Historically, we have written letters to our investors on a semi-annual basis. If you are an avid reader of these missives, you know they tend to be quite thorough and thus require a lot of our bandwidth to put together. We will continue sharing these longer letters on a semi-annual basis and compliment them on a quarterly basis with an abbreviated recap of key transactions and performance drivers.

PERFORMANCE REVIEW

We define top contributors and top detractors as companies impacting 100 basis points or more on the portfolio's return for the period. This quarter, we had three top contributors (Fiserv, Avantor, and Fidelity National Information Services) and no material detractors.

Top Contributors

Shares of Fiserv gained 20% in Q1. This is the second quarter in a row where Fiserv has earned the title of top contributor. Clover volume continues to gain momentum, translating to operating leverage on the company's fixed cost base and robust free cash flow generation. Fiserv recently reported its fifth straight quarter of buybacks over $1 billion. We expect Fiserv to continue making smaller bolt-on acquisitions and returning excess cash to shareholders.

Shares of Avantor gained 12% in Q1. We initiated a position in Avantor, a life sciences and tools company, in November 2023. After the company's private equity-backed management team made a significant acquisition pre-COVID and increased leverage to 7-8x, the business hit a wall. Now, with each of these headwinds set to reverse, we expect the business to make a comeback, yet management and the Street have been hesitant to forecast a recovery. Several analysts on the company's most recent earnings call questioned whether the 2024 guide was too conservative. Their inquiries were met with the diplomatic: "Our initial guidance is based on a continuation of trends from the last several quarters, giving us upside if recovery does materialize within the year." We've invested across enough similar setups to know that waiting around for tangible evidence of a recovery is a sure way to miss the recovery. And while the market waited, we continued building our position in the stock. For more on Avantor, see Chris' appearance on the Yet Another Value Podcast.

Shares of Fidelity National Information Services continued a steady ascent since their recent bottom in October 2023, returning 24% in Q1. In February, FIS completed the sale of a majority stake in Worldpay to GTCR and began using the proceeds to pay down debt and buy back shares. The stock rallied after the company's most recent earnings report when management increased its buyback goal for 2024. Fidelity's self-help story is playing out nicely.

KEY TRANSACTIONS

During the quarter, we exited our position in Fomento Economico Mexicano (FMX) and initiated a position in Warner Music Group.

Fomento Economico Mexicano. As discussed in our fourth quarter letter, we began building a position in FMX at the end of 2020. We believed the market was underappreciating and undervaluing the company's Oxxo segment relative to its peers. As the market came around to our view, the discount to private market value closed. We exited our position at the beginning of the first quarter.

Warner Music Group. Last year, we published a report on Universal Music Group, a competitor to Warner Music Group, highlighting the power labels have in the music industry. Warner Music Group has a similar hold on the industry with artists like Prince, Madonna, and Ed Sheeran. While platforms like Spotify and Apple Music offer a platform for music listeners, record labels control the content on those platforms and, as a result, bring home the lion's share of the industry's profits.

BOTTOM LINE

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.

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

Sincerely,

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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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 Broyhill's SMAs include a significant cash allocation, which has averaged 30% - 40% in recent years, and also utilize options to complement 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 the average capital invested divided by the average portfolio capital in fully invested accounts.

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