

MAR VISTA

U.S. Quality

Portfolio Commentary | March 31, 2025

Summary

- U.S. stocks endured their worst quarter in nearly three years as concerns over tariffs and economic stagnation weighed heavily on investor sentiment. The S&P 500® Index and Nasdaq Composite suffered their steepest three-month losses since 2022, with fears that the Trump administration's aggressive trade policies could lead to stagflation in the world's largest economy.
- The S&P 500® Index is struggling to recover from a correction after dropping 10% from its February peak. Meanwhile, the Nasdaq Composite remains in correction territory after a 10.4% slide in the first quarter, reflecting a broader retreat in technology stocks which had previously propelled markets to record highs.
- Mar Vista's U.S. Quality strategy returned -3.05% net-of-fees in the first quarter of 2025. The Russell 1000® Index and the S&P 500® Index returned -4.49% and -4.27%, respectively.
- The first quarter's top portfolio contributors were Berkshire Hathaway, Johnson & Johnson, and Visa. The top detractors were Broadcom, Salesforce, and Microsoft.
- During the quarter, we initiated a minor investment in NVIDIA and increased our investment in Microsoft. We reduced our positions in Apple and Meta Platforms and completely liquidated our investment in PepsiCo.
- Positive economic momentum could continue if the U.S. establishes a clear trade policy that allows businesses to plan strategically. However, prolonged uncertainty could hinder corporate decision-making, resulting in delays in capital expenditures, hiring, and major projects — developments that could have substantial economic repercussions.

Commentary

U.S. stocks endured their worst quarter in nearly three years as concerns over tariffs and economic stagnation weighed heavily on investor sentiment. The S&P 500® Index and Nasdaq Composite suffered their steepest three-month losses since 2022, with fears that the Trump administration's aggressive trade policies could lead to stagflation in the world's largest economy. The uncertainty surrounding tariffs and a slowdown in the technology sector dragged both indices lower, forcing some investors to look overseas for better opportunities.

The volatile rollout of tariffs against major U.S. trading partners has led analysts to cut economic growth forecasts while raising inflation expectations. As a result, the S&P 500® Index is struggling to recover from a correction after dropping 10% from its February peak. Meanwhile, the Nasdaq Composite remains in

correction territory after a 10.4% slide in the first quarter, reflecting a broader retreat in technology stocks that had previously propelled markets to record highs.

The downturn in the technology sector was particularly sharp, with market leaders experiencing significant declines. NVIDIA, a key player in AI-driven semiconductor manufacturing, lost nearly 20% of its value in Q1, as concerns emerged that the AI investment boom may have been overhyped. Tesla faced even steeper losses, plunging 36%, while Apple and Microsoft each shed around 11%. The pullback extended beyond technology stocks, with consumer-facing and other economically sensitive companies also seeing sharp declines.

As U.S. equities faltered, investors turned their attention to international markets, particularly Europe, where stocks outperformed their American counterparts. This shift represents a stark contrast to the dominance of U.S. markets in 2023 and 2024, highlighting growing concerns about domestic economic prospects.

Performance Review

Mar Vista's U.S. Quality strategy returned -3.05% net-of-fees in the first quarter of 2025. The Russell 1000® Index and the S&P 500® Index returned -4.49% and -4.27%, respectively. Stock selection within healthcare, communication services, and consumer staples negatively impacted our performance during the quarter.

Berkshire Hathaway, **Johnson & Johnson**, and **Visa** were among the portfolio's top contributors for the quarter, appreciating +17.49%, +15.59%, and +11.08%, respectively. Alternatively, **Broadcom**, **Salesforce**, and **Microsoft** detracted from performance, declining -27.56%, -19.73%, and -10.76%, respectively.

Berkshire Hathaway appreciated 17% during the quarter fueled by solid underwriting results for the insurance platform and renewed investor interest in defensive businesses. Berkshire's cash balances expanded to \$330 billion as of the end of the year with a notable reduction in its large Apple position. Berkshire's excess capital should allow the company to better navigate turbulent periods and make strategic investments at opportune times.

Johnson & Johnson (JNJ) appreciated 16% as the market favored businesses with more defensive characteristics. JNJ also posted strong fundamental results in pharmaceutical (+7% revenue growth) ahead of Stelera biogeneric approvals in January 2025. We expect JNJ to grow revenues 5-7% through 2030 with faster EPS growth driven by new innovative immunology, oncology, and neurology drugs. JNJ's MedTech franchise should outpace the growth of the rest of the industry on the strength of new products in electrophysiology, orthopedics, and robotics.

Visa's stock appreciated 11% as secular trends in electronic payments remain steady despite macroeconomic uncertainty. Revenues should grow faster than overall consumer spending as electronic network penetration, cross-border travel, and new services benefit the company's top line. Visa's "toll taker" status should allow the business to thrive even in inflationary environments. We expect Visa to compound intrinsic value at low-mid teen rates in a variety of economic scenarios.

We maintain a positive outlook on **Broadcom** shares, despite recent stock price pressure stemming from two key concerns: (1) uncertainty around potential tariffs and the impact on global growth, and (2) investor skepticism regarding the return profile of large-scale AI capex investments by hyperscalers. This skepticism has been amplified by the efficiency gains recently demonstrated by DeepSeek, an unknown Chinese

software company, which developed a competitive large language model at a much lower cost. These efficiency gains stoked fears that hyperscalers may have overbuilt AI infrastructure.

Broadcom maintains a strong competitive position in the custom AI ASIC market, as well as a disciplined capital allocation, most recently reflected in the VMWare acquisition. That deal is already delivering better-than-expected top-line growth and margin expansion. Broadcom is the leading provider of custom AI ASICs and has been steadily diversifying its customer base beyond its initial anchor client, Alphabet. Many hyperscalers are interested in developing custom ASICs, which are tailored to specific computing tasks, given their lower costs and attractive performance attributes relative to general-purpose GPUs from providers like NVIDIA.

While we remain constructive on Broadcom's long-term prospects, we did trim our position earlier in the quarter at higher levels to reallocate capital toward a more favorable risk-reward opportunity. Nonetheless, Broadcom remains a core holding in our portfolio and offers an attractive margin of safety. We believe the company is well-positioned to grow intrinsic value by +20% over the intermediate term.

Salesforce's (CRM) stock came under pressure in Q1 as investors grew concerned about the potential negative impact of trade tensions and tariffs on the global economy, as well as the current lack of monetization from AI-enabled software solutions. Despite these concerns, we remain confident in Salesforce's strong competitive position, deep customer relationships, and its ability to monetize AgentForce, its newly launched generative AI-enabled chatbot designed to automate customer service tasks and significantly reduce costs compared to traditional call center support solutions.

As the largest provider of SaaS-based customer relationship management software globally, Salesforce possesses a vast repository of customer data. This data, when combined with generative AI solutions like AgentForce, can be mined for valuable insights and used to deliver enhanced customer outcomes. While AgentForce is still in its initial stages, it has already generated strong interest from both customers and global system integrators. Notably, Salesforce announced that approximately 5,000 customers are currently testing AgentForce, including around 3,000 paying customers. We continue to believe that Salesforce is well-positioned to monetize its AI offerings over time and expect the company to grow intrinsic value at a low double-digit rate.

Microsoft (MSFT) reported strong bookings, highlighted by an accelerating remaining performance obligation of nearly \$300 billion, representing 36% year-over-year growth, as well as healthy cloud revenue growth of 21% year-over-year. Despite this solid performance, MSFT stock came under pressure as Azure revenue growth, at 31% year-over-year, came in at the low end of expectations. Additionally, guidance for the March quarter forecasted Azure revenue growth of 31% to 32%, reflecting a slowdown in non-AI-related Azure growth.

We continue to believe Microsoft is well-positioned to gain market share as organizations of all sizes pivot toward a digital-first future and adopt generative AI solutions. With a strong presence in the enterprise and a comprehensive portfolio spanning infrastructure-as-a-service (IaaS), platform-as-a-service (PaaS), and software-as-a-service (SaaS), Microsoft is a mission-critical IT provider across industries.

The company is executing effectively against a significant market opportunity by delivering a roadmap for digital transformation and the adoption of innovative AI tools like ChatGPT. This helps businesses boost productivity while reducing costs. Consequently, we expect Microsoft's solutions to remain resilient even

in a challenging macroeconomic environment, supporting low double-digit intrinsic value growth over our investment horizon.

Portfolio Activity

During the quarter, we initiated a minor investment in **NVIDIA** and increased our investment in **Microsoft**. We reduced our positions in **Apple** and **Meta Platforms** and completely liquidated our investment in **PepsiCo**.

We initiated a position in **NVIDIA** (NVDA) following a significant pullback in the stock. The decline was prompted by concerns stemming from the emergence of DeepSeek, an unknown Chinese AI software company, which unveiled a highly efficient large language model (LLM). DeepSeek's breakthrough raised investor fears that U.S. hyperscalers might reduce their capital expenditure plans due to a shift toward more resource-efficient AI models. This led to concerns over potential overcapacity in the AI infrastructure market, weighing heavily on NVDA's stock.

As a result, NVDA shares declined nearly 30% from recent highs, presenting an attractive entry point. On our cost basis, NVDA was trading at approximately 25x expected 2025 earnings and 20x expected 2026 earnings, valuations we found compelling for a company projected to grow revenue and earnings by over 50% in calendar year 2025. We viewed this risk-reward profile as favorable, especially given NVIDIA's dominant position in powering the transition to accelerated computing architecture that powers the AI ecosystem.

The AI market is still in its preliminary stages, characterized by fast-paced innovation, and evolving rapidly. While DeepSeek's advancement sparked a debate around capital efficiency, we believe it reinforces a broader trend we have seen in past technology cycles. Specifically, we view Jevons' paradox, where gains in efficiency lead to increased overall consumption, as highly relevant to AI. Supporting this view, U.S. hyperscalers increased their 2025 capital expenditure guidance during Q4 2024 earnings calls in January, despite being fully aware of DeepSeek's progress. Further, the integration of reasoning capabilities into leading LLMs, such as those used in ChatGPT, is significantly increasing computing intensity. Some experts estimate that inferencing models with reasoning can demand up to one hundred times more computing, reinforcing the idea that greater efficiency will not lessen, but rather increase, demand for NVIDIA's infrastructure.

We remain mindful of the rapid evolution within the AI space from the emergence of more efficient models to the still-nascent monetization of AI software. Against this backdrop, we chose to initiate a focused position in NVDA while reducing exposure to other AI-related holdings such as Broadcom, Amphenol, and Oracle. In our view, NVIDIA offers an attractive way to participate in the generative AI buildout, combining scale, technological leadership, and a healthy growth outlook.

Despite **PepsiCo's** stock trading at a modest discount to fair value, the absence of clear actions for immediate improvement in Frito-Lay's and carbonated soft drink (CSD) trends makes it challenging to foresee a narrowing of the valuation gap. While the business remains resilient, we recycled the capital into better opportunities within the portfolio.

From a broader perspective, PepsiCo faces increasing fundamental pressures. The U.S. Department of Health's push for stricter regulations on artificial ingredients and carbonated soft drinks in schools adds to the already significant challenge posed by GLP-1-driven shifts in consumer behavior. While PepsiCo is

better positioned than many peers to navigate the artificial ingredient issue, the lost beverage volume is unlikely to be recovered. This structural change creates a difficult financial outlook despite the company's strong brand portfolio.

Our initial decision to trim our position a year ago at higher prices was based on these concerns, and today, the thesis appears even more challenging. While valuation and bearish sentiment provide some support, the main concern is intrinsic value growth. PepsiCo encounters challenges in reaching its ambitious 8-10% growth target over the next two years. These obstacles include the headwinds posed by GLP-1, regulatory risks, and the potential for product boycotts stemming from tariff-related tensions.

The stock's value rose by 10% intra-quarter, partly due to the trend towards investing in defensive companies. Taking advantage of that staples' outperformance period, we decided to sell our investment.

Outlook

The outlook for U.S. economic growth is weakening, while inflation expectations for 2025 are rising, raising the specter of stagflation or even recession. After a turbulent first quarter, the second quarter may prove even more challenging, particularly as market uncertainty reaches a peak around "Liberation Day," the April 2 tariff event. The Rapid Update, which aggregates forecasts from fourteen economists, projects first-quarter GDP growth at a meager 0.3%, a sharp deceleration from the 2.3% expansion seen in the fourth quarter of 2024. This would mark the weakest growth since 2022, when the economy was emerging from the pandemic.

Against this backdrop, European equities have outperformed their U.S. counterparts, driven by rising defense spending and more optimistic economic growth projections. For the first time in years, investors are considering European stocks for reasons beyond mere valuation discounts.

Domestically, consumer sentiment has softened, yet the labor market remains resilient, and retail sales continue to post modest gains. Economic momentum might persist if the U.S. establishes a clear trade policy that allows businesses to plan strategically. However, prolonged uncertainty could hinder corporate decision-making, resulting in delays in capital expenditures, hiring, and major projects — developments that could have substantial economic repercussions.

Given current market valuations, 2025's trajectory is likely to hinge more on earnings growth than on further valuation expansion. As a result, we advocate a balanced investment approach that emphasizes valuation discipline to guard against downside risks. Our strategy remains centered on managing a diversified yet growth-oriented portfolio, balancing risk and opportunity.

Navigating today's investment landscape requires a nuanced approach that accounts for both emerging opportunities and evolving risks. By leveraging differentiated investments, maintaining a deep understanding of technological advancements, and staying adaptable in an ever-changing market, we aim to position our portfolio for sustainable long-term appreciation.

The Mar Vista Investment Team

U.S. Quality Annualized Returns as of March 31, 2025

	Gross	Net	R1000® Index	S&P 500® Index
1 Year	4.93%	4.15%	7.82%	8.26%
3 Years	6.56%	5.77%	8.65%	9.06%
5 Years	14.86%	14.01%	18.46%	18.59%
10 Years	11.31%	10.49%	12.18%	12.50%
Since Inception	9.78%	9.00%	9.59%	9.55%

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. 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 December 31, 2024-March 31, 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.