

This Marsico fund has outperformed lately by finding the best growth stories

By Alex Harring
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You can save your breath explaining the Magnificent 7's importance to Tom Marsico. With more than four decades of experience, the portfolio manager has seen everything from the 1987 crash to the dot-com bubble, from the Global Financial Crisis to the pandemic.

Those years in the trenches at Janus funds and later at his namesake family firm have taught Marsico, 67, the importance of finding stocks whose valuations can be justified, rather than blindly buying into indexes or buzzy growth trends. Today, Marsico Capital manages about \$3 billion, with more than half the assets in five mutual funds.

Marsico and his sons Jimmy and Peter, also portfolio managers, have recently rewarded shareholders. Their flagship Marsico Focus Fund (MFOCX) has climbed 16% so far in 2024, through Thursday, outperforming both the S&P 500 and technology-heavy Nasdaq Composite. That comes after the fund jumped more than 45% in 2023, according to Morningstar.

Morningstar ranked the fund in the top 1% of large growth offerings by performance so far in 2024, after reaching the 22nd percentile in 2023.

The Focus Fund, begun in 1997 and today concentrated in just 22 high-conviction growth names, charges a fee of 1.45% on its investor shares and requires a \$2,500 minimum initial investment. The fund is rated three stars and neutral by Morningstar, largely due to the above-average fee.

Marsico, who formerly ran the Janus Twenty Fund, a similarly concentrated fund made up of just 20 or 30 stocks, said his focused investment strategy has endured over time. Still, the founder of what is now a Denver-based complex of five funds

confesses to change in the industry. Companies are less willing to talk about business strategies now, he noted. And the competitive environment has shifted.

The University of Denver MBA said he's always sought companies with strong growth stories, that have fundamentals to back up their stock valuations, and usually prefers larger businesses that can expand into sizeable potential markets.

Between 60% and 75% of the portfolio is in "core" growth companies, or those that are likely to see sustained and predictable earnings growth.

Up to a quarter of the portfolio goes to "aggressive" growth stocks that have a product or service capable of disrupting a market and offering rapid earnings increases. The balance is in companies undergoing large transformations that can catalyze earnings growth once a restructuring is complete.

One caveat: commodity plays are generally avoided due to the cyclical nature of their business.

Recently, Marsico said this strategy has paid off. Higher interest rates have created a backdrop where his deeply researched, profitable picks can shine. Low interest rates that prevailed until early 2022 had rewarded a growth-at-any-cost mentality rather than a search for free cash flow, he said.

"When money was very cheap and interest rates were extremely low, it was easy to buy an index fund," Marsico said. "What you're starting to see is a differentiation among the very large companies. And I think that our research has allowed us to buy and own the best of those companies and the companies that are increasing their earnings at a rapid rate, versus those companies that we think are going to be hindered."

To be sure, the portfolio isn't constructed solely from the bottom up. Calling the macroeconomic environment is also a key part of his strategy, and part of last year's strong showing was due to an early understanding that a recession would be avoided.

Where to find growth

Today, Marsico's top holdings are hardly uncommon. Four of the top five at the end of 2023 – Microsoft, Meta, Amazon and Nvidia – are in the Magnificent 7, the group credited with contributing outsized gains to the broader market rally. Eli

Lilly, the fifth, has been floated as a replacement name in the group for Tesla, fueled by its obesity and diabetes drugs.

THE FOCUS FUND'S BIGGEST HOLDINGS

TICKER ↕	STOCK ↕	SHARE OF TOTAL ASSETS (%) ↕
MSFT	Microsoft	12.2
META	Meta	8.3
NVDA	Nvidia	6.8
AMZN	Amazon	6.5
LLY	Eli Lilly	5.3
CMG	Chipotle	4.6
SNPS	Synopsys	4.4
GOOGL	Alphabet	4.4
SHW	Sherwin-Williams	4.3
NOW	ServiceNow	4.3

Source: Marsico data, as of the end of 2023

Those top five stocks made up nearly 40% of the portfolio at the end of last year.

But Marsico doesn't care that four of them have been crowned Magnificent 7 names, anymore than he was impressed with the earlier collection of FAANG tech leaders. Instead, his bullishness rests on reasons specific to each individual name.

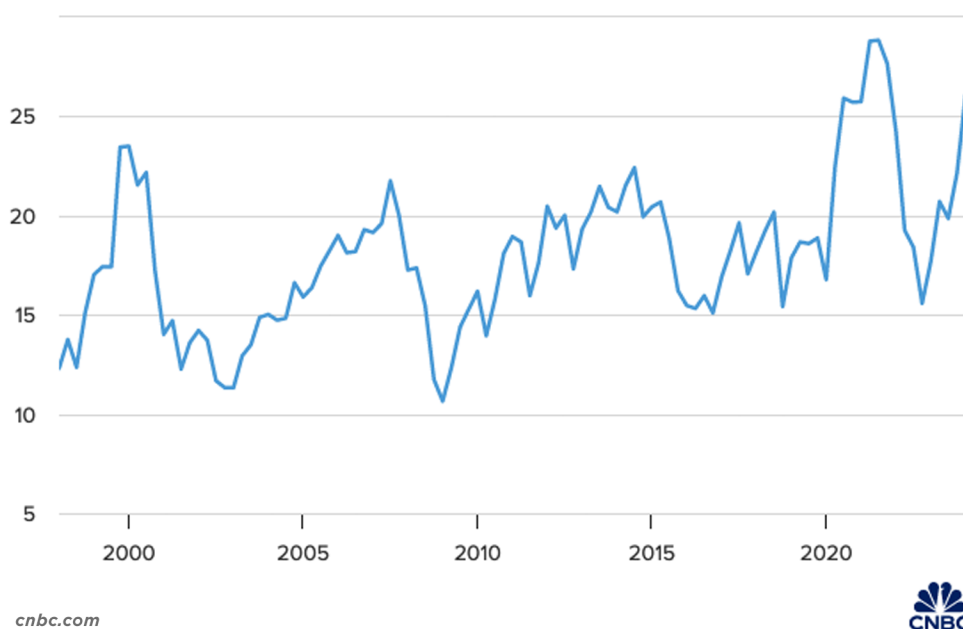
Amazon, for example, has a growing market, while seeing expanded profits tied to the data center business and, more recently, advertising. Eli Lilly has succeeded within the boom for blockbuster weight loss drugs.

Marsico has lately made some idiosyncratic moves, cutting his Apple stake roughly in half, while selling off a Tesla position he built early in the pandemic.

He continues to favor Meta, saying the Facebook parent is a "great story of execution" and holds customer data as an earnings catalyst. He also pointed to Meta's reasonable forward price-to-earnings multiple of 17 based on 2025 profits.

Outside of mega-cap tech, Marsico thinks Uber shares could double, boosted by the growing rideshare business and new management that stressed delivery services and left the scooter business. Moreover, Uber has strengthened cash flow through headcount reductions, he said.

Focus Fund since inception



Going against type, Marsico noted that the lion's share of his portfolio hasn't always been in tech. In the aftermath of the dot-com bubble in the early 2000s, he shifted into defense contractors, which performed well as new products came on stream.

Looking ahead, Marsico's continuing to monitor the artificial intelligence story, which he likened to the introduction of the internet or cell phones in terms of market impact. But he's staying focused on which companies can actually back up their share prices, even as the market continues to make new all-time highs.

"The investment arena right now is more based upon fundamentals," Marsico said. "And that's why there's greater differentiation with stock pickers than just buying a general basket of market companies."

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As of the 1/31/2024 prospectus, the Marsico Focus Fund reported the following expense ratios: Investor Class 1.50% gross, 1.45% net; Institutional Class 1.23% gross, 1.20% net.

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Please [click here](#) for current percentile ranking and star rating information.

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