

The best investors make money not because they understand abstruse mathematical models, but because they have a deep intuition about the machinations of financial markets. Markets have been complex for a long time, and their ebbs and flows always have depended, not only on intricate disclosures about assets and liabilities, but also on human psychology. That has not changed since the 1920s. The names and details change, but the cycles of mania, panic, and crash do not.

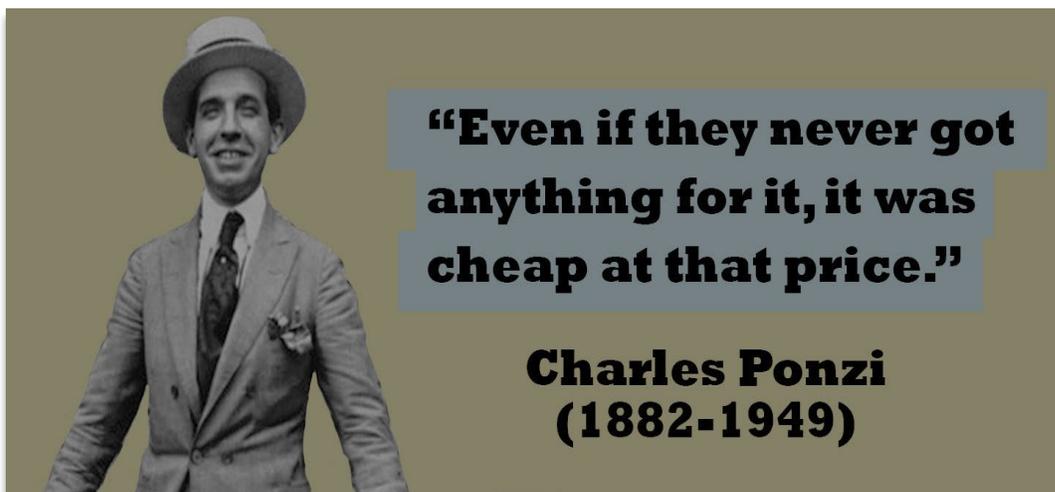
The number of conservative investors in the United States was dwindling. Instead, stock buying and selling was dominated by exuberant day traders, people who bought and sold shares of risky companies throughout the day, often holding positions for just a few minutes . . . there were more day traders per capita during the early 1920s than at any other time in history.

Most people who bought from bucket shop operators lost money, but that didn't stop them. Human beings inevitably overestimated the probability of success. Too many young men thought they could become the next Babe Ruth; four of five people believed they were of above average skill when driving a car. A majority of people said they could outsmart the stock market, or win money gambling.

As stock trading became more popular during the early 1920s, so did this kind of cognitive error, and the widespread passion about markets led investors to focus on winners more than losers, like the gambler who vividly remembers cashing a winning ticket from a particular race at the horse track, but conveniently forgets that she lost money overall.

At the time, even the hardest skeptics were drawn to widely publicized tales of successful trading schemes. Americans have always wanted to believe rags-to-riches stories are true, and the more they heard about young men from poor backgrounds who made implausible fortunes, the more they believed those stories could be theirs.

The Match King: Ivar Kreuger, The Financial Genius Behind a Century of Wall Street Scandals



**“Even if they never got anything for it, it was cheap at that price.”**

**Charles Ponzi  
(1882-1949)**

After years of rampant speculation, which culminated in animal spirits and levels of optimism that would have made the “Match King,” Ivar Kreuger, giddy, it would appear that most investors were in fact swimming naked. According to *The Wall Street Journal*, “of the 1,342 actively managed domestic stock funds, only 32 managed to end the trailing-twelve-month period in positive territory. The average performance for the fund managers was ugly. The funds recorded a total return of minus 15.2% for the twelve months.”<sup>1</sup> While that’s slightly better than the median college endowment, which lost 10.2% before fees,<sup>2</sup> we suspect that those returns might look more comparable if private assets were actually priced in line with reality.

## PORTFOLIO REVIEW

Value means different things to different people. But regardless of how you define it, the fact remains: cheap stocks have significantly outperformed the market year-to-date. Although the second quarter—when all domestic sector returns were in the red—was more challenging, we remain quite satisfied with our overall results.

**The largest contributors to performance during the first half counted three of our top five holdings: McKesson Corp (MCK), Dollar Tree Inc (DLTR), and Philip Morris International (PM).**

McKesson surged 32% during the first six months of the year, which coincidentally is in line with the stock’s three-year average annual return. For most of that time, however, shares traded at a 50% discount to the market as improving fundamentals drove the majority of gains. In contrast, this year’s gains have been largely driven by multiple expansion as investors pushed the shares of noncyclical, inflation-resilient businesses higher. As a result, McKesson’s price-to-earnings ratio increased ~ 40% and closed the quarter at a 15% discount to the market, relative to the ~ 50% discount to start the year. Although the company recently raised guidance and reported another strong quarter of results, we have begun reducing our position as shares have approached our estimate of fair value.

Like McKesson, Dollar Tree made the list of our top contributors for the second consecutive six-month period. Shares gained 11% during the first half, following management’s report of better-than-expected earnings and increased guidance for the full year. Earlier this year, we increased our position in the stock when weak results from Walmart and Target sent retail investors racing for the exits and Dollar Tree lost nearly a quarter of its market capitalization over a mere three-day period. Despite the stock’s sharp rebound from these lows, we continue to hold a significant stake in Dollar Tree because we believe the company’s transition to multiple price-points is still in the early innings and has not yet been properly reflected in its stock price. Management is not waiting for the market to take note. Since the first quarter, Dollar Tree has announced seven c-suite changes and seven new directors. We will have more to share with investors after the October Analyst Day with Executive Chairman Richard Dreiling.

Despite geopolitical challenges in eastern Europe and a surging dollar, which acts like a headwind against foreign earnings, shares of Philip Morris International returned 7% in the first half of the year. We recently outlined our investment thesis for the company at ValueX Vail, sharing our thoughts on Boomers and Millennials, ESG & Tobacco, and Disruptive Innovation & SaaS (Smokes as a Service). And, for an added bonus, we brought along packs of Zyn for attendees. That presentation is available [here](#).

---

<sup>1</sup> [The Few Mutual-Fund Managers Who Avoided the Debacle, July 2022](#)

<sup>2</sup> [College Endowments Post Biggest Losses Since Financial Crisis, August 2022](#)

**The largest detractors to performance during the first half of 2022 were: Madison Square Garden (MSG), Meta Platforms (META), and Fiserv (FISV).**

Madison Square Garden Entertainment shed 25% during the first half after gaining 18% in the first quarter. Despite adjusted operating income exceeding estimates, several key metrics surging above pre-pandemic levels, and broadly positive comments from management, investors hastily sold MSGE shares in the second quarter as they rushed for safety in the wake of the broader market's accelerated downturn, indiscriminately punishing shares with limited liquidity and limited analyst coverage.

The only positive we can say about our investment in Meta Platforms is that we sold most of our position at significantly higher prices during the post-COVID rally. Unfortunately, we also bought some back after shares recorded their biggest drop ever following a terrible first quarter forecast. So, while we missed a chunk of the stock's 52% first-half decline, we did get to "enjoy" about half of the fall. Thankfully, the company formerly known as Facebook remained a relatively small position in the portfolio. It is also the only "FANG" stock (or whatever we are calling them these days) we have recently owned, as every one of these companies, which represented more than a quarter of the index at their peak, fell significantly harder than the market. In fact, META's decline was large enough that the company was added to several value indices during the year.<sup>3</sup> The setup today looks very similar to sentiment when we first established our position in 2018 during the Cambridge Analytica crisis. Then, as now, investor expectations soured alongside concerns of slowing top-line growth and rapidly rising expenses. Despite those concerns, operating profit, which stood at \$20 billion at FY17, is expected to surpass \$33 billion this year in spite of analysts' reduced expectations. While Reality Labs presents another wrinkle in the current story and future growth will almost certainly be slower, for investors to lose money in META today—when it is trading at 14x its likely depressed earnings--the company would need to fall far short of analysts' already extremely pessimistic expectations. Although that outcome is possible, we believe we are being compensated sufficiently to take that risk.

Our large investment in Fiserv was among our top detractors during the first half of the year, despite the stock's relative outperformance. The share's 14% decline through June was markedly better than the broader market and a fraction of the losses posted by the "sexy, rapidly-growing disruptors" we highlighted in our [investment thesis](#), published with our year-end letter to investors. Silicon Valley favorites like Adyen, Square, and PayPal plummeted 40%, 62%, and 63%, respectively, during the six months ending in June. In contrast, Fiserv reported better-than-expected growth and raised full-year guidance subsequent to quarter end, putting shares back in the green for the year.

## PORTFOLIO COMMENTARY

At quarter-end, our top five investments in alphabetical order were Activision Blizzard, Altria Group, Dollar Tree, Fiserv, and McKesson. There were no material changes to the portfolio in the first six months of the year, with one exception, discussed below.

Many investors believe a lot of stocks are cheap after falling 40%, 50%, or more, and they are enthusiastically buying up stocks that are hitting "new lows." Spoiler alert: we believe most of these stocks remain overpriced, trading far above historical valuations and much too high to likely generate attractive returns. As such, we find it difficult to part with our existing portfolio companies, despite the growing inventory of "cheap" stocks. Our companies are well positioned for the current environment and continue to trade at levels that offer substantial value. What's more, what looks cheap today often turns out to be a value mirage. Cheap stocks can get much cheaper in a protracted bear market, so we have raised our hurdles and sharpened our pencils, as we wait for prices to come our way.

---

<sup>3</sup> [Facebook, Netflix and PayPal Are Value Stocks Now, June 2022](#)

**In challenging market environments, our pencils often gravitate towards event-driven situations that are less susceptible to fickle investor sentiment.** We established one such position in the first six months of the year, which is currently a top-five holding. In January, we began accumulating shares of Activision, following Microsoft's announced \$68.7 billion all-cash acquisition, which valued the company at \$95 per share. While we recognize the risk to Big Tech posed by increasing regulatory headwinds, we are confident we are being well paid for taking that risk and believe the odds of the deal closing are much better than the ~ 50% probability the market is currently pricing.<sup>4</sup>

**In the context of an increasingly volatile investment climate, well-defined catalysts, like an acquisition, can provide a more predictable range of outcomes** without depending on the vagaries of the market or the unpredictable mood of investors. As a result, these investments can decrease portfolio duration and volatility, reduce downside in bear markets, and provide attractive risk-adjusted returns.

We are by no means merger arbitrage specialists. In fact, I don't think I'd call us specialists in any one thing. But if we can buy a good business at a fair price and are comfortable owning it should the deal fall through, then a merger represents just one potential path to profitability. If the deal closes successfully, we stand to make a healthy short-term gain with minimal market risk. If the deal fails--but we've done our homework on the company--then that path to profitably is simply extended over a period that is more consistent with our typical time horizon.

**Our broad mandate is one of Broyhill's core competitive advantages,** particularly relative to peers trapped inside a single style box. That flexibility allows us to look across market segments for the most attractive risk-versus-reward opportunities. Most of the time, merger arbitrage does not rank high on that list, which is why it is not a permanent fixture in the portfolio. Like most corners of the market, merger arbitrage isn't always attractive. In good times, deal spreads are narrow, and returns on offer are meager. As a result, downside risk is often far greater than the potential upside rewards. But in times of stress, when investors are unwilling or unable to take risk, forced selling drives spreads wider and prospective returns higher.

**In difficult times, investors abandon the "outside view" for an "inside view." Said differently, panic shortens time horizons and shines a spotlight on immediate risks rather than longer term probabilities.** Fortunately for us, the outside view, informed by a statistical basis of past mergers and acquisitions, demonstrates that the overwhelming majority of announced deals are closed on their initial terms, despite temporary bouts of doubt and drama.<sup>5</sup>

**It is during these temporary bouts of doubt and drama that we look to get involved.** That's precisely what is happening today, which is why we are doubling down on our efforts to uncover value in special situations, and we expect our allocation to event-driven investments to increase so long as market conditions cooperate. And while we wouldn't call ourselves merger specialists, we have the experience and know-how to get the requisite due diligence done. In fact, some of our largest and most profitable positions at Broyhill have been event-driven situations established during similar periods of stress. The most recent example is our investment in Time Warner, which we initially discussed [here](#) and later revisited in the following year's [annual letter](#).

---

<sup>4</sup> [Microsoft-Activision Deal Doubt May Yield Big Reward, August 2022](#)

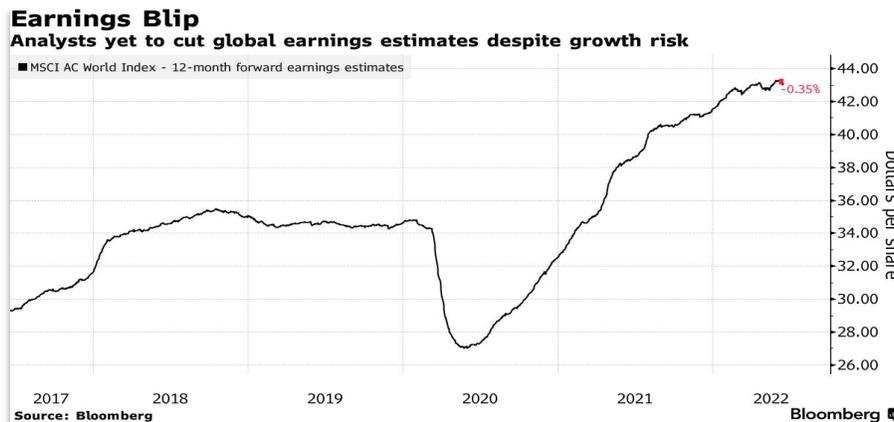
<sup>5</sup> [The Inside View and Making Better Decisions](#)

## MARKET COMMENTARY

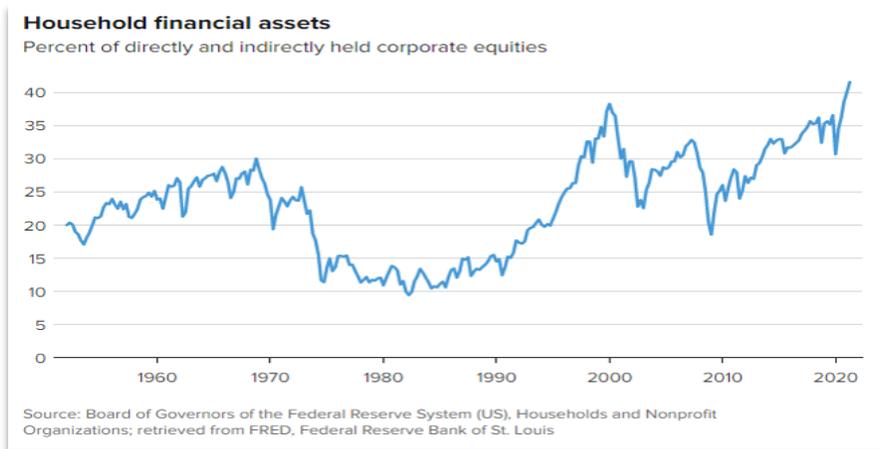
We believe we have entered a new market regime. Over the past year, the investment landscape has shifted 180 degrees, from loosening liquidity to tightening financial conditions. The post-pandemic flood of liquidity--\$5 trillion of deficit spending and another \$5 trillion of balance sheet expansion--lifted asset prices to levels beyond comprehension, but that tide is now receding. The Fed left its foot on the pedal far too long, causing inflation to overheat. Now they have to gingerly tap the brakes to avoid spiraling out of control and also engineer a “soft landing” without causing the economy to screech to a halt. The only problem: there’s no such thing as a soft landing.

Further complicating this dilemma is the staggering size of the Fed’s balance sheet, which poses perhaps the greatest risk to financial stability. While central bankers have begun increasing short-term interest rates, the shift from quantitative easing to quantitative tightening hasn’t even begun and represents one of the most extreme pressures on money and credit in generations. If the Fed is “successful,” the economy will be its next victim. And as liquidity is vacuumed out of the market, the most speculative assets are the most vulnerable.

**As we see it, markets are trapped in a catch-22.** If stocks hold up, the Fed will continue increasing rates until something breaks. If the economy stalls, rate hikes may get put on hold, but stocks are likely to face more severe challenges. Against this backdrop, we see significant room for negative earnings revisions and disappointing margins given tightening liquidity, growing macroeconomic risks, bloated inventories, and increasing cost pressures. The market has yet to price in this likely lower path of profitability. Although valuations have corrected much of their previous excesses, earnings estimates have barely budged--in contrast to the typical 20% - 30% fall around previous recessions.



Perhaps the best upside argument for markets at the moment is that the first-half blood bath left sentiment extremely pessimistic and markets deeply oversold, setting the stage for the rally currently underway. Call us skeptics, but our *View from the Blue Ridge* remains suspicious at best. To start, there is still a massive disconnect between investor sentiment and actual positioning. So, while investors in aggregate may claim to be more bearish than usual, their actual behavior and collective bets on equities do not reflect those concerns. They still remain heavily invested in equities.



**As is often the case, the simplest explanations are usually best.** Last year, “investors” were paying \$1.3 million for pictures of a rock, cab drivers were showing customers their \$4 million Robinhood accounts, and for a couple weeks, SPACs were raising \$3 billion per night, which is roughly equivalent to every dollar of US savings at the time.<sup>6</sup> Did we really need somebody to ring a bell?

**Even after this year’s severe beating, speculators are just as eager to call “the bottom” and buy the dip.** In recent weeks, the number of Bloomberg stories about a “new bull market” increased roughly 10x. Retail investors are already jumping back on the wagon and doubling down on bets gone sour. In July, purchases of the most popular tech stocks by individuals hit the highest levels recorded in almost a decade. Leveraged funds tracking the tech sector remain among the most popular ETFs purchased by individual investors this year.<sup>7</sup> And the poster child for the most speculative corners of the market, the Ark Innovation ETF, has seen inflows every month this year, but June.<sup>8</sup>

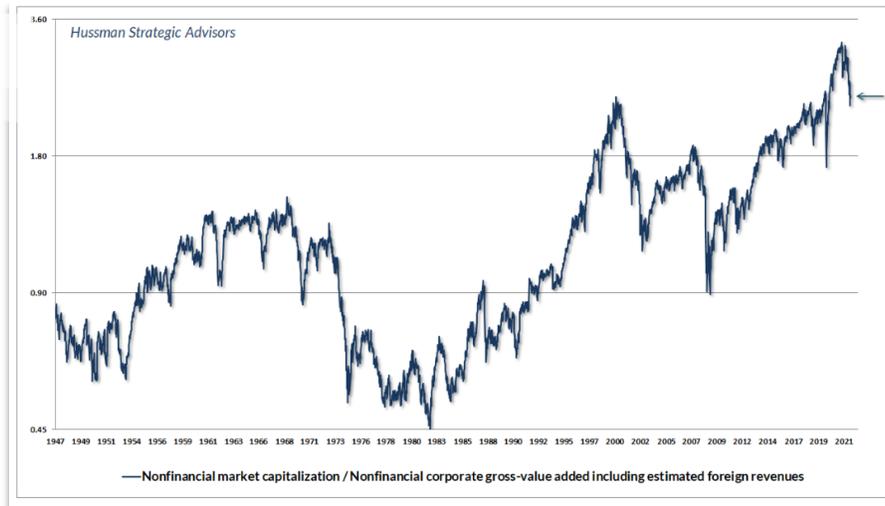
**We wonder how likely a market bottom is, if everyone still sees this year’s decline as a massive buying opportunity, simply because “everyone else is so bearish.”** Common sense tells us that it’s more likely this cycle has a way to go. Simply put, markets don’t hit their long-term bottoms when everyone is looking for one. Bottoms occur when the masses have truly given up, and there is no one left to sell. In contrast, investors today are still buying, household equity allocations remain near record highs, and bubble stocks still dominate traditional headlines, social media chatter, and Robinhood accounts. The uncomfortable truth is that a decade of stimulus on a level never before seen in history fueled speculation beyond the extremes of even 1929 or 1999, and all the recent sell-off did was take us back to those extremes. Given the magnitude of excesses on the upside, investors should not be surprised if markets were to overshoot to the downside. That being said, does this look like a bottom?

---

<sup>6</sup> The Worst-Hit Stocks Have a Long Way Down, June 2022

<sup>7</sup> Individual Investors Ramp Up Bets on Tech Stocks, July 2022

<sup>8</sup> Revival of Bear Market’s Laggards Shows Perils of July Rebound, August 2022



Source: Hussman Funds Commentary, July 2022

**Market regimes evolve over a long enough timeframe that widespread beliefs become engrained in conventional wisdom.** As a result, the consensus is still clamoring to buy the winners of the prior regime. Those beliefs were reinforced again and again over the last decade, making them even more difficult to change. They are so engrained that many investors simply cannot believe that sky-high profit margins and stratospheric valuations won't return and be sustained indefinitely.

**When regimes shift, leadership changes.<sup>9</sup>**

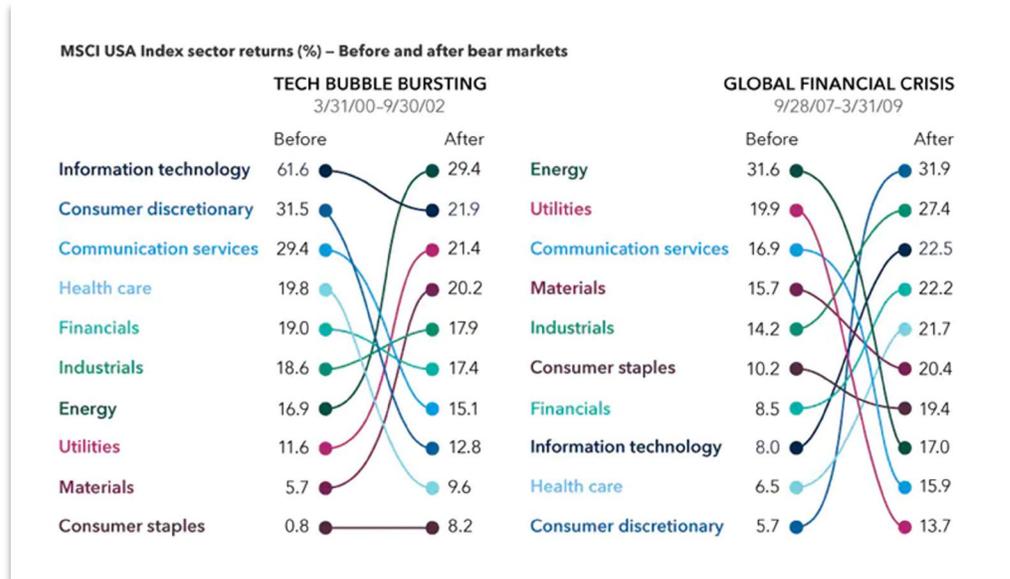
Throughout financial market history, winners of the last regime have lost their luster, and made room for the new cohort. We expect this time shall be no different even if it takes several years for most investors to realize it.

**We believe last decade's cool crowd is likely to give way to a *Revenge of the Nerds*—an ascendance of cheap, boring companies with strong, recurring cash flow.** What worked in the past won't work in the future. Going forward, the drivers of returns will change. As one of our partners likes to remark, profits will once again be more valuable than promises.

**Markets have taken their first step towards normal this year, but we still have a long road ahead.** We believe we are well positioned for the difficult journey ahead and look forward to the return of fundamental investing.

---

<sup>9</sup> Braving Bear Markets: 5 Lessons from Seasoned Investors, July 2022



Source: Capital Group

## REVENGE OF THE NERDS

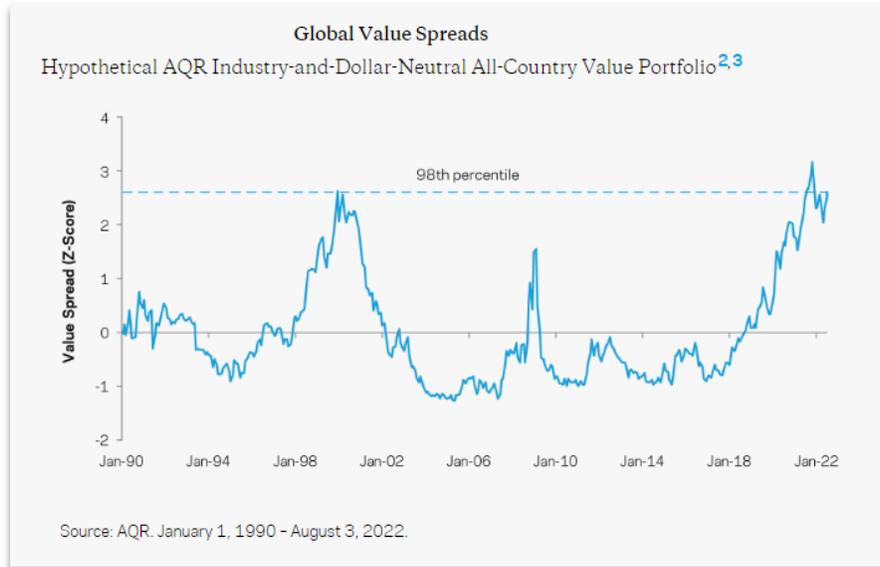
The pandemic may have been the spark needed to put the old regime to bed, as the preconditions for the current value cycle were put in place during the depths of COVID. Policymakers spent 3.5x more to rescue the economy from a pandemic than from a global financial crisis. US households received more than \$1.5 trillion in stimulus, unleashing animal spirits at a magnitude never seen.

**Extreme stimulus drove extreme performance of expensive stocks and created a spectacular divergence in valuation,** as well as one of the most attractive opportunities for value investors in history.

**Despite value's recent outperformance, the valuation disparity between the cheapest and most expensive stocks remains near historical highs and double the long-term average.** In other words, the opportunity set has rarely looked better for disciplined value investors.

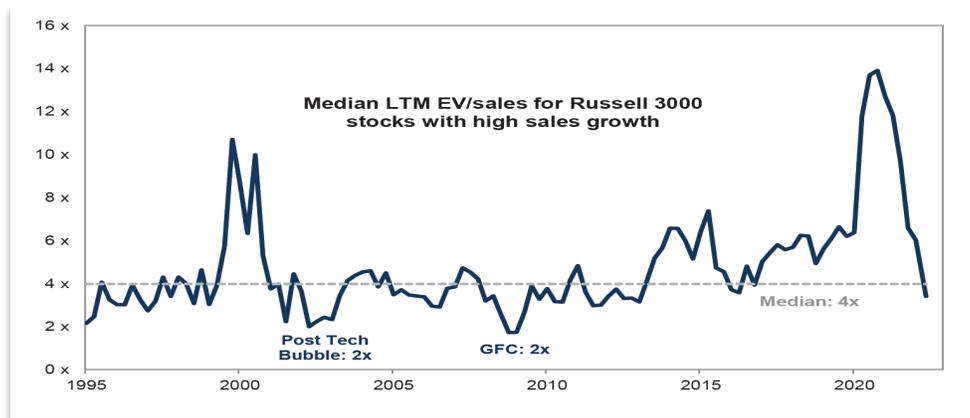
**Even after this year's brutal sell-off, the most expensive stocks remain wildly overvalued, trading at nearly 50x earnings,** while the cheapest stocks currently change hands at mid-single-digit earnings multiples, the bottom of their historical range.

The recent gains enjoyed by value investors have barely managed to take global value spreads back toward levels last seen at the peak of the dot-com bubble.



There are still nearly 500 companies in the US with market capitalizations greater than \$1 billion that lose money. More than a quarter of them trade north of 10x sales. While these stocks are less expensive than they were over the past few years, we would not call 10x sales cheap.

Valuations have fallen hardest amongst the fastest-growing “unprofitable growth” stocks, but these companies are likely to face additional challenges. The rising cost of capital and tightening financial conditions will make it difficult to raise additional funding. At best, this should cap valuation upside in the near term. At worst, these companies will struggle to remain solvent.



Source: Compustat, FactSet, Goldman Sachs Global Investment Research

In our year-end letter to investors, we warned that reality was sinking in, but acknowledged that the more speculative corners of the market still represented tens of billions in value. “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.”

It would seem that *Market Karma* is currently correcting some of these injustices. We are ~ 18 months into an ARK bear market that has seen the fund drop ~ 80% from peak to trough, yet as recently as June, the fund posted its longest streak of inflows in more than a year. Meanwhile, David Einhorn is still going around, cup in hand, even after posting the firm's best relative performance on record. In a recent letter to investors, after reporting a couple of their best quarters in the history of the firm, Einhorn asks the question: does this mean value investing is back? His answer is worth republishing here:

We think the answer is still a resounding no. To be clear . . . it isn't as if investors are now embracing value investing and pouring into value stocks. The community of disciplined value investors has shrunk considerably. Traditional long-only active managers have lost assets to index funds and have generally scaled back their research efforts.

Short sellers are significantly diminished and many have left the industry. The market is still dominated by . . . those that either will not (index funds), cannot (untrained novice investors) or choose to not (valuation indifferent professional investors) have valuation as a cornerstone of their investment processes. A lot of these investors have had a tough go of it during the current bear market.

We believe that part of the reason value stocks have fared better lately is because there is hardly anyone left to sell. Another factor may be that value stocks have become so cheap relative to the earnings of the underlying businesses, companies are able to buy back a large portion of their own market capitalizations.

**There is hardly anyone left to sell. That's when markets bottom.** While that may accurately describe the environment for value investing, it couldn't be further from the truth for the broader market. The average investor is still more worried about missing the rally than losing his or her shirt. The emerging narrative among those investors is that bad data is good news as it will prompt dovish central banks to reverse the course led by the Powell Pivot. Call us skeptics, but we aren't buying it.

The NASDAQ saw seven rallies greater than seventeen percent from 2000-2002. Some gained as much as 40% - 50%. Yet every single one of them was followed by lower lows, and ultimately the tech-heavy index declined by nearly 80% from peak to trough. On several measures, recent extremes make 1999 look like amateur hour. Many investors, however, were eager to call the bottom after the NASDAQ's recent 20% rally--just the first of this cycle. We think they have a long road ahead of them. The beatings are likely to continue until the retail speculators throw in the towel and completely capitulate. Or when there is hardly anyone left to sell.



## BOTTOM LINE

We have built Broyhill to thrive in challenging environments. Everything we do is laser-focused on one goal – mitigating risk for your capital. Simply put, this is where we earn our keep. We are proud of this year’s results, but are not resting on our laurels. We got a lot right this year, but we’ve also had our share of mistakes. The upside of mistakes is that they encourage humility, while driving the team to remain open-minded, consider all potential outcomes (which is never possible), and above all else, maintain a beginner’s mind and child-like curiosity.

While the recent rally has prompted many to rush back into the water, we see plenty of risks lurking beneath the surface. As much as we might like to jump in with everybody, we just don’t see current conditions warranting such a leap of faith. Diving headfirst into the shallow end rarely ends well.

We are as excited about the developing opportunity set as anyone else, but we will remain patient and disciplined in putting our capital to work. In the meantime, we continue to re-underwrite the portfolio regularly, pruning our book as assumptions evolve and increasing liquidity so we are well positioned to move aggressively when the water is just right. This too shall pass, and when it does, the seeds planted during these challenging times may produce a healthy long-term harvest.

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

## ORGANIZATIONAL UPDATE

As if the current bout of volatility wasn't enough, we've had several exciting organizational updates that we'd like to share with you. In our last letter, we noted our decision to outsource BAM's back and middle office operations to Agile Fund Solutions, as well as our search for a new Chief of Staff. Well, it's been three months since Pam Reid joined the team, and we could not be more thrilled. Pam is a leadership professional who brings more than two decades of experience in organizational process and business operations to Broyhill. Most recently, she served in higher education managing operations and finances for the McColl School of Business at Queens University of Charlotte. While vetting Pam and other candidates over several months, I was told by one reference that, "she will be the best hire you've ever made." Somehow, I think they may have undersold her. When talking to colleagues about the contributions she's already making to the team, the most common response is, "I need a Pam!" My typical reaction: "Get your own!" Pam has already spoken to many of you, and I trust you will enjoy working with her in the years ahead. In the meantime, please feel free to drop her a line to introduce yourself. She can be reached at [pam@broyhillasset.com](mailto:pam@broyhillasset.com) or 828.610.5535.

We are equally excited to introduce you to a new addition to our investment team. Olivia Guillebeau recently joined us from Bank of America. I have known Olivia since she was a student at Appalachian State University and competed in the Global CFA Institute Research Challenge. While the "Broyhill Fellows" have won the North Carolina competition all but one of the ~ dozen years I've served as their mentor, Olivia's team was the first to move onto the Global Finals after winning the Americas' Regional Championship for ASU. Olivia's leadership and passion for discovering truths which others choose to ignore, drove her team to a top five finish in the world. We know she'll have an equal impact at Broyhill.

And last but not least, as we expand our roots beyond our origins as a single-family office, we have made some changes to the ownership structure of Broyhill Asset Management, which are reflected in our updated Form ADV. And with a little luck, the next time we write to you, we will be doing so from our new Charlotte headquarters. As a proud Trent Walker (Vince Vaughn) once told the Mike Peters (Jon Favreau), "[Our little baby's all grown up!](#)"

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

Sincerely,



Christopher R. Pavese, CFA

Right now it's kind of sunny, things are doing fine, everyone thinks the Fed can handle it. That hurricane is right out there down the road coming our way. We don't know if it's a minor one or Superstorm Sandy. You better brace yourself. – Jamie Dimon

# 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.

FIND THIS INTERESTING?

[Click here](#) to take in regular views from the Blue Ridge

FOR MORE INFORMATION:

[ir@broyhillasset.com](mailto:ir@broyhillasset.com) | 828.610.5360

## 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 an 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.

**Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.** This document contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice.

**There is no guarantee that the views and opinions expressed in this document will come to pass.** Investing in the stock market involves gains and losses and may not be suitable for all investors. No representations, expressed or implied, are made as to the accuracy or completeness of such statements, estimates or projections, or with respect to any other materials herein.

**Under no circumstances does the information contained within represent a recommendation to buy, hold or sell any security, and it should not be assumed that the securities transactions or holdings discussed were or will prove to be profitable.** There are risks associated with purchasing and selling securities and options thereon, including the risk that you could lose money.

Certain information contained herein constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual

events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.

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.

Indices represent unmanaged, broad-based baskets of assets. They typically used as proxies for overall market's performances. Index returns typically assume that dividends are reinvested and do not include the effect of management fees or expenses. You cannot invest directly in an index. Without prior written permission of index owner, this information and any other index-related intellectual property may only be used for your internal use, may not be reproduced, or redistributed in any form and may not be used to create any financial instruments or products or any indices. This information is provided on an "as is" basis, and the user of this information assumes the entire risk of any use made of this information. Neither the index owner nor any third party involved in or related to the computing or compiling of the data makes any express or implied warranties, representations or guarantees concerning the index-related data, and in no event will index owner or any third party have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) relating to any use of this information.

For additional information about other indices or strategies mentioned here, you may contact us at [info@broyhillasset.com](mailto:info@broyhillasset.com).

No part of this material may be copied, photocopied, or duplicated in any form, by any means, or redistributed without Broyhill's prior written consent.