Harbor in the Tempest

January 2023

Greed prevailed over fear for most of the last decade as TINA (There Is No Alternative) continued to drive strong equity returns. In 2021, the reopen-trade was the primary tailwind for this phenomenon as unprecedented, pent-up consumer demand pulled forward future earnings. The catalyst behind the strong demand was substantial U.S. monetary and fiscal support, as well as a post-pandemic economic normalization that had global implications. As 2021 wound down, investors ignored decelerating economic growth, supply chain bottlenecks, tightening monetary supply, rising yields and geo-political turmoil in hopes of squeezing the last returns out of an already exhausted bull market.

After a brief rally in early January, fear displaced greed in 2022. Newspapers were littered with shocking headlines like war breaks out in Europe, inflation hits a forty-year high, and mortgage rates sky rocket as the Federal Reserve aggressively pivots to combat inflation. Investor sentiment swooned in a swift and dramatic fashion as the Russian invasion of Ukraine coupled with rolling Covid lockdowns in China exacerbated supply chain, inflationary and market valuation concerns. The market response was pronounced and delivered the worst returns in a 6-month period in over a decade in the first half of 2022. The economic whirlwind broadly impacted capital markets with every S&P 500® Index sector, except Energy and Utilities (+66% & +1.4%, respectively), down in 2022.

No one can consistently predict the direction of interest rates, the outcome of wars and the impact geo-political tensions have on global growth and company fundamentals. What we do know is we are operating in a different environment versus the prior decade where interest rates were near zero and global GDP muddled through with the support of favorable fiscal and monetary policies around the world. That was an environment where taking excessive risk was rewarded despite the lofty valuations and equity risk premiums being at all-time lows. Fear of missing out ruled the day in the late stages of the bull market. Calendar 2022 was a reminder that a decade of fabulous performance can be wiped out in a year when risks are ignored and performance is chased.

The macro environment is full of noise, difficult to predict and constantly changing. What has not and is not changing and can be easily understood is Mar Vista's consistent, predictable and repeatable investment process. For sixteen years, Mar Vista has taken a private equity approach to investing in public markets. We invest exclusively in high-quality businesses with competitive advantages that generate above average returns on capital. Our investment process requires our portfolio companies to have competitive advantages that we understand and believe are durable. It guides us to management teams that skillfully operate the business and are proven capital allocators. A hallmark of our portfolio companies is their long runway of growth which provides fertile grounds for skilled capital allocators to redeploy excess free cashflow at high rates of return.

A concentrated portfolio of exceptional businesses with skilled management is a powerful combination in a high interest rate world where capital is becoming scarce. Quality companies are generally not reliant on capital markets to fund their growth as they can reinvest excess free cashflow into research and development, organic growth initiatives and strategic acquisitions. We believe this should position

Mar Vista's portfolio of high-quality businesses well to take market share and grow intrinsic value at above market rates in uncertain times.

Investing is an inherently risky undertaking. Given we are forecasting the future earnings and free cashflow of businesses that operate in fluid and competitive markets, we recognize that a handful of our investments will fail to meet our expectations. Hence, we believe capital preservation is equally as important as capital appreciation. To mitigate the risk of permanent capital loss, we require that our investments be purchased at a discount to our assessment of intrinsic value with the goal of producing market-beating returns with less risk over the long-term.

We believe our advantage comes from a patient, consistent, and rational application of time-tested principles. We have institutionalized a private equity-like, owner-oriented framework that leads us to competitively advantaged high-quality businesses like Air Products (APD). APD produces and sells specialty gases in an oligopolistic industry structure. Specialty gases are a vital component and account for a small portion of its industrial customers' bill of materials. APD's position in the value chain allows it to write long-term, take-or-pay contracts with pricing power. Its competitive advantages are durable and tied to high switching costs and long-term contracts. The firm is operated by skillful management who have improved operating margins by over 700 basis points ("bps") since Seifi Ghasemi took over the CEO role in 2014. Mr. Ghasemi optimized shareholder returns by reducing costs, divesting low margin, low return businesses and allocating capital to high return projects in emerging markets.

Complex multi-year industrial projects rarely develop without some bumps in the road. APD's decision to allocate capital to projects in the Middle East and China proved that to be true. These transitory issues gave rise to significant downside stock price volatility. Mar Vista's private equity-like approach to investing recognized these issues as short-term in nature versus structural to APD's business model, capital allocation strategy and its ability to generate high future rates of return when the cloudy skies inevitably cleared. As other investors myopically focused on short-term stumbles and pressured the stock, Mar Vista's investment process led us to recognize the improved opportunity for higher returns at lower risk. In 2022, APD became a top holding in our high-conviction portfolio of high-quality businesses.

Market Outlook

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, and portfolio returns exceed the underlying intrinsic value growth while margins of safety, or discount to intrinsic value, contract. Conversely, fear, skepticism and lower stock prices provide opportunities for both higher expected returns and less risk. As the capital markets have shifted from an era of historically low real interest rates and benign inflation to one with decidedly higher risk-free hurdles and eroding purchasing power, asset valuations, growth expectations and security prices have adjusted rapidly.

While our expectations for free cash flow growth are more muted than a year ago due to the more challenging global economy, stock prices have, on average, declined more than our estimates of fair value. Accordingly, the portfolio's average margin of safety has expanded to more attractive levels than we have seen in many years. Although we expect continued market volatility, we will continue to implement Mar Vista's consistent, predictable and repeatable investment process. Our process typically leads us to businesses with wide economic moats that have abundant, high-return reinvestment opportunities with proven capital allocators at the helm. We believe that the unemotional implementation of Mar Vista's investment process, coupled with the wider margin of safety we are realizing today, provides a reasonable backdrop to deliver favorable risk-adjusted returns over a full economic cycle.

Mar Vista' Commitment to Our Investors

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

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

As always, 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 may have. We look forward to the opportunity to discuss our investment philosophy and thoughts with you through these updates, conference calls and personal meetings. We can be reached 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

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.

The security mentioned in this letter was 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 January 1, 2022-December 31, 2022. Other Mar Vista clients managed with different investment objectives may hold different securities than those listed. The security 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 security identified herein were or will be profitable. A complete list of portfolio holdings and specific securities transactions for the Strategic Growth 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. This information has been gathered from sources considered to be reliable, however its accuracy cannot be guaranteed. Past performance is no guarantee of future results. Not FDIC insured, no bank guarantee, may lose value.