July 2018

After a brief and, at least in recent times, rare hiccup, stocks returned to their winning ways in the second quarter. Leading the way were a relatively narrow group of "platform" companies tied to four secular trends: e-commerce, cloud, digital advertising and digital media. Not since the monopolies of the Industrial Revolution has a concentrated group of businesses had such a dominating and disruptive force on both the economy and the markets. As business analysts, our investment team recognizes the transformative influence of these asset-light models on an increasing array of sectors. However, through our equally important valuation lens, the stocks are discounting highly optimistic scenarios and several present enormous risk should their growth trajectories disappoint.

Though we do own a few of the fairly valued disruptors, their risk-reward does not warrant the degree of the benchmarks' exposure, particularly the growth benchmarks. Out of 542 holdings in the Russell 1000® Growth Index, just six businesses[1], each with direct exposure to one or more the aforementioned secular trends, account for 28% of the benchmark, double their collective weight from thirty-six months ago. More broadly, the two largest and best performing sectors in the Russell 1000® Growth Index, technology and consumer discretionary, represent nearly 60% of the index and are up 39% and 19%, respectively, in the last six months. The concentration of the large-cap growth benchmark is at extreme levels that we have not seen since the Tech Bubble of 1999-2000.

While a handful of high-growth, dearly valued stocks generate more than 100% of the market's returns, other steady, wide-moat, cash-compounding enterprises trading at favorable discounts are cast aside. Our two largest holdings, Berkshire Hathaway and Markel Corporation, have each declined 5-6% so far this year providing an additional drag on relative performance. Both companies continue to generate excellent economic returns for shareholders.

For the year, Mar Vista's Strategic Growth strategy has returned +4.3%, net of fees. Our underweight to "platform" companies and the two hot sectors coupled with higher exposure to out-of-favor businesses has been an impediment to near-term relative performance. While we have underperformed the Russell 1000® Growth Index (+7.3%) so far this year, we continue to outperform the more sector-balanced S&P 500® Index (+2.7%).

**As Ben Graham preached, the market is a voting machine in the short-term and a weighing machine in the long-term.** We will continue to focus on the long-term.

**Portfolio Changes**

*New Buy: Teleflex*

Medical device company Teleflex enjoys the competitive advantages of long-duration intellectual property and dominant market share in niche surgical products as well as the steady demand that comes with selling surgical products used in a range of critical, non-discretionary procedures.

We expect steady 6% organic revenue growth over our investment horizon driven by: (i) inevitable surgical procedure growth as 10,000 US baby boomers reach the age of 65 every day; (ii) faster growth of Teleflex's non-elective surgical categories and share gains; (iii) new product introductions; and (iv) modest price increases. We expect management to drive operating margins from mid-20%'s to greater than 30% due to revenue-independent improvements like restructuring of their manufacturing footprint and moving to direct distribution.

Finally, we believe Teleflex sits in a "sweet spot" as a serial acquirer of emerging pre- and post-commercial medical devices by leveraging their global infrastructure to create shareholder value. Over the last five years, Teleflex has improved returns on invested capital from 8% to 11% while concurrently expanding its capital base by two-thirds, primarily from value-

[1] Facebook, Amazon, Apple, Netflix, Alphabet and Microsoft

accretive acquisitions. Future acquisitions could add as much as 3-5% to intrinsic value growth as management continues their impressive capital allocation record.

*New Buy: Facebook*

In early January of this year, we sold our position in Facebook over concerns that management and investors had become complacent about the social network's privacy and fake news issues. From our vantage point, financial expectations were simply too high for a company that needed costly platform modifications to improve the integrity and security of its network. In March, the revelation that an election consultancy firm had misused Facebook's data validated our apprehensions. This public calamity forced Facebook to implement a series of privacy changes to improve user data transparency and control.

While Facebook's regulatory issues persist, the long-term impact on intrinsic value should be minimal. As the owner of the world's most dominant social network, Facebook assumes enormous responsibility for the custody of its users' information. Management's prioritization of network security is essential to sustaining its competitive advantage. The company will incur additional compliance costs, but their economic moat will benefit from greater data transparency.

Facebook connects and engages almost a third of the world's population. This unprecedented reach makes their advertising platform tremendously effective and difficult to replace. The company's ability to expand its 8% global advertising market share over our investment horizon should result in 15-20% intrinsic value growth. With management addressing our business concerns and investor expectations reset, we rebuilt our Facebook position at an attractive 5% free cash flow yield.

*Sold: Walt Disney Company*

Our investment in Disney over the past year failed to develop as we expected. Despite owning the most attractive combination of global content and consumer brands, technology disruption in media is negatively impacting Disney's intrinsic value. Content distribution is evolving and new platform companies, like Netflix, Google and Amazon, are removing competitive bottlenecks at an accelerating pace. As friction costs leave the media ecosystem, companies with global audiences benefit from unassailable scale advantages. This secular upheaval puts Disney and other legacy media companies such as 21st Century Fox and Comcast on the edge of a dangerous precipice.

In response to Silicon Valley's competitive threat, Disney and Comcast are attempting to aggregate their own global audiences by acquiring 21st Century Fox. This showdown has substantial consequences for the entire media industry. One company will suffer the winner's curse from an expensive bidding war while the other will be forced to pursue a less grand strategic vision. In response to Comcast's superior offer, Disney increased its original bid by 35%. This potential wealth transfer from Disney shareholders to 21$^{st}$ Century Fox compelled us to liquidate our investment.

## Portfolio Outlook

The favorable macro environment is fostering stock appreciation that is outpacing the growth of underlying business values and elevated expectations leave little room for disappointment, in our estimate. Despite the dark clouds from trade wars, a flattening yield curve and damaging currency swings, other statistics such as job growth, industrial production and inflation generally remain in the "Goldilocks" zone creating a favorable environment for low interest rates and high prices for risk assets.

Over time, the expected returns of our portfolio should reflect two components: (1) the compounding nature of our businesses and (2) the discount we are paying relative to fair value. There will be times when the sentiment pendulum swings towards optimism, portfolio returns exceed the underlying intrinsic value growth, and margins of safety contract. Conversely, fear, skepticism and lower stock prices provide opportunities for both higher expected returns and less risk.

Judged by our relatively narrow average margin of safety, or discount to intrinsic value, we think the pendulum sits on the more optimistic side of the scale. The 9% portfolio average discount continues to be at the low end of the last decade and the number of stocks that are trading below our estimate of fair value is smaller than is typical.

Mar Vista claims no special skill in predicting the market's direction but, in the fullness of time, we believe a patient, high-conviction portfolio comprised of competitively advantaged serial compounders with stock prices that represent an appropriate margin of safety will generate excess risk-adjusted returns. In an investment environment with growing optimism, we will remain diligent, conservative and patient as we deploy capital within our wide-moat universe.

**Mar Vista's Commitment to Our Investors**

Though there are never guarantees in investing results, the Mar Vista team remains committed to the foundations of our success:

- Focus on the process, not the outcomes
- Emphasize capital protection as much as upside potential
- Think like rational business analysts first, not traders of individual stocks
- Identify good capital allocators that think and act like *Outsiders*
- Exploit the manic-depressive nature of Wall Street
- Take concentrated positions when the expected returns relative to the risks are favorable
- Expand our circle of competence and latticework of mental models
- Align our economic incentives with our investors

We appreciate the trust you have instilled in us as stewards of your capital. Our role as fiduciary is paramount to everything we do and open communication about how we are managing your capital is an important part of that responsibility.

Please let us know of any questions, comments or concerns you have. We look forward to the opportunity to discuss our investment philosophy and thoughts with you through these updates, conference calls and personal meetings. You can reach us by phone at 310.917.2800, via email at info@marvistainvestments.com or visit our website at www.marvistainvestments.com.

All the best,
The Mar Vista Investment Team

***Strategic Growth Annualized Returns as of June 30, 2018***

| | Net | S&P 500® | Alpha | R1000®G | Alpha |
|---|---|---|---|---|---|
| **1 Year** | 15.1% | 14.6% | 6.63 | 22.5% | 1.25 |
| **3 Years** | 11.9% | 11.9% | 2.13 | 15.0% | 0.05 |
| **5 Years** | 14.4% | 13.4% | 2.25 | 16.4% | 0.54 |
| **10 Years** | 11.6% | 10.2% | 2.56 | 11.8% | 1.63 |
| **Since Inception** | 9.4% | 8.6% | 2.06 | 9.6% | 1.68 |
| | | | | | |
| **"Peak-to-Peak"** | 10.0% | 8.3% | 2.75 | 10.2% | 1.60 |

** Peak-to-Peak represents returns generated January 1, 2008 through December 31, 2017.*

***Focus Annualized Returns as of June 30, 2018***

| | Net | S&P 500® | Alpha | R1000®G | Alpha |
|---|---|---|---|---|---|
| **1 Year** | 15.8% | 14.6% | 7.82 | 22.5% | 3.53 |
| **3 Years** | 12.1% | 11.9% | 1.83 | 15.0% | -0.29 |
| **5 Years** | 14.8% | 13.4% | 2.61 | 16.4% | 0.63 |
| **10 Years** | 12.1% | 10.2% | 3.18 | 11.8% | 2.06 |
| **15 Years** | 10.2% | 9.3% | 2.29 | 10.3% | 1.77 |
| **Since Inception** | 10.8% | 9.8% | 2.42 | 10.8% | 1.75 |
| | | | | | |
| **"Peak-to-Peak"** | 10.3% | 8.3% | 3.02 | 10.2% | 1.64 |

** Peak-to-Peak represents returns generated January 1, 2008 through December 31, 2017.*

***Global Annualized Returns as of June 30, 2018***

| | Net | MSCI World Net® | Alpha |
|---|---|---|---|
| **1 Year** | 11.9% | 11.1% | 9.26 |
| **3 Years** | 8.1% | 8.5% | 2.41 |
| **5 Years** | 9.4% | 9.9% | 2.20 |
| **Since Inception** | 10.7% | 11.4% | 2.13 |

*Investors in Mar Vista's Strategic Growth, Focus or Global strategies acknowledge and agree that (I) any information provided by the Firm is not a recommendation to invest in the strategies 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 strategies 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 strategies 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, 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.

Mar Vista claims compliance with the Global Investment Performance Standards (GIPS®).

The Strategic Growth Composite was created 12/01/07, with an inception date of 12/31/03. 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, fee paying portfolios with no minimum or maximum account value, managed in accordance with Mar Vista's Strategic Growth strategy, and that paid for execution on a transaction basis. Prior to 1/01/06, the composite was defined to include only taxable portfolios with no minimum or maximum value. One non-fee paying portfolio is included in the composite for the following periods: 0.2% of the composite's assets for year end 2008; 0.1% of the composite's assets for 2009; and 0.1% of the composite's assets for 2010; and 0.1% of the composite's assets for the period ending 9/30/11. Beginning 10/1/11 there are no longer any non-fee paying accounts in the composite. The results in the column marked Net of Fees for the periods 8/01/08 through the present, include a standard management fee applied to any non-fee paying portfolio for performance calculation purposes.

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, fee paying, 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. Effective 10/1/05, portfolios with directed commissions were excluded from the composite. 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. One non-fee paying portfolio is included in the composite for the following periods: 16% of the composite's assets for year end 2004; 100% of the composite's assets for year end 2005 and 2006. Three non-fee paying portfolios are included for the following periods: 42% of the composite's assets for year end 2007; 17% of the composite's assets for year end 2008; 19% of the composite's assets for 2009; 0.1% of the composite's assets for 2010; 0.1% of the composite's assets for 2011; 0.1% of the composite's assets for 2012; 0.1% of the composite's assets for 2013; 0.1% of the composite's assets for 2014; 0.1% of the composite's assets for 2015; 0.1% of the composite's assets for 2016; 0.1% of the composite's assets for 2017; 01% of the composite's assets for 2Q2018. The results in the column marked net of fees for the periods 4/01/04 through the present, include a standard management fee applied to any non-fee paying portfolio for performance calculation purposes.

The primary benchmark is the Russell 1000® Growth Index, defined as an unmanaged, capitalization weighted index of those Russell 1,000 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 composite returns shown herein was measured using an asset-weighted standard deviation formula. 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 Strategic Growth and 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.

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, fee paying, 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 15-30 equities, and that paid for execution on a transaction basis. The benchmark is the MSCI World Index. Two non-fee paying portfolios are included in the composite for the following periods: 100% of the composite's assets for 2012; 100% of the composite's assets for 2013; 100% of the composite's assets for 2014; 100% of the composite's assets for 2015; 100% of the composite's assets for 2016; 100% of the composite's assets for 2017; 100% of the composite's assets for 2Q2018. 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 benchmark is the MSCI World 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 dispersion in composite returns shown herein was measured using an asset-weighted standard deviation formula. 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. Three non-fee paying accounts are net down by the maximum fee. 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. Past performance is no guarantee of future results. Not FDIC insured, no bank guarantee, may lose value.

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 and a presentation that complies with GIPS® for each strategy mentioned are available upon request by contacting Mar Vista directly at (310) 917-2800 or by emailing at info@marvistainvestments.com. The securities mentioned in this letter were held in the account of a Strategic Growth 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, 2018-June 30, 2018. 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. Risk data is being provided as supplemental to the Strategic Growth, Focus and Global Equity GIPS® performance presentations, which are available upon request. Past performance is no guarantee of future results. Not FDIC insured, no bank guarantee, may lose value.