

MAR VISTA

U.S. Quality

Portfolio Commentary | June 30, 2025

Summary

- The first half of 2025 ended on a historic note, as U.S. equities shrugged off earlier turbulence to close at record levels. The S&P 500® Index (“S&P 500®”) and Nasdaq Composite led the rebound, each finishing the second quarter at all-time highs.
- The second quarter stood out for its strength, with the S&P 500® posting its best quarterly gain since 2023 and the Nasdaq recording its strongest advance since 2020. The equal-weighted S&P 500® lagged its traditional, market-cap-weighted counterpart, underscoring the continued dominance of a handful of large-cap technology names.
- Mar Vista’s U.S. Quality strategy returned +12.40% net-of-fees in the second quarter of 2025. The Russell 1000® Index and the S&P 500® Index returned +11.10% and +10.94%, respectively.
- The second quarter’s top portfolio contributors were Microsoft, Broadcom, and Oracle. The top detractors were Apple, Johnson & Johnson, and Berkshire Hathaway.
- During the quarter, we initiated an investment in GE Aerospace, and we reduced our positions in Alphabet, HEICO, SAP, and Visa.
- The second half is shaping up to be a more volatile chapter for equity markets. Persistent policy uncertainty—particularly surrounding U.S. trade—remains a significant headwind. As political and economic complexities continue to unfold, investors should brace for heightened market fluctuations.

Commentary

The first half of 2025 ended on a historic note, as U.S. equities shrugged off earlier turbulence to close at record levels. The S&P 500® and Nasdaq Composite led the rebound, each finishing the second quarter at all-time highs. This sharp recovery was driven by a mix of strong corporate earnings and unexpectedly resilient economic data, helping the S&P 500® recover from the “April swoon” that had brought it close to a bear market. Since President Trump’s sweeping tariff announcements, the Index has surged more than 9%.

Yet the path to these milestones was anything but smooth. The opening six months of the year were marked by elevated volatility, making it one of the most unpredictable starts to a year for the S&P 500® in recent memory. Investors contended with persistent recession worries, amplified by escalating trade tensions and geopolitical uncertainties. This environment of ambiguity weighed heavily on market sentiment, triggering a significant correction earlier in the year and contributing to a second consecutive quarterly drop in the U.S. dollar.

Big Tech once again led the market higher as hopes for a broader rally across sectors did not materialize. During the quarter, the equal-weighted S&P 500® lagged its traditional, market-cap-weighted counterpart, underscoring the continued dominance of a handful of large-cap technology names.

Nonetheless, the second quarter stood out for its strength, with the S&P 500® posting its best quarterly gain since 2023 and the Nasdaq recording its strongest advance since 2020. The rally was further fueled by a rebound in AI-focused stocks and Bitcoin's dramatic rise past \$100,000—signals of renewed investor appetite for growth and alternative assets.

Still, caution remains the prevailing sentiment. Concerns around rising tariffs, stubborn inflation, and the ballooning U.S. deficit continue to weigh on outlooks. Geopolitical developments remained a key market driver, with oil prices undergoing a dramatic “round trip”—initially spiking on Middle East tensions, only to retreat after a ceasefire between Israel and Iran. Meanwhile, the dollar's ongoing decline reflects growing doubts about “U.S. exceptionalism,” as erratic policy moves from the Trump administration fuel further uncertainty.

Performance Review

Mar Vista's U.S. Quality strategy returned +12.40% net-of-fees in the second quarter of 2025. The Russell 1000® Index and the S&P 500® Index returned +11.10% and +10.94%, respectively. Stock selection within health care, consumer discretionary, and information technology positively impacted our performance during the quarter, while industrials and financials detracted from short-term results.

Microsoft, **Broadcom**, and **Oracle** were among the portfolio's top contributors for the quarter, appreciating +32.75%, +65.02%, and +56.96%, respectively. Alternatively, **Apple**, **Johnson & Johnson**, and **Berkshire Hathaway** detracted from performance, declining -7.52%, -7.11%, and -8.79%, respectively.

Microsoft (MSFT) shares rebounded in calendar Q2 following a strong fiscal Q3 2025 (March quarter), driven by accelerating demand for AI-related Azure services. Robust second-half momentum, coupled with strong bookings as reflected in the Remaining Performance Obligation exceeding \$300 billion (+33% year over year), helped ease investor concerns around enterprise IT spending and the long-term return potential of Microsoft's substantial AI infrastructure investments.

We continue to believe Microsoft is well-positioned to gain market share as organizations increasingly embrace a digital-first strategy and adopt generative AI solutions. With deep enterprise penetration and a comprehensive portfolio spanning Infrastructure as a Service (IaaS), Platform as a Service (PaaS), and Software as a Service (SaaS), Microsoft remains the preeminent mission-critical IT provider across industries.

The company is executing effectively against a large and growing market opportunity by enabling digital transformation and delivering cutting-edge AI tools like ChatGPT that enhance productivity and lower costs. As a result, we expect Microsoft's offerings to remain resilient, even in a challenging macroeconomic environment, supporting low double-digit intrinsic value growth over our investment horizon.

Broadcom (AVGO) shares rebounded from their calendar Q1 decline as investor concerns surrounding Trump-era trade tensions and the risk of suboptimal returns on large-scale AI capex by hyperscalers

proved to be overstated. The company delivered a solid fiscal Q2 2025 (April quarter) and guided for accelerating AI semiconductor revenue growth through FY2026.

Broadcom remains the leading provider of custom AI ASICs and continues to diversify its customer base beyond its initial anchor client, Alphabet. It now has three hyperscaler customers in volume production and disclosed that four additional customers are currently designing custom ASICs based on Broadcom's technology. Management is optimistic that these new design wins will transition to volume production in the coming years. Interest in custom ASICs remains high among hyperscalers, as these chips offer compelling cost and performance advantages over general-purpose GPUs from providers like Nvidia, particularly for specialized compute workloads.

Oracle (ORCL) shares rebounded from the pressure experienced in calendar Q1 2025, as concerns about tariffs impacting IT budgets proved to be overstated. The company reported a strong fiscal Q4 2025 (May quarter), driven by robust demand for its hyperscale cloud offering, OCI Gen 2, which supports large language models.

Oracle issued a confident outlook, projecting accelerating revenue and operating income growth over the intermediate term as it continues its strategic transition to cloud-based solutions. The OCI Gen 2 platform is particularly well-suited for generative AI workloads, where Oracle is gaining both mindshare and market share within the hyperscaler cloud market. Notably, in the most recent quarter, Oracle reported strong bookings, highlighted by a 41% year-over-year increase in remaining performance obligations, reaching nearly \$138 billion.

Further reinforcing its momentum, Oracle filed an 8-K disclosing several large OCI Gen 2 contracts signed in the current quarter (August quarter), including a new agreement with a single customer expected to generate more than \$30 billion in annual revenue beginning in FY2028.

In parallel, Oracle has spent more than a decade modernizing its back-office ERP, supply chain management, and HR application suites for the cloud. These long-term investments are now translating into market share gains across strategic back-office applications, a segment that continues to exhibit healthy growth.

Apple (AAPL) shares came under pressure in the first half of calendar 2025 amid concerns over softening iPhone demand, rising competition from Huawei in China, challenges related to the rollout of Apple Intelligence, its new on-device AI offering, and potential tariff-related headwinds. Despite these near-term pressures, we continue to view Apple as a competitively advantaged business, anchored by the strength of its ecosystem. With over 2 billion active devices and more than 1 billion paying subscribers, Apple benefits from a loyal customer base and a growing stream of high-margin, recurring services revenue. This stable cash flow enables continued investment in innovation, even during periods of cyclical softness. We believe the current headwinds are transitory, and Apple remains well-positioned to lead in the emerging category of AI-enabled edge devices.

Johnson & Johnson (JNJ) declined 7% during the quarter amid a broad selloff in healthcare which led to the sector's worst relative performance in twenty-five years. Proposed regulatory changes and tariffs impacting drug prices, research and development investments, manufacturing and insurance coverage all converged to create uncertainty for the sector. JNJ also suffered a setback to put talc liabilities behind them when a Texas court ruled the company's bankruptcy strategy was not allowed. The company will return to litigating lawsuits in the courts, where the company has won 15 out of 16 cases.

Despite hitting all-time highs early in the second quarter, **Berkshire Hathaway's** stock declined 9% for the three-month period. Warren Buffett's surprise announcement at the company's shareholder meeting that he would retire at year-end marked the beginning of the stock sell-off. Berkshire was built intentionally to outlast Mr. Buffett so the formal announcement of his retirement doesn't change our perspective on the business. While there may be subtle changes, we expect Greg Abel will maintain Berkshire's core investment and capital allocation principles. The new CEO will have substantial dry powder to deploy with almost \$340 billion in cash and an additional \$40b in annual free cash flow. We would expect Mr. Abel to instill a material dividend policy to provide an outlet for excess cash. Stock repurchases are likely to remain opportunistic depending on Berkshire's stock valuation relative to his and the Board's estimate of fair value. Berkshire's ability to deploy capital at the most opportune times, when valuations are cheap and capital is scarce, will remain an important feature with or without Buffett.

Portfolio Activity

During the quarter, we initiated an investment in **GE Aerospace**, and we reduced our positions in **Alphabet**, **HEICO**, **SAP**, and **Visa**.

We initiated a position in **GE Aerospace** based on its durable competitive advantages, anchored by its dominant market share in commercial and military aircraft engines—powering over 60% of the global narrowbody fleet through its joint ventures and proprietary platforms. Its strong aftermarket business, with long-term maintenance contracts and a growing installed base, provides a recurring revenue stream that buffers against cyclicality. The company's leadership in high-bypass turbofan technology and its ability to scale production efficiently have fortified its position, especially as airlines prioritize engine reliability and fuel efficiency. Meanwhile, management, led by CEO Larry Culp, continues to execute with precision, navigating new tariff regimes by localizing supply chains, securing alternate sources of key components, and optimizing logistics costs.

Looking forward, the company is poised for continued growth across commercial aviation, defense, and emerging hybrid-electric propulsion. Growth in global aviation is expected to continue to outpace global GDP growth by as much as 2x. Margin expansion opportunities are supported by a shift toward higher-value service contracts, digital engine diagnostics, and vertical integration of key manufacturing processes. Additionally, the geared turbofan engine platform of its chief competitor, has faced persistent durability and maintenance challenges—most notably involving premature wear and costly inspections—that have undermined confidence and led to delays and compensation claims. In contrast, GE Aerospace's product suite is gaining share and customer trust, supported by a deep engineering bench and a culture of disciplined execution. We believe this combination of structural advantages and competitor missteps should sustain the company's upward trajectory and deliver strong long-term returns.

Outlook

After a strong rebound in the first half of 2025, the second half is shaping up to be a more volatile chapter for equity markets. While the S&P 500® and Nasdaq notched new record highs on the back of solid corporate earnings, persistent policy uncertainty—particularly surrounding U.S. trade—remains a significant headwind. The first-quarter contraction in U.S. GDP, the first since 2022, underscores the tangible economic toll of these unresolved issues. As political and economic complexities continue to unfold, investors should brace for heightened market fluctuations.

Looking beyond near-term concerns, the global economy is amid a deeper structural transformation, driven by geopolitical realignment, military tensions, and economic recalibration. This environment has made companies more cautious in their investment decisions—especially with the expiration of the reciprocal tariff pause looming in the third quarter. Rising tariffs are already pressuring margins as businesses absorb higher costs, potentially increasing recession risks and adding further instability to markets.

Yet amid these challenges, there are reasons for optimism. Record highs in major indexes are supported by resilient earnings and economic data, with inflation hovering near the Federal Reserve’s 2% target. The AI-driven rally has also regained momentum. Despite moderated earnings forecasts, FactSet predicts gains of 9.4% for 2025 and 13.7% for 2026, which are strong figures in an uncertain environment.

Given already elevated valuations, the market’s trajectory from here will likely hinge more on earnings growth than further multiple expansion. In this context, we continue to advocate for a disciplined investment approach—one that emphasizes valuation awareness to help guard against downside risk. Our strategy remains focused on maintaining a diversified, growth-oriented portfolio that seeks to balance opportunity with prudent risk management.

Navigating today’s evolving investment landscape demands flexibility, insight, and conviction. By leveraging differentiated ideas, staying attuned to technological innovation, and remaining adaptable to a shifting macro environment, we aim to position our portfolio for sustainable, long-term value creation.

The Mar Vista Investment Team

U.S. Quality Annualized Returns as of June 30, 2025

	Gross	Net*	R1000® Index	S&P 500® Index
1 Year	15.35%	14.49%	15.66%	15.17%
3 Years	17.61%	16.75%	19.59%	19.71%
5 Years	13.15%	12.31%	16.30%	16.64%
10 Years	12.62%	11.78%	13.35%	13.65%
Since Inception	10.25%	9.47%	10.00%	9.95%

**As of January 1, 2025, the firm began presenting net of a model fee for all historical periods, calculated using 1/12th of the highest annual fee schedule applied to the monthly gross returns of the composite.*

Investors in Mar Vista’s U.S. 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 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 Capital Management. 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 Composite was created 12/01/07, with an inception date of 12/31/03. On 12/01/2024 the name of the composite changed from Strategic Growth to U.S. 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 portfolios with no minimum or maximum account value, managed in accordance with Mar Vista's U.S. Quality 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. 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 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. 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 as of 1/1/25, net returns for all periods are calculated using a model fee, by deducting 1/12th of 0.75% from monthly gross returns. 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 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 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, 2025-June 30, 2025. 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 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.