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Five Mid-Cap Stocks to Watch, from Veteran Fund Manager Tom Marsico

Picks from the Marsico Midcap Growth Focus Fund include Rolls-Royce and Roblox.

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Key Takeaways

- Tom Marsico uses macro, industry-level, and company-level data to form a holistic picture when looking for growth stocks.
- Marsico sees two major investment trends: AI reshaping the tech landscape and consumers moving toward spending on "experiential" purchases rather than goods.
- A large addressable market is a key factor Marisco looks for as a growth investor.

While the $588 million Marsico Midcap Growth Focus Fund MXXIX doesn't hold titans of the market like Nvidia NVDA or Meta Platforms META, manager Tom Marsico has found more modestly sized firms that benefit from the same tailwinds. "I think there's a real opportunity in the mid-cap space," says Marsico, who has run the five-year-old fund for three years along with his sons Peter and James. Marsico brings more than 40 years of experience to the fund, which holds a Bronze Morningstar Medalist Rating. Marsico Midcap Growth Focus ranks in the top decile of the mid-cap growth category based on one-, three-, five-, and 10-year trailing performance.

We asked Marsico to discuss five of his picks for the fund: two that have performed well, one that's done poorly, and two others of his choice.

Marsico Midcap Growth Focus Fund Picks

Name	Ticker	Economic Moat	Portfolio Weight (%)	1-Year Return (%)	3-Year Return Annualized (%)
Rolls-Royce Holdings	RR.	Narrow	3.5	130.65	146.84
TKO Group Holdings	TKO	—	3.1	72.10	—
Chipotle Mexican Grill	CMG	Wide	0.0	−31.84	5.08
Roblox	RBLX	Narrow	4.8	193.77	50.94
Alignment Healthcare	ALHC	—	1.5	43.70	8.69

Source: Morningstar Direct, Marsico Capital. Data as of Sept. 16, 2025. Portfolio: Marsico Midcap Growth Focus Fund. Download CSV.

The Marsico Midcap Growth Focus Fund's Process

Marsico utilizes a wide variety of lenses when looking at stocks, but he doesn't apply them in a specific order. Instead, he combines various ways of analyzing stocks to create a holistic view. "I'm always building this picture, like a mosaic," he says. "There are different pieces, and as you put them in, there are certain things spring out to me."

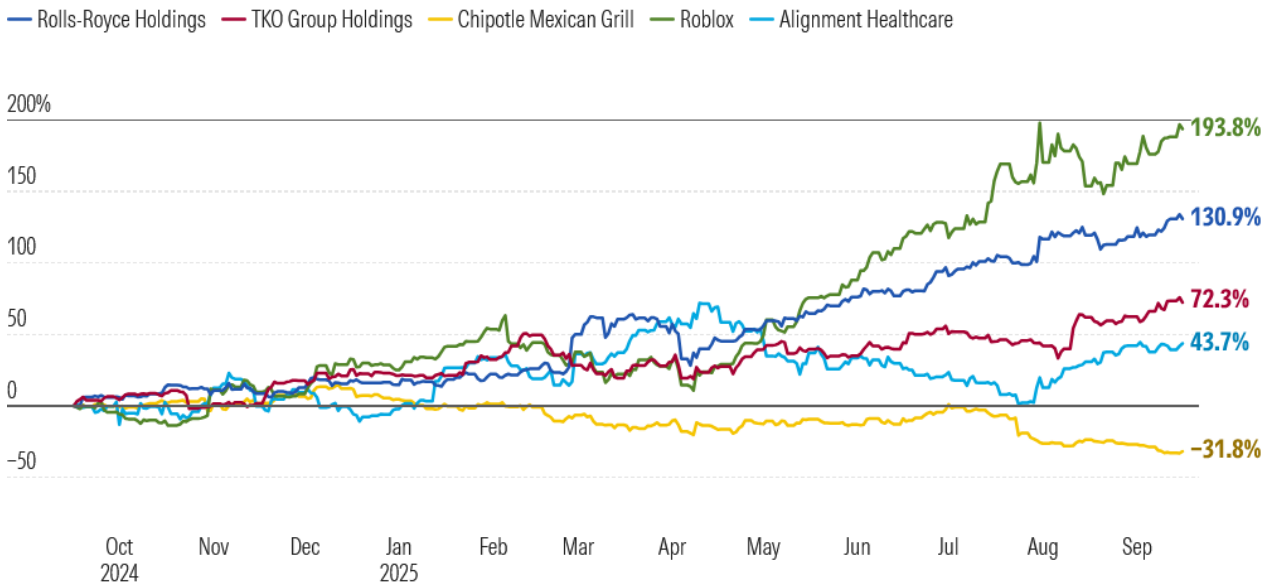
Marsico sees two major trends that cut across many of his picks. The first is AI. "The whole technology sector is at an inflection point, with digital transformation and the development of different products and services as they relate to artificial intelligence and its development," he says.

The second trend is the change in where consumers are directing their spending. "Consumers now are looking for more experiential types of spending, not so much hard goods spending," he says. "It's more 'I want to go see the US Open,' 'I want to go to Machu Picchu,' or just going down to the beach for the weekend instead of buying a new shirt or sweater."

While he says he is sometimes a thematic investor, Marsico doesn't neglect company-level metrics. "We like companies ... that have strong competitive advantages, very strong growing cash flows, healthy margins, and dominant market positions in the areas they're trying to address," he explains.

Marsico looks for firms with low debt, and which can expand using their cash flows rather than debt. As a dedicated growth investor, he aims for companies with large markets to grow into. "We're looking at companies that provide products and services that address large and growing markets," he says. "We don't like small total addressable markets."

Marsico Midcap Growth Focus Fund Picks Performance



Source: Morningstar. Data as of Sept. 16, 2025. Download CSV.

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Two Recent Winners for the Marsico Midcap Growth Focus Fund

Rolls-Royce

When it comes to firms benefitting from cutting-edge trends, Rolls-Royce likely isn't the first name that comes to mind. However, Rolls-Royce Holdings RR has delivered gangbuster returns, having gained 131% in the past year. The fund holds the London-listed shares, but an ADR is available under the ticker RYCEY.

"A lot of people, they think of Rolls-Royce cars," says Marsico. However, Rolls has long since left the auto industry, and the car brand is now owned by BMW. Instead, Marsico says the FTSE 100-listed Rolls (the fund's ninth-largest holding with a 3.5% weighting) is focused on three fast-growing industries: aircraft engines, power plant turbines, and nuclear power.

"They're built on a 'power by the hour' business model, so the customer pays based on engine usage and Royce provides full maintenance and service, which creates a long-term recurring revenue stream in addition to engine sales," says Marsico. "If you look at the number of miles traveled and the growth of the aerospace industry, it's growing at about two and a half times global GDP. So there's a big, big, big demographic move to travel more."

Marsico says Rolls also stands to benefit from rising defense spending in Europe, with its business of building engines for military aircraft. In addition to turbines for aircraft engines, the firm manufactures turbines for power plants. Like another stock that has boomed over the past year, GE Vernova GEV (the fund's largest holding), Rolls has benefitted from a spike in demand for power plant equipment due to the rising electricity needs of AI data centers. Finally, the new demand for power provides growth opportunities for the nuclear reactor production business.

Marsico also notes that Rolls has decades of experience producing reactors for powerful submarines and aircraft carriers. "Great Britain has already signed off with Rolls that they're going to be the preferred supplier. We think this segment of the company will be cashflow positive in 2030, and they also have large contracts with the Czech Republic," he says.

TKO Group Holdings

TKO TKO was formed in 2023, when the Ultimate Fighting Championship and World Wrestling Entertainment merged. Marsico says it "gets into the experiential-type aspect of what people are looking for." The stock is the Midcap Growth Focus' 13th-largest holding, with a 3.1% weighting. TKO's shares are up 72% in the past year.

Since the fund bought TKO in late 2024, the company has expanded its reach considerably. In early 2025, it made a deal with Netflix NFLX to bring one of its major wrestling programs, WWE Raw, to the streaming service. In August, it reached a deal with ESPN to stream its pay-per-view events with ESPN's direct-to-consumer streaming service, and in the same month, the UFC made a distribution deal with Paramount Global PARA to be distributed on its streaming platform, Paramount+.

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The firm is also expanding its geographic scope. In March, TKO inked a deal to form a boxing promotion with an entertainment firm owned by the Saudi sovereign wealth fund. "Geographic growth is going to be one of the main drivers for the business going forward," says Marsico. Foreign markets are "a small portion of the revenues now, but I would expect it to be at least a third, or maybe even more, as time goes forward."

One Stock That Hasn't Worked

Chipotle Mexican Grill

Marsico Mid Cap Focus Fund first bought Chipotle CMG in March of 2020, when shares were just under $11. While the stock peaked at over $60 in mid-2024, it has since declined to $39, and the fund recently sold its position.

When the fund purchased the stock, Chipotle had been undergoing a turnaround following a major series of foodborne illness outbreaks in 2015-18. The company brought in a new CEO, Brian Niccol, in 2018 to help right the ship. "He turned around the business," says Marsico, who points to improvements in food safety and the pace at which it served customers.

Marisco says the pace of same-store sales growth and menu additions couldn't continue indefinitely. Rivals like Chili's and Olive Garden have introduced very low-priced menu items, drawing business from Chipotle.

According to Marsico, another factor that's put pressure on Chipotle's sales is the rise in arrests by Immigration and Customs Enforcement. "We think that maybe prevented people from going out to the restaurant," he says. While Marsico still thinks Chipotle is a good business, he believes the current rate of growth isn't attractive.

Two More Picks

Roblox

Video game development platform Roblox RBLX is the firm's second-largest holding, with a weighting of 4.8%. Its primary revenue stream comes from the purchase of a virtual currency, "Robux," which customers use to purchase items and upgrades within its games. The stock is up 194% in the past year.

Marsico says that the advantage Roblox has over a conventional video game maker is that it doesn't have to lay out any development costs. It provides a platform and gives developers a cut of the revenue from Robux sold. This allows the company to have millions of developers producing games for their platform without having those people on its payroll.

Roblox has another advantage, as it resonates with younger audiences. In addition, Marsico says its fastest-growing demographic is people aged 24 and older, meaning the firm keeps users as they age.

One area of growth Marsico sees for Roblox is in advertising revenue, especially as the userbase grows and it accumulates data on their preferences. "As you get more information on the people who are playing your games, then the advertising dollars should come, because you'll be better able to match advertisers with the person playing the game," he says.

Alignment Healthcare

Another name Marsico says is focused on using data to improve its business is Alignment ALHC, a health insurance company that provides Medicare Advantage. This is a recent purchase for the fund, with a 1.5% weighting. The stock is up 40% in the past year.

Marsico says a number of insurance companies have experienced big hits to their earnings because they incorrectly estimated the cost and amount of care patients would need. Alignment's data collection helps it avoid these cost overruns. "Alignment has better data systems to understand what their costs are, the severity of their patients' illnesses, and how many different maladies they have," he explains. This helps keep patients out of hospitals, where costs can spiral more easily.

Marsico sees the firm's small size and newness as key to its success. Founded in 2013, it only went public in 2021. "When you start fresh, you can design the type of information you're looking for instead of always trying to cobble information from different disparate software programs and systems," he says. This issue can be even more acute for larger health insurance firms that grew through acquisitions, a process which adds systems and software to the mix.

Marsico thinks many other health insurers wouldn't want to spend money on systems like Alignment, since they expect to lose patients to competitors as customers switch providers. Alignment instead focuses its business model on making investments to keep patients over the long term. He says this approach has translated into better healthcare outcomes.

Alignment has expanded into Arizona, Nevada, North Carolina, and Texas, and Marsico believes it has a great deal more room to expand. He anticipates the company will reach profitability in the next "couple of quarters."

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The Marsico Midcap Growth Focus Fund's investment objective is to seek long-term growth of capital.

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