with leading foundries like TSMC & Samsung. ASML's wide economic moat is derived from its proprietary technology in the lithography market where its product offering is required to manufacture the most advanced semiconductors. We believe this monopoly like position should allow ASML to generate consistent long-term growth at very high returns.

ASML's stock came under pressure after management provided a softer-than-expected 2025 outlook, which created a favorable risk-reward, in our opinion. We believe the issues driving the softer than expected 2025 outlook are transitory and continue to expect ASML to benefit from growing demand for advanced semiconductors that are critical to power artificial intelligence, cloud computing, and mobile devices. We expect ASML will compound intrinsic value high-teens as semiconductor device manufacturers continue to develop more advanced and energy efficient semiconductors which rely on ASML's mission critical technology platform.

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.

Our longstanding investment in **Roper Technologies** delivered results in line with our expectations. As the stock traded near our estimated intrinsic value, we chose to exit the position and reallocate the proceeds to other opportunities within the portfolio.

Outlook

The global market expects low-double-digit growth in MSCI World 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 expected U.S. 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.

In the U.S., the S&P 500's® price-to-earnings ratio, currently near 22 times projected 2025 earnings, is approaching precariously high levels. Optimism surrounding the economy and financial markets has surged, lifting sentiment across assets ranging from equities to Bitcoin and even art. However, investors must remain mindful of potential risks, including heightened market volatility and economic disruptions. The global economy faces challenges such as trade tensions, inflationary pressures, and the complexities

of monetary policy management. Sluggish growth in Europe and China could weigh on corporate prospects, while ongoing conflicts in Ukraine and the Middle East may further unsettle markets. With U.S. valuations already stretched, the direction of global markets in 2025 will likely depend more on earnings growth and economic recoveries beyond the U.S.

Promising market prospects support a balanced investment 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 global 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 Global portfolio was renamed Global Quality. 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.

Global Quality Annualized Returns as of December 31, 2024

	Net	MSCI World Net Index	MSCI All Country World Net Index
1 Year	12.71%	18.67%	17.47%
3 Years	3.07%	6.34%	5.44%
5 Years	8.36%	11.17%	10.06%
10 Years	8.89%	9.95%	9.23%
Since Inception	10.26%	11.20%	10.34%

Investors in Mar Vista's Global Quality 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 Quality strategy.

The Global Quality composite was created in 2012, with an inception date of 12/31/11. On 12/1/24 the Global composite change its name to Global Quality. 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 Quality 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 Quality 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 Quality 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 Global Quality 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.