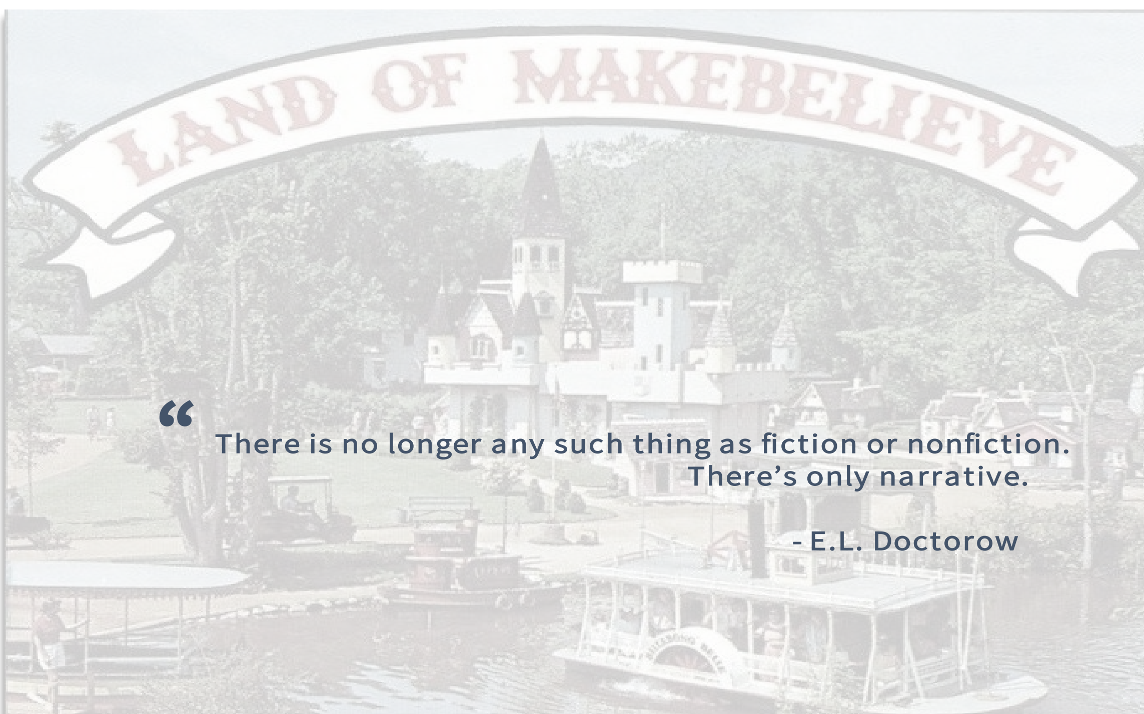
Each age has its peculiar folly, some scheme, project, or phantasy into which it is plunged, spurred on either by the love of gain, the necessity of excitement, or the mere force of imitation…. Money has often been a cause of the delusion of multitudes. Sober nations have all at once become desperate gamblers and risked almost their existence upon the turn of a piece of paper. Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly and one by one. - Charles MacKay

Does it really matter what GameStop management does? Will the company's fundamentals—any company's fundamentals—have any bearing on its stock price in the world we are moving toward, where a group of amateurs on social media can move markets? Where a well-constructed tweet, or a particularly humorous meme, or an inspiring YOLO post can shift billions of dollars into a company's valuation? In such a post-GameStop-revolutionary future, is there really such a thing as a melting ice cube anymore? Or is every stock now—maybe the market itself—more like an untethered balloon? When you stick a pin in a balloon, it doesn't plummet toward the ground. It fires off at odd angles, sometimes shooting up to extreme heights, spinning and spiraling and seesawing—until it eventually runs out of air. Then it might drift back to the ground; or it might defy ration and reason, get caught in a stiff breeze—and rise up, and up, forever. - Ben Mezrich, the Antisocial Network



PORTFOLIO REVIEW

The largest contributors to performance during the second half of 2021 were Avis Budget Group (CAR), Dollar Tree Inc (DLTR), and McKesson Corp (MCK).

Avis Budget Group

Avis stock surged 166% during the final two quarters of the year. The company hit a new record for quarterly EBITDA - third quarter EBITDA was higher than any full year in Avis history - while buying back nearly $1B of stock and announcing another $1B increase in their repurchase authorization. Shares hit an intra-day peak of $545 after reporting earnings, ultimately closing at $357, more than doubling the prior close. Frenzied retail trading, prompted by management commentary around electric vehicles adoption, prompted a dozen trading halts throughout the day. The mania grew so intense that TD Ameritrade stopped allowing short sales in Avis, as short interest represented ~ 30% of the float.

From a fundamental perspective, our rental car industry investment thesis was predicated on a few primary drivers: Following an aggressive reduction in vehicle fleets in the early months of the pandemic, recovering travel demand, combined with reduced supply, and a broader vehicle shortage which inflated used car prices, created a near-perfect landscape for previously unimaginable windfall profits. From a technical perspective, record short interest, combined with aggressive share repurchases and windfall profits, provided Wall Street Bets with another picture-perfect backdrop to coordinate a short squeeze. We liquidated our entire position on the third-quarter earnings announcement and continue to search for a good address to send a thank you card to the WSB community, which temporarily made a boring car rental business the most valuable company in the Russell 2000 Index.

Dollar Tree Inc

Our short-term trade in Avis was unusual for our long-term investment approach, but occasionally the market figures out mispricing sooner than later, and when it does, we are more than happy to take our chips off the table and wait for the next opportunity.

Our investment in Dollar Tree, which we've held for nearly five years, is more representative of our typical time horizon and investment philosophy, which seeks mispriced assets with minimal downside and the potential to double our capital over 3-5 years. Those doubles rarely play out as quickly as the surge in rental car pricing. Just last quarter, we highlighted Dollar Tree as a top detractor after the company issued weak guidance due to rising cost pressure. Investors were rightly frustrated after years of management missteps and false starts following the acquisition of Family Dollar.

At some point, we hoped, sentiment would be just right. While the timing of that scenario is impossible to predict, we increased our position in September as shares traded back towards our original 2017 purchase price. At month end, the board increased Dollar Tree's existing share repurchase authorization to $2.5 billion, representing~ 13% of the company's then market capitalization, initiating a dramatic shift in investor sentiment. Management also announced that it was on track to have 500 Dollar Tree Plus stores by fiscal year-end, with another 1,500 stores planned for FY22 and at least 5,000 expected by FY24. In addition, management highlighted the success of the company's Combo Stores (which include both Dollar Tree and Family Dollar banners), noting sales and gross profit increases greater than 20% and 30%, respectively. While there are only 105 existing Combo Stores, management expects to add 400 more in FY22, with the potential for up to 3,000 over the next several years.

In our experience, big gains often come after years of meager performance. Patience truly is a virtue in this business, as successful investing requires confidence in your research and analysis, even when the market disagrees with you for what may seem like an eternity. In this case, after holding Dollar Tree for half a decade, shares nearly doubled, gaining 77% in the two months following that management announcement. Despite recent gains, we continue to hold our investment as consensus estimates have yet to catch up to the likely inflection in earnings power from higher price points. And with the guidance of Richard Dreiling, the former Dollar General CEO, credited with turning around DG in the early part of the last decade, we think the odds of successful execution have increased materially.[1]

McKesson Corp

Shares of McKesson tacked on another 23% during the second half. Even after gaining 44% for the full year, the stock still trades at a 50% discount to the market. Like our Dollar Tree investment, investor sentiment around McKesson languished for years as deflating generic drug prices compressed operating margins and the uncertainty of opioid litigation capped valuation multiples. But pricing has stabilized, a global opioid settlement appears imminent, and prescription trends are rapidly recovering at the same time vaccine-related revenues are accelerating.

Since FY19, revenues have grown at 7% annually, driving earnings per share growth, which should shake out at 11% - 14% through FY22. Over this three-year period, McKesson has generated $15 billion in cumulative free cash flow (roughly two-thirds of its market capitalization at the beginning of the period), returning roughly half of that to shareholders through repurchases (shares outstanding have declined by 24% on $6B of buybacks) and dividends (which have increased 22% over this period), while reducing leverage from 2.8x to 1.6x.
Does that sound like a business that should change hands at half the market's valuation? We don't think so. Even assuming shares traded back to three-quarters of the market's multiple (in line with the average of the past decade), shares could return 15% - 20% annually over the next few years.

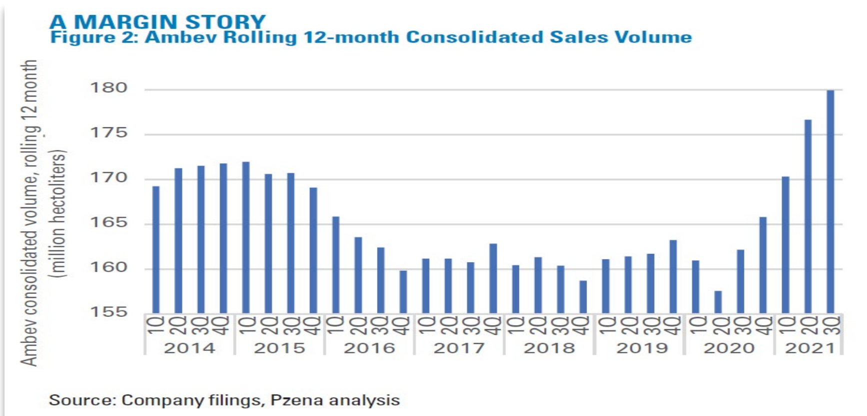
The largest detractors to performance during the second half were Ambev (ABEV), ABI InBev (BUD) and Madison Square Garden Entertainment (MSGE), which all declined 15% - 16% during the second half of 2021. Notably, each posted positive returns amidst the market's worst January on record.

Ambev & ABI InBev

Shares of Ambev and ABI struggled to buck the double-digit decline in emerging market indices in the second half of the year. Consensus concerns around commodity cost headwinds certainly didn't help matters, but beyond short term margin pressures, both businesses continue to grow their profits as well as their economic moats. ABI controls over a quarter of the nearly $600 billion global beer market, based on Euromonitor data, and remains well positioned for a rebound in post-pandemic industry sales.

[1] Former Dollar General CEO may finally get his chance to fix what ails Family Dollar

Ambev, its publicly traded subsidiary, enjoys an even stronger local competitive advantage, with nearly two-thirds market share in Brazil, its largest market, and a number one or number two position in each of its other markets. Shares are currently trading more than 50% below the highs reached in 2018 as weak local currencies have weighed on margins (the majority of Ambev's cost of goods are denominated in dollars) and macro concerns have weighed on the region, which has suffered years of capital outflows. Despite these headwinds, Ambev reported record volume in every quarter last year, months after reporting its lowest volume in history during the pandemic. Should capital decide to return to Brazil and emerging markets (more on this later), we'd expect Ambev to be a primary beneficiary as the stock remains one of the largest, most profitable, and most liquid names in the index, operating in one of the consumer industry's largest and most relevant sectors.



A MARGIN STORY
Figure 2: Ambev Rolling 12-month Consolidated Sales Volume

Source: Company filings, Pzena analysis

Madison Square Garden Entertainment

Our investment in Madison Square Garden made the list of top detractors again as limited liquidity and limited analyst coverage exaggerated moves in the stock despite a dearth of new information. Investors remain concerned that management's recent acquisition of regional sports networks has diluted the company as a pure live entertainment and re-opening play. **While we expect the stock to be a major beneficiary of continued economic reopening, longer term, we see an iconic brand with irreplaceable assets, trading far below private market value.** At recent lows, we estimate the stock was trading at a discount to the value of its real estate.

And just in case our large investments in tobacco weren't enough to scare the ESG crowd away, we think MSGE is well positioned to capitalize on a major opportunity in sports betting, as New York has already become the largest sports betting market in America, bringing in $1.6 billion since its launch in January.[2]

MARKET COMMENTARY

> The whole problem with the world is that fools and fanatics are always so certain of themselves, and wiser people so full of doubts. — Bertrand Russell

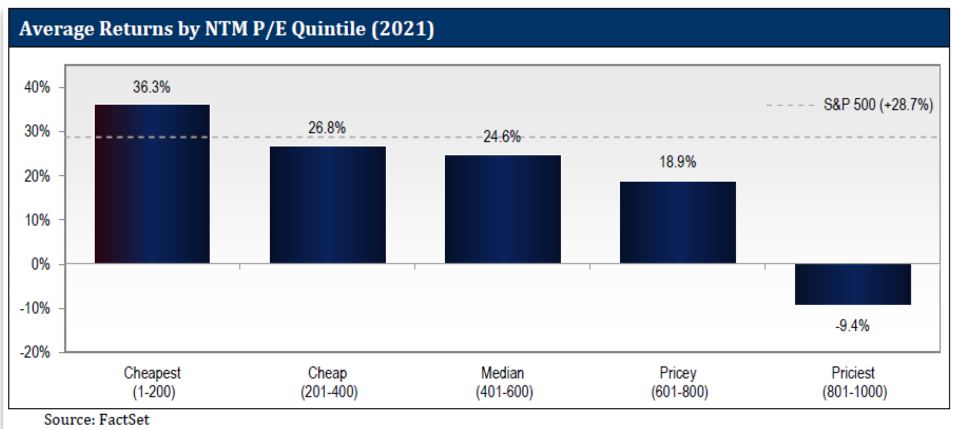
> Ignorance more frequently begets confidence than does knowledge: it is those who know little, and not those who know much, who so positively assert that this or that problem will never be solved by science. — Charles Darwin

[2] New York quickly becomes the number one market for legalized sports betting in the U.S.

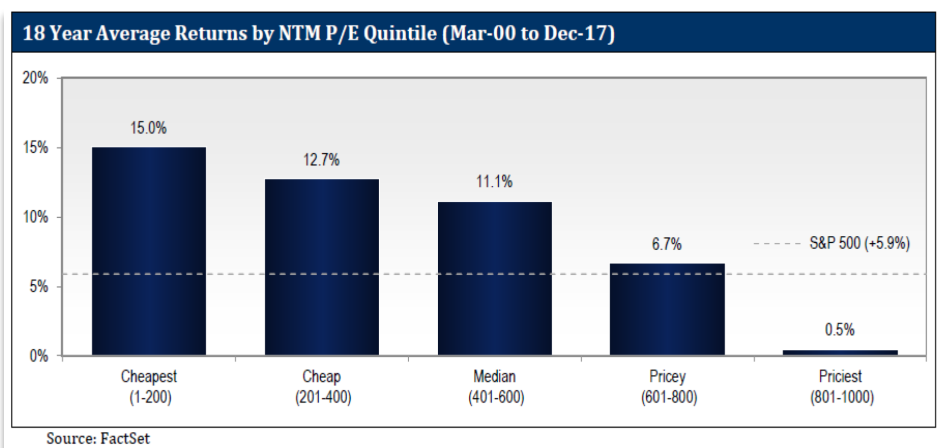
Bull markets are often confused with genius.

A dart-throwing chimp will occasionally hit a bulls eye, but as much as he might like to think so, that doesn't make him the next Warren Buffet of dart-throwing (whoever that is). We see a lot of dart-throwing chimps in this market, as the majority of investors managing capital today have yet to experience a protracted downturn.

That may be about to change. Equity markets generated another year of stellar returns in 2021, but the similarities to 2020's gains stop there. The cracks emerging below the surface have continued to grow into larger fissures as shares in the most speculative businesses dramatically underperformed. More promising, perhaps, is the growing evidence that value has returned to its rightful place in the world. **In contrast to recent experience, in 2021, the cheapest quintile of stocks posted the best returns, while the priciest stocks realized the worst returns.**



Today's generation of investors might think this is unusual, but in fact, it has been the norm throughout most of history. The only other exception being the late 90s.



In the *Psychology of Money*, Morgan Housel writes:

> Bubbles form when the momentum of short-term returns attracts enough money that the makeup of investors shifts from mostly long term to mostly short term. That process feeds on itself. As traders push up short-term returns, they attract more traders. Before long, the dominant market price-setters with the most authority are those with shorter time horizons.
>
> The dot-com bubble was a time of irrational optimism about the future. But one of the most common headlines of that era was record trading volume . . . This was the era of day trading, short-term option contracts, and up-to-the-minute market commentary. It's not the kind of thing you'd associate with long term views.

Day trading, short-term option contracts, and up-to-the-minute market commentary. The more things change, the more they stay the same. But trees don't grow to the sky (or outer space) no matter how much capital flows into the venture forest, and gravity has begun to weigh on the most expensive quintile of stocks.

We have already seen 50% - 90% declines in the most speculative corners of the market – including but not limited to SPACs, meme-stocks, space exploration, electric vehicles, plant-based proteins and plant-based drugs, NFTs and crypto tokens, to note a few. Reality is sinking in, and sentiment is shifting to fear from greed. But these companies still represent tens of billions of value, and most equity markets remain within spitting distance of all-time highs. **Tesla is still a trillion-dollar business, Dogecoin is worth more than many companies in our book, and despite watching her flagship fund lose more than half of its value, Cathy Wood still manages more money than David Einhorn.**

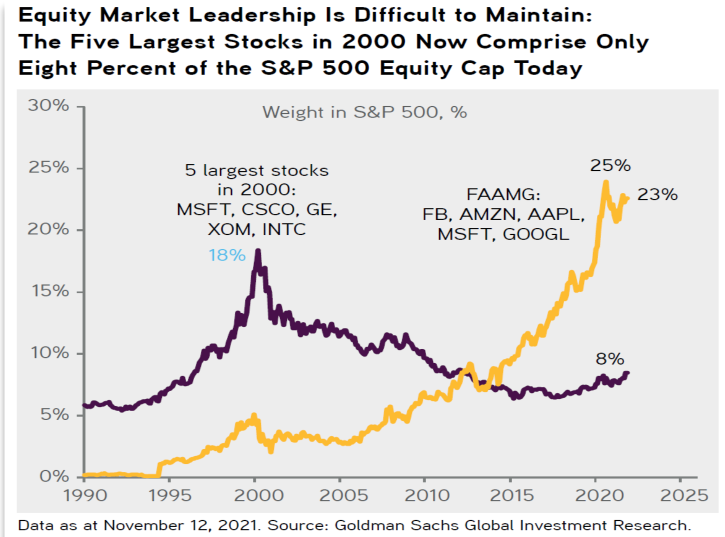
Gotham Asset Management tracks a basket of over 300 unprofitable companies – a good proxy for the "money losers" driven by narratives rather than fundamentals. The basket was down 6% in 2021 and another 20% in the opening weeks of 2022, but is still up nearly 80% since COVID, suggesting there is still plenty of air left in this bubble.

The value of value has begun to emerge in the new year, but on a longer-term horizon, we've barely scratched the surface. Value outperformed Growth by 16% annually for five years following the tech bubble. **Given the historical precedent and the extreme valuation spreads we observe today, we think the value party is just getting started.**

If the tech bust is any guide, we'll eventually see weakness spill over to the broader market. As they say, "Beware of times when the generals lead but the soldiers don't follow." **Contrary to today's consensus, the generals are not immune to the laws of gravity.**

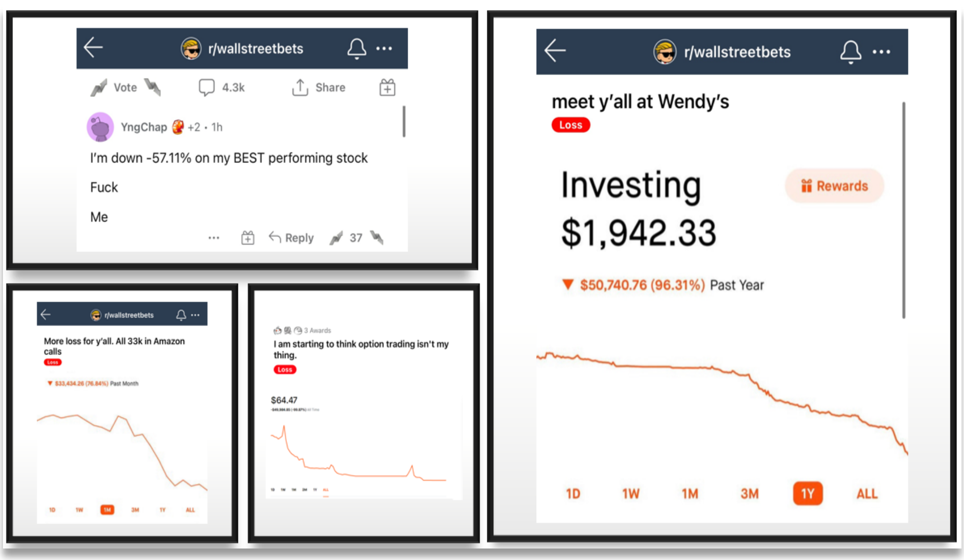
History provides a useful roadmap. Investors that bought the greatest companies in America at the height of the Nifty Fifty in the late 60s, and held them for five years, lost almost all of their money. This one is shaping up to play out in a similar fashion.[3] **The law of large numbers, growing regulatory scrutiny, and increased crowding and concentration could begin to weigh on the bellwethers.**

[3] One notable difference this time around is the creativity in certain inverse investment vehicles. The Tuttle Capital Short Innovation ETF (SARK), which seeks to exploit weakness in Cathie Wood's flagship ARK Innovation ETF, has returned ~ 50% since inception.



As we approached year end, with equity markets at all-time highs, over 300 companies hit 52-week lows. That's happened only three other times in history -- all of them in December 1999, according to the Leuthold Group.[4] The carnage accelerated in January as nearly every other company on the Nasdaq saw their market values cut in half from their 52-week high in an echo of the dot-com crash. At no other point since the bursting of that bubble has this occurred.

The wheels appear to be falling off the wagon, and the ~~natives~~ Apes are getting restless.[5]



[4] It's December 1999 Based on the NYSE Shares Touching New Lows

[5] Number of Nasdaq Stocks Down 50% or More Is Almost at a Record

The popular Silicon Valley magazine Wired may have best captured the madness of today's crowds.

> The year will be remembered as the moment when finance and internet culture converged, leading to bubbles in everything from memes to tokenized collectibles. But cryptocurrency arguably represents the purest synthesis yet of personal finance and online social status. On TikTok, for example, one of the more popular formats involves a bro offering investment tips, talking-head style, while displaying the value of his crypto portfolio behind him. And everyone wants in. In the past months, upwards of 5,000 new crypto coins have launched.
>
> What's happening in money culture right now looks something like this: The masses, frustrated by rigid societal inequality and a lack of economic opportunity, are playing whatever new lottery comes along. They invest their social media selves in lottery communities, and they put their savings in scratch tickets. The price to play is expensive, the rules are designed for them to lose, and they do. According to research firm Chainalysis, investors lost roughly $2.7 billion to investment scams in 2020. All signs point toward even more instances of fraud in 2021.

Goldman Sachs highlighted the consistent hallmarks of financial manias in a recent publication titled Bubble Puzzle. The study identified the following narratives which characterized many, if not all, bubbles.

- ✓ Excessive price appreciation & extreme valuations;
- ✓ New valuation approaches justified;
- ✓ Increased market concentration;
- ✓ Frantic speculation and investor flows;
- ✓ Easy credit, low rates & rising leverage;
- ✓ Booming corporate activity;
- ✓ New Era narrative and technology innovations;
- ✓ Late cycle economic boom;
- ✓ The emergence of accounting scandals and irregularities.

Amazingly, despite checking every one of these boxes, the subtitle of the publication reads: "A guide to bubbles and why we are not in one." Perhaps Wall Street would be better served by a more statistical definition of a bubble rather than relying on market anecdotes and qualitative characteristics.

For this, we can look to Jeremy Grantham, Co-Founder and Chief Investment Officer of GMO, who has scrutinized every bubble in history for the past several decades. The firm neatly defines a bubble as a two-sigma deviation from trend. And on their math, **every single two-sigma bubble in the last century has ultimately deflated and returned to trend.**

In a recent paper, Grantham highlights a few bubbles that went on to become super-bubbles, reaching a three-sigma deviation, before bursting. All five – US equities in 1929 and 1999, Japanese equities in 1989, US housing in 2006, and Japanese real estate in 1989 – ultimately returned to trend, with one key distinction.

The higher they went, the more pain they endured on the way down.[6]

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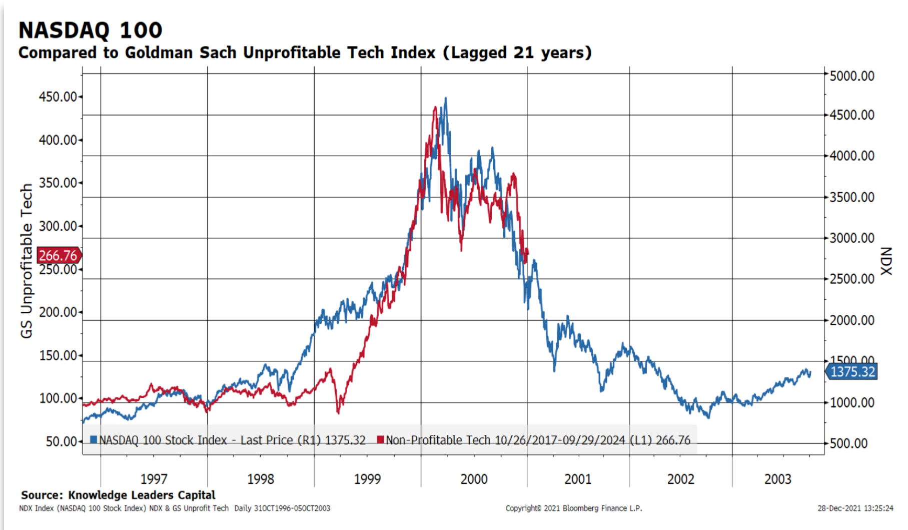
[6] Let the Wild Rumpus Begin

As it turns out, we are currently in the midst of yet another super-bubble, demonstrating another common characteristic of these rare, three-sigma events. In the final stages of the cycle, all of them experience accelerating price increases 2x – 3x the average speed of a bull market, along with an aggressive narrowing of breadth, and ultimately, a dramatic underperformance of the most speculative stocks. We saw this first hand in 1999-2000, and we are seeing it again today.

Broader market averages have held up reasonably well to date, but if the 1999 analogue continues to play out as it has to date, investors may be in for a tough few years ahead.



The growing number of anecdotes in our "speculative madness" file continue to pile up at such a rate, it's been almost impossible to keep up.

- Last year, investors' insatiable appetite for stocks drove $900 billion into equity funds, more than the combined total from the past 19 years.[7] At year-end, roughly 15% of stocks in the S&P 500 traded at more than 10x sales, although we imagine that number is a tad lower today.
- Venture funding shattered all records last year. In 2020, global venture funding hit a record $294 billion. Last year's numbers blew that out of the water as startups raised $621 billion.[8]
- Startups raised more cash in the third quarter of last year than was raised during the entire dotcom boom. The quarterly total was more than any full year prior to 2018. Some 180 venture-backed companies went public, bringing over $500 billion in value to the market.
- More than half of this year's nearly 500 IPOs are already trading below their offer prices. Still, there are more than 1000 unicorns in the world today; nearly double the total reached in 2020.
- Echoing the (in)famous Enron Field in Houston, LA's Staples Center is rebranding as Crypto.com Arena in a 20-year deal with a cryptocurrency platform. Even RadioShack is trying to rise from the dead, following the AMC/GME playbook, announcing that it's "bringing cryptocurrency to the mainstream" by becoming an exchange.
- And last, but certainly not least, a former reality television star began selling farts in a jar for about $1000 each before transitioning to sales of "digital farts" on the blockchain.

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[7] Stock Funds Took in More Cash in 2021 Than Two Decades Combined

[8] Global Venture Funding And Unicorn Creation In 2021 Shattered All Records

Meanwhile, CEOs and insiders are selling at the fastest annual pace on record, having liquidated a record $69 billion in stock last year.[9]

Many venture-backed, ambitious upstarts like to describe themselves as the Amazon of this or the Google of that. Guess what. Amazon is the exception, not the rule. Only the rarest of unicorns are able to generate growth at the level for that long. For the great majority of mere mortals, reality is much different. As Daniel Kahneman explains in his most recent book, *Noise*:

> Corrected predictions will always be more conservative than intuitive ones: they will never be as extreme, but instead closer, often much closer to the mean. If you correct your predictions, you won't foresee that a highly successful start-up worth $1 billion will become a behemoth worth several hundred times that.
>
> Corrected predictions do not take bets on outliers . . .You should remember that outliers are, by definition, extremely rare. The opposite error is much more frequent: when we predict that outliers will remain outliers, they generally don't, because of regression to the mean. That is why . . . to maximize accuracy, corrected predictions are superior to intuitive predictions.

INVESTMENT STRATEGY

Risk assets are on fire, deep in the middle of an "everything rally" with signs of froth, speculation, and excessive risk-taking everywhere. Markets are priced for perfection just as the recovery is stalling and stimulus is being unwound. As narratives have become increasingly delusional, many prices have disconnected from reality. But ultimately, facts win out over fiction. And there is always something to do. As investors continue to unwind their speculative bets on outliers and correct their many erroneous predictions, **we think today's new-era thinking will soon be replaced by less extreme and more conservative investing when profitability and cash flow matter more than empty promises.**

We like this set up and think the narrative unwind should be a tailwind for our portfolio for years to come. We see substantial value in our investments and have increased our best ideas but are not resting on our laurels. Our ears perk up when we hear someone describe an investment as uninvestable. Low expectations and low valuations are a powerful formula for future performance. Fortunately, in spite of today's record bubble in speculation, there are plenty of unloved and uninvestable opportunities, as valuation dispersion remains near all-time highs. So even as many investors complain about sky-high valuations, we are able to construct an extremely cheap portfolio through bottom-up research focused on overlooked and out-of-favor opportunities. In fact, we'd even go so far as to say that the current investing landscape is about as good as it gets for our investment philosophy.

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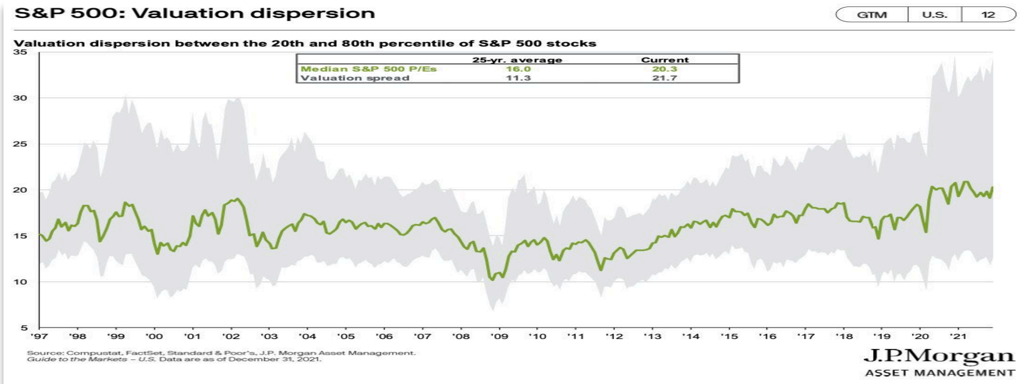
[9] Elon Musk, Other Leaders Sell Stock at Historic Levels as Market Soars, Tax Changes Loom



Our investments in tobacco provide a great example of this dispersion and yet another echo of the opportunities created during the dot-com bubble. These investments didn't make it into last year's top contributors, but they came close.

Altria and Phillip Morris gained 24% and 21% for the year. More important than the gains enjoyed alongside a rising tide is their performance in 2022 as the tide began to move back out. Both stocks gained about 8% while the market crashed 5% in January.

The set up today seems eerily similar to the dichotomy we experienced in the late 90s. Then, as now, investors, enamored with new world stocks, ignored old economy stalwarts. An Altria write-up on Value Investor Club in April 2000 highlighted the opportunity at a time when internet stocks were soaring and tobacco stocks were considered uninvestable. Looming litigation threatened to bankrupt the industry at the time; arguably a significantly greater risk than the threat posed by ESG today.

At the time, Altria yielded 8% - 9% and traded at a single-digit multiple, in line with the stock's current valuation today. Following the dot-com bust, shares went on to gain over 600% while the NASDAQ declined more than 50% over the next decade. Our upside case for Altria today doesn't quite get us to a 600% return, but we'd be happy to place a wager on the stock's performance relative to the NASDAQ over the next decade, if anyone is interested.

* * * * * * * * * *

Portfolio activity continued at a higher-than-normal level throughout the year, as volatility provided ample opportunity to trim investments that approached our fair value estimates and increase or establish positions in high-quality companies which temporarily found themselves out-of-favor in a more speculative environment. At year-end, our top five exposures, were investments in Tobacco (Altria Group and Philip Morris), McKesson Corp, LatAm Airports, Fiserv Inc, and Equity Commonwealth.

We continue to hunt for new opportunities, attacking areas of uncertainty, leveraging our broad-based network to source ideas and deep fundamental research to identify investments with a margin of safety and material upside potential. The outcome of that work has produced several compelling investment themes running across the portfolio. We discuss a few examples below.

Cheap Incumbents

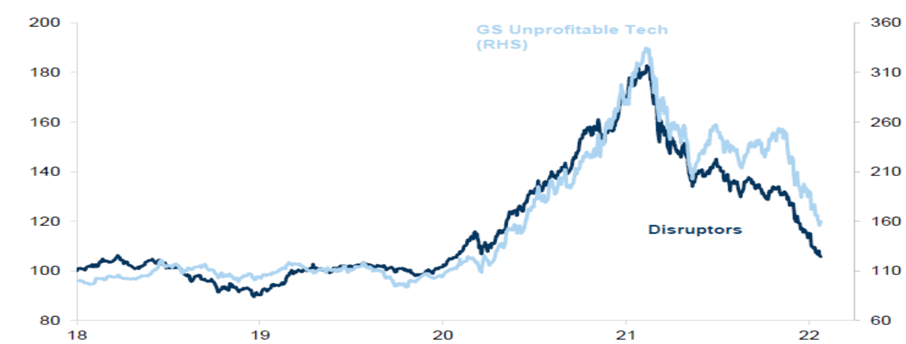
The current concentration of market leaders is not unique. It's typical of previous waves of innovation. Dominant companies with strong brands, high barriers to entry, and an ability to adapt will likely remain successful, but disruptive innovations don't always displace incumbents.

Technology is often additive rather than disruptive. Many high-quality businesses in mature industries have materially de-rated, leaving many incumbents looking very cheap.

Those that adapt can generate exceptional performance.

We think our recent investment in Fiserv is perhaps the best example of this opportunity and outline [**our investment thesis**]() **in the write-up accompanying this letter.**

Exhibit 18: The Disruptors have de-rated sharply, and broadly have fallen in line with Unprofitable Tech
Relative price performance vs. MSCI AC World



Note: The Non-profitable Tech basket was developed by the GS Global Markets Division

Source: Goldman Sachs, FactSet, Goldman Sachs Global Investment Research

The Value of Value

Valuations are cheap, fundamentals are strong, and value stocks offer superior profit growth and double-digit earnings yields. Real assets, like equities, have historically provided the best long-term store of value. **So, if you are worried about inflation or trying to build an antifragile portfolio to survive multiple economic climates, owning cheap stocks seems like a good way to buy insurance at a discount.**

Quality Income

We believe a dividend strategy can be greatly enhanced by overlaying a value-driven, fundamental assessment of business quality. **With asset prices at all-time highs, yields at all-time lows, and risk of rising inflation, Quality Income is an attractive alternative to bonds.**

Source: Absolute Strategy Research

China's Calamity

Returns are best when capital is scarce. In a world awash in liquidity, finding those opportunities can be challenging, but not impossible. We see value in Chinese stock and bond markets and are positioned accordingly. China's crackdown on the property sector has driven a dramatic sell off in high yield bonds. Spreads have blown out and are now yielding north of 20% vs last year's 14% peak at the height of the pandemic. In short, Asian high yield credit is pricing in a lot of downside risk. The market currently expects nearly every other credit to default. This seems like a stretch. **Increasing capital flows in the face of declining prices suggests that investors are beginning to realize that double-digit yields in today's low-rate environment are too hard to resist.**

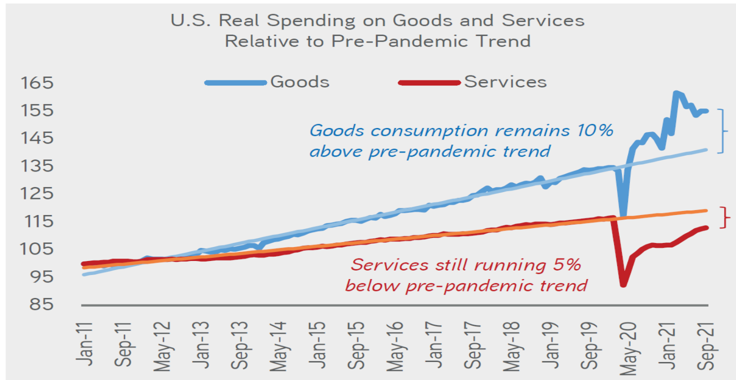
Differentiated Returns

In contrast to traditional strategies, event-driven investments respond to specific occurrences rather than the direction of the broader markets. Regardless of whether the market goes up or down, catalysts can push stocks higher, unlocking their value and tying their fate to a certain event rather than to the vagaries of the market. As a result, these investments can reduce portfolio duration and lesson downside in bear markets. **Subsequent to year-end, we began building a new core position in one such security and look forward to disclosing that investment in our next letter.**

COVID Experiences

Post-COVID normalization should mean fading demand for goods (i.e., Peloton) and surging demand for services (i.e., airports and rental cars). Consumer spending on goods remains 10% above trend while services are still running 5% below. **We think demand for 'experiences' is likely to accelerate for the next several years. Investments in travel and leisure are likely to be prime beneficiaries.**

Services, Which Represent Almost 70% of Total Consumer Spending, Are Still Recovering

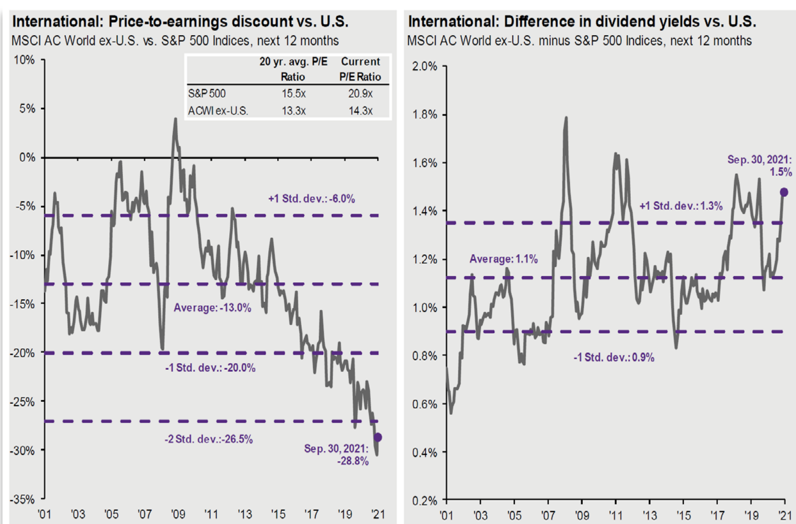


Data as at November 15, 2021. Source: Bureau of Economic Analysis, Census Bureau, KKR Global Macro & Asset Allocation analysis.

Emerging Returns

One of many unintended consequences of bubbles is the misallocation of capital as surging "liquidity" rushes into narrow subsegments of the economy. Today, the flow of funds is literally making its way into outer space, starving other sectors of capital and setting the stage for stronger returns. In 2021, the S&P returned 29%, MSCI World returned 19%, MSCI ex-US returned 8% and MSCI Emerging Markets *declined* 3% on the year.

Given the gap in valuations today, it's unlikely the US continues its dramatic outperformance over the next decade. We continue to see pockets of value outside of the United States, and these investments represent a growing proportion of our equity book today.



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2021.

BOTTOM LINE

Global market capitalization has grown by $27 trillion in the last three years, almost 10x the previous three-years, yet reported profits grew roughly the same amount, according to Soc Gen's Andrew Lapthorne. In the US, multiples expanded by about 10% annually over the last decade driving the majority of benchmark returns and doubling normalized multiples from 17x to 38x earnings.

Said differently, almost all of the gains over the past ten years were derived from a low starting point and rising valuations. This, of course, works both ways. History and logic suggest that a repeat performance from today's starting point is just not possible.

Common sense and basic arithmetic suggest that after three years of returns north of 20% annually, markets are likely to provide more meager (if any) returns for the next few years. Simply stated, risks are rising while prospective returns are declining. As we write, a hint of skepticism and a dose of reality are creeping up on investors otherwise blind to the possibility of a bear market. Those that have resisted temptation to throw caution to the wind will be well positioned to scoop up attractive bargains during the next drawdown. The majority of investors, unfortunately, are likely to be carried out feet first.

Case in point: ARK generated a cumulative return approaching 600% or ~ 36% annually at its peak. Yet, the average investor in ARK ETFs is sitting on a 27% loss according to Bespoke Group, as most inflows occurred near the top. Unfortunately, this is quite common for sluggers who swing for the fences. Occasionally spectacular, yet volatile returns, can result in fame and fortune for heavy-hitting investment managers, but their clients rarely come along for the ride.

At Broyhill, we are programmed to stay on our feet and to ensure our investors do the same. We prioritize the return of our capital before pursuing a return on our capital. This means being prudent when others are not, which positions us to take calculated risks when others cannot. It means we prefer the steady pace of the tortoise rather than risk burning out like the hare.

It can be frustrating to watch those rabbits recklessly speed ahead while we move forward at a more measured and calculated pace. But we believe this is the best way to ensure we finish the race with our investors still on board.

We are grateful for your continued trust and partnership. We come into the office each day striving to earn it, and recognize just how fortunate we are to have such a wonderful group of like-minded, long-term investors who place their confidence in. You enrich our network, strengthen our competitive advantage, and most importantly, just make our work all the more enjoyable.

ORGANIZATIONAL UPDATE

As stated in the introduction to this letter, we wanted to take a moment to clarify how we report performance and recent changes we have made. To be clear, this will not change your actual performance as an investor. But as our firm and our investment strategies have evolved (see appendix), it has become increasingly challenging to cover all of our bases in these letters. So, going forward, we will focus this commentary on our fully invested equity strategy for a couple of reasons. First, most of our clients are invested in this portfolio in aggregate or in combination with other asset classes and investment vehicles. And equally important, we think this change will make it easier for investors to compare our investment results with relevant equity benchmarks. We welcome your feedback here as we refine this approach as these letters are ultimately written for you.

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As Broyhill continues to scale, our needs have evolved alongside the growing complexity of our business. So, in an effort to streamline our operations, we recently made the decision to outsource some functions to Agile Fund Solutions. Agile provides us with an institutional quality platform and experienced team to help us manage everything from compliance and operations to internal workflows and account documentation. Most importantly, Agile provides us with the bandwidth and the peace of mind to concentrate on what we do best - researching and executing investment opportunities on your behalf. You can think of them as an extension of our team, based in Charlotte and led by Brian Smith, CFO. If you have any questions or need anything on your account, please don't hesitate to reach out to Brian or his team at our group email address, which is broyhill@agilefs.com.

We've also had a couple of recent organizational changes of note. Tim LeRoux left the firm to pursue other opportunities. And after more than three years at Broyhill, Caylynn Lewis has moved on to an exciting new leadership role at a Silicon Valley tech start-up. We wish them both the best of luck in their future endeavors. In the meantime, we have begun the search for our next all-star Executive Assistant and Chief of Staff and are excited by the caliber of candidates already in the pipeline. **If anyone comes to mind as a potential fit, please let us know, as referrals from trusted friends will be placed at the top of our list.**

As always, please feel free to reach out any time with questions. We enjoy hearing from you.

Sincerely,

Christopher R. Pavese, CFA
Chief Investment Officer
Broyhill Asset Management

ABOUT BROYHILL

Broyhill Asset Management is a boutique investment firm, initially established as a family office in 1980 and guided by a disciplined value orientation. Founded in the foothills of North Carolina's Blue Ridge Mountains, we operate outside of the fray and invest with a rational, objective, long-term perspective.

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Disclosures

Broyhill Asset Management LLC ("BAM") is an investment adviser in North Carolina. BAM is registered with the Securities and Exchange Commission (SEC). Registration of an investment adviser does not imply any specific level of skill or training and does not constitute and endorsement of the firm by the Commission. BAM only transacts business in states in which it is properly registered or exempted from registration. A copy of BAM's current written disclosure brochure filed with the SEC which discusses among other things, BAM's business practices, services and fees is available through the SEC's website.

Performance calculation methodology. The performance of the Broyhill Equity Portfolio illustrated here is representative of the fully invested strategies available through various TAMPs (Turnkey Asset Management Platforms). The majority of BAM's SMAs include a significant cash allocation, which has averaged 30% - 40% in recent years, and also utilize options to compliment individual position sizing and to hedge the portfolio as appropriate for individual clients. As a result, we believe that the historical performance of our flagship strategy (which includes both options and a significant cash drag) is not representative of a pure equity allocation. As such, this data may be useful for an advisor evaluating Broyhill, although individual results may differ based on each account's investment objectives, the date of initial funding, the opportunity set available at the time, specific investment vehicles available to the accounts, and individual fee schedules. These historical performance figures are for our equity-only strategy.

Performance is calculated using time-weighted rates of returns, net of fees. Since these platforms report returns to Broyhill gross of fees, in order to report net returns, a 1.5% annual management fee has been subtracted from gross reported returns. This methodology has also been applied to the extracted attribution returns. Average position size is calculated from average capital invested divided by average portfolio capital in fully-invested accounts.

The investment return and principal value of an investment will fluctuate. Therefore, an investor's account, when liquidated or redeemed, will almost always have a different value than that shown herein. Current performance may be lower or higher than return data quoted herein.

Past performance is not indicative of future returns. This information should not be used as a general guide to investing or as a source of any specific investment recommendations and makes no implied or expressed recommendations concerning the manner in which an account should or would be handled, as appropriate investment strategies depend upon specific investment guidelines and objectives.

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Market value information (including, without limitation, prices, exchange rates, accrued income and bond ratings furnished herein) has been obtained from sources that Broyhill believes to be reliable and is for the exclusive use of the client. Market prices are obtained from standard market pricing services or, in the case of less liquid securities, from brokers and market makers. Broyhill makes no representations, warranty or guarantee, express or implied, that any quoted value necessarily reflects the proceeds that may be received on the sale of a security. Changes in rates of exchange may have an adverse effect on the value of investments.

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For additional information about other indices or strategies mentioned here, you may contact us at info@broyhillasset.com.