

The Broyhill Equity portfolio declined in the second quarter even as global markets rose. It's easy to lose perspective after a seemingly long, drawn-out period watching a handful of stocks single-handedly push markets higher. It's even more frustrating when the stocks that you do own are completely left for dead.

We underperformed as market leadership became increasingly narrow. That's not an excuse and doesn't make it any easier to swallow. But decades of experience have taught us that chasing strategies that have worked for others is not a reason to toss discipline out the window. We won't change our approach just because others are being rewarded for speculative behaviors we deliberately chose to avoid.

While we can't predict when an inflection point will occur, major turning points have historically coincided with extremes in the performance of mega-cap momentum stocks. The more extreme the divergence, the more powerful the subsequent reversion. That appeared to play out right on cue and in spectacular fashion last month.

After quarter-end, a major market rotation emerged, shifting investor attention from former market darlings to previously overlooked value-oriented equities. July's biggest winners were among the biggest underperformers in the first half. That also held true for our portfolio, which quickly erased second-quarter losses, closing the gap with major market averages.

We often say, "You don't need Broyhill in a bull market." However, bull and bear markets can only be identified in hindsight since no one rings a bell at the top. Well, no one, except maybe for Nvidia CEO Jensen Huang, who recently filled a 4,000-seat stadium at Computex, the world's biggest computing conference. The event was held on June 6th in Taiwan. Shares of Nvidia peaked two weeks later and lost more than a third of their value at the most recent low.

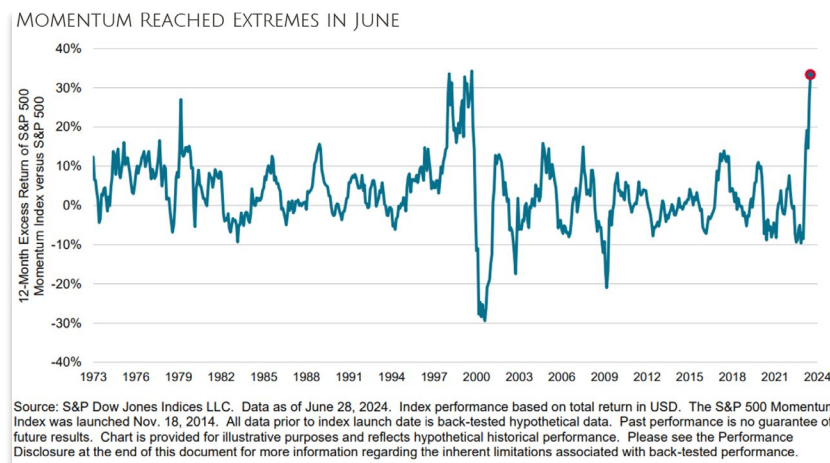


YEN IT RAINS, IT POURS

MO-MENT-TUM (N): PRODUCT OF MASS AND VELOCITY OF A BODY.

Despite what you may have heard, size matters. With the ten largest stocks in the S&P 500 approaching 40% of the index and responsible for most of the market's gain through quarter-end, anyone underweight megacap tech had a tough run. A blistering AI-fueled rally sent the S&P barreling toward its longest stretch without a 2% decline since the global financial crisis. According to a Bloomberg article published on July 15th, that record run lasted 350 sessions. But after notching 37 record closes this year, the record books closed the following day as the S&P 500 topped out at 5670 on July 16th before shedding ~10% of its value over the next 13 trading days.

A correction was overdue, given the parabolic run in the Magnificent 7 and extremes in investor sentiment. Complacency was evident for months, with most indicators wildly overbought and volatility neatly tucked away, hidden behind the seemingly unstoppable fundamentals of megacap tech. The magnitude and speed of the reversion caught many off guard. It shouldn't have. Given the widespread excesses in positioning, the faintest trigger was enough to prompt weak hands to fold.

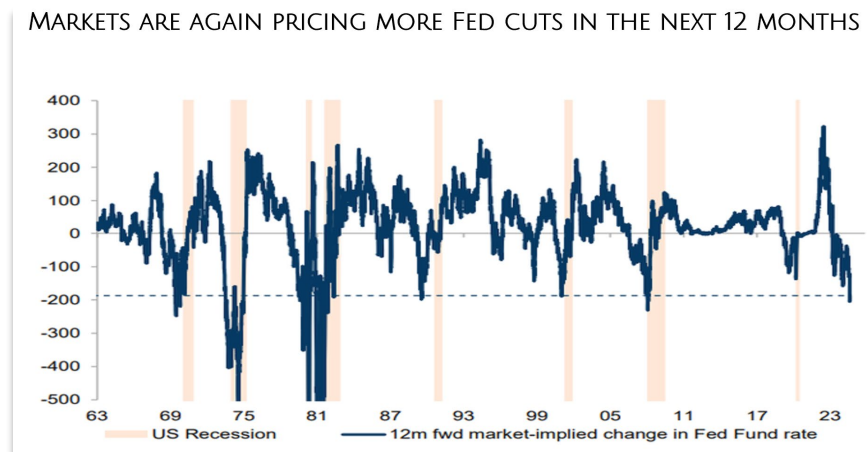


After a soft US inflation print, a measly 25 bps rate hike from the Bank of Japan provided just that trigger, which quickly cascaded into a violent unwind of crowded trades, leading to forced deleveraging across the globe. Hundreds of billions worth of assets bought with borrowed yen were dumped onto the market as liquidity vanished, rapidly unwinding “carry trades” sending both the TOPIX and the Nikkei down roughly 25% in the blink of an eye.

Low volatility environments are typical in the late stages of the economic cycle. But they are not a permanent feature. We highlighted the extreme crowding in momentum stocks in a recent piece titled [To Hell with Herd Mentality](#). We cautioned that hyperbolic moves in price and sentiment have historically led to violent unwinds. Exits are rarely large enough when the crowd collectively scrambles for the door. And this year's crowd was bigger than ever. Consequently, the correction produced the biggest intraday vol spike in the history of the VIX as crowded momentum collided with leveraged positions.

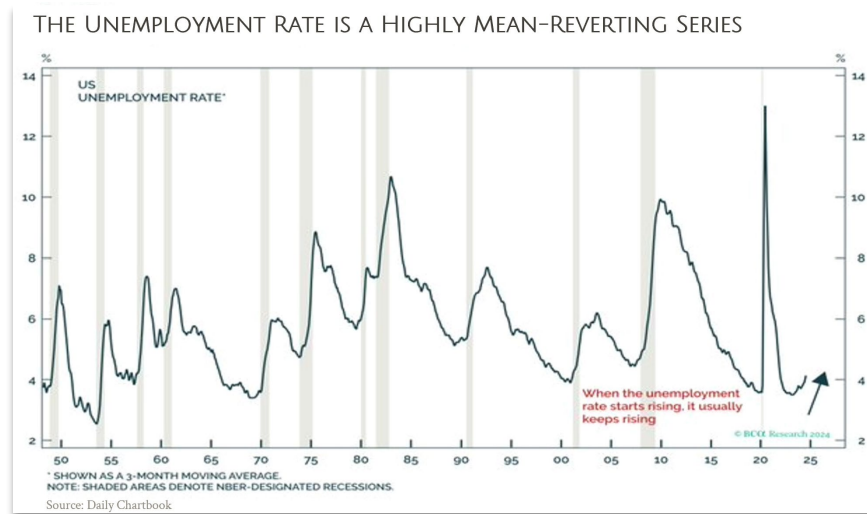
Going forward, the question is whether this was a healthy, overdue correction or the beginning of something more ominous. The challenge is like walking a tightrope between economic indicators weak enough to justify rate cuts but not too weak to signal a recession. Bulls are betting on the former. But the upside from here rests entirely on the Fed's ability to stick the perfect landing, balancing subpar-but-still-positive economic growth, slow enough to reduce inflation but not so slow to crush employment or corporate profits. Sure, a dovish Fed could again spark irrational exuberance and a “buy the dip” mentality, driving stocks to overshoot after a quick reset. That's certainly possible. But the risk/reward appears skewed to the downside.

Equity markets have performed surprisingly well in the face of the most aggressive hiking cycle in over 40 years, but investors are now pricing over 100 bps of rate cuts by year-end and 250 bps by the middle of next year. Notably, the last three times markets priced this degree of rate cuts – December 2000, August 2007, and March 2020 – coincided with market crashes.



Source: Goldman Sachs

The first cut is also a decent signal that a recession is around the corner. This would be consistent with the typical eighteen-month lag between the last rate increase and recession. For reference, the Fed’s final hike this cycle was dated July 2023. Even a cursory glance at the chart below makes it clear that unemployment has always spiked higher after bottoming and turning up. In contrast, bulls appear to be letting it all ride on a never-before-seen sideways move in unemployment.

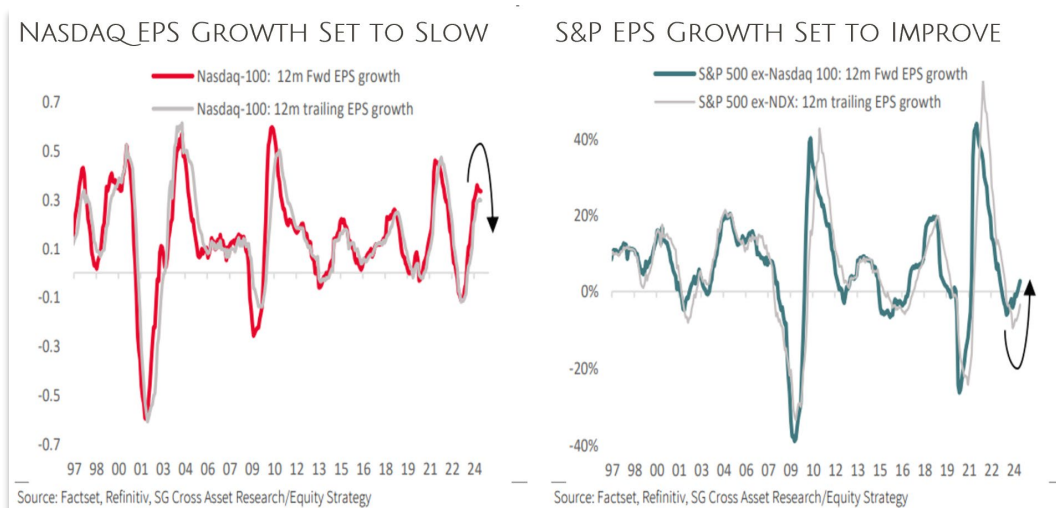


Economic slowdowns are impossible to gauge in real-time. Further muddying the waters, central banks have a rich history of policy mistakes and a track record that is far from perfect. With several Fed Governors demonstrating remarkable complacency about slowing economic growth, a weakening job market, and related pressures on the consumer, the risk of another unforced error is considerable. The Fed’s response is critical. If they miscalculate or sit on their hands, all bets are off. Mr. Market just fired a warning shot. Investors should listen.

Recent mayhem could have ripple effects if the Fed doesn't react with urgency. The recent drawdown was sharp, but it barely reached the level of typical declines in a given year. And it remains far from levels seen during previous momentum crashes associated with a full-fledged flush.

Some of the froth has come off mega-cap tech stocks, but valuations continue to reflect AI optimism and ignore increasing regulatory risks.¹ The unwinding of crowded positions and skepticism about the future returns on AI investments have driven a contraction in tech valuations from 32x to 27x today. But current valuations remain well above the 10-year median and still higher than the pre-COVID highs even as earnings optimism topped out months ago.

The cumulative effect of higher rates compounds with every passing quarter, weighing both on economic growth and corporate earnings. Notably, Nasdaq profit growth is set to slow at the same time that profit growth is turning up for the rest of the market. Historically, once optimism has peaked, it's tended to trend lower for a while, with ultimate lows typically proportionate to previous highs.



We think this setup demands an even sharper focus on protecting portfolios from significant drawdowns.

At the same time, **it offers brave investors one of the best opportunities in decades to truly separate from the pack.**

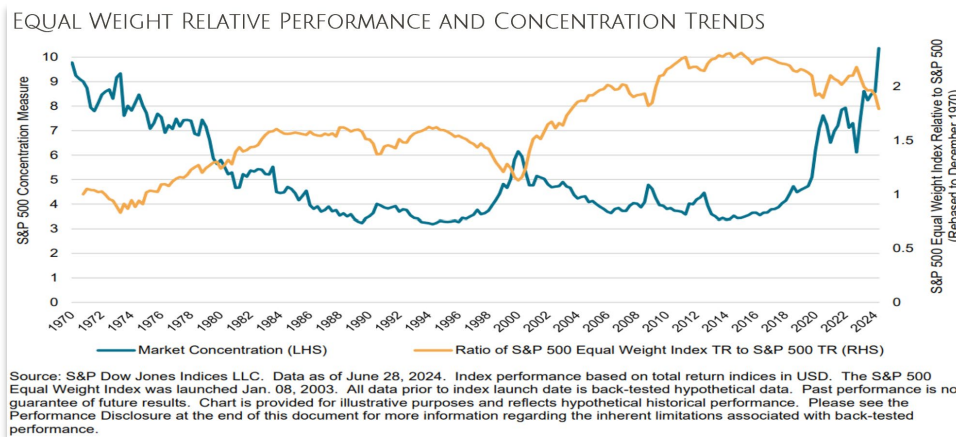
¹ Google, Meta, Amazon, and Apple all face antitrust litigation from the US DOJ, FTC, and European authorities.

THE SILVER LINING

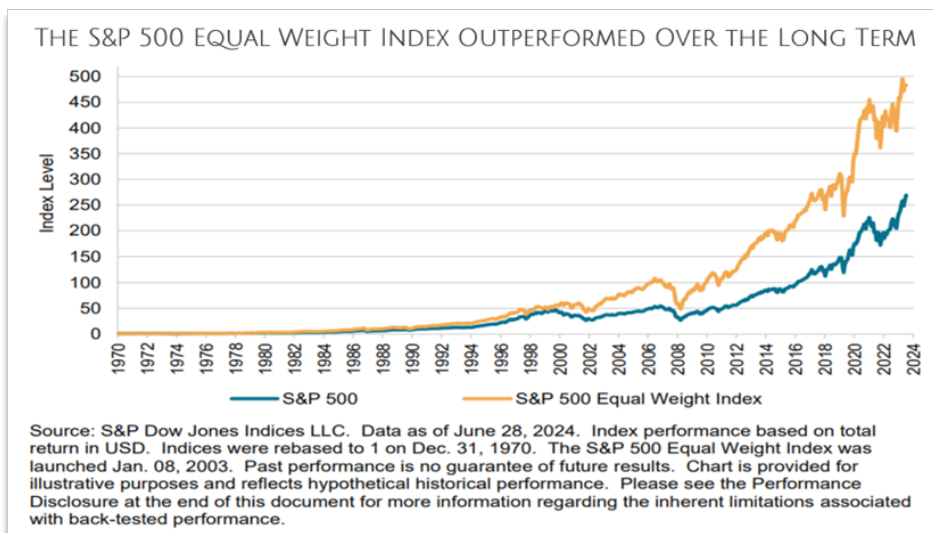
AN OBJECT IN MOTION REMAINS IN MOTION . . . UNLESS ACTED ON BY AN UNBALANCED FORCE.

— ISAAC NEWTON

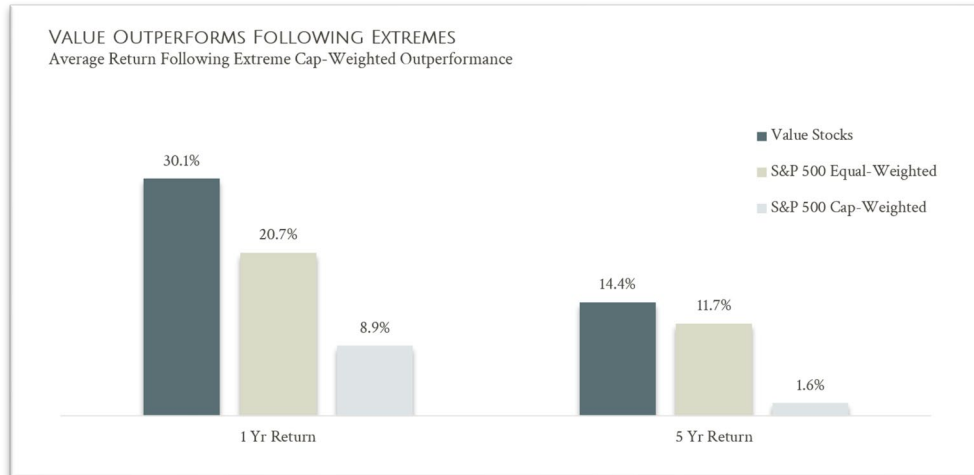
With returns concentrated in a rapidly shrinking number of stocks, the recent underperformance of equal-weighted indices and value equities should not come as a surprise. When the largest stocks outperform, the market becomes more concentrated, and cap-weighted indices, heavily tilted towards growth, outperform.



That doesn't make recent underperformance any easier to swallow, but history would appear to be on our side. The Equal Weight S&P has outperformed the cap-weighted index by 150 basis points annually for the past 65 years. While occasional reversals are not unprecedented, underperformance of the magnitude experienced since 2023 is a rare breed. It's also been a red flag for future cap-weighted index performance. More importantly, it's a green light for value investors.



Using history as our guide, we think the next 3-5 years should be extremely rewarding for active value investing. Over the past 65 years, the S&P 500 beat the S&P Equal Weighted Index by more than 10% in just 15 six-month periods out of more than 750 periods total. Four of these extremes happened after March 2020. In the past, the snapback has been dramatic, with the equal-weighted index significantly outperforming and value outperforming both by a wide margin (chart below).



Source: Bloomberg

The conclusion is similar if one examines the 412 rolling three-month periods since 1990. The most extreme examples of cap-weighted outperformance occurred during two periods – the late 90s tech bubble and the current AI bubble. Of the top 30 periods on record, every single one was followed by severe cap-weighted underperformance.

That’s worth repeating: in every single instance cap-weighted performance has been this extreme, it has resulted in future underperformance over the following three and five year periods.

The results are even better for value equities, which outperformed the equal-weighted index in every period but one and outperformed the S&P 500 by a wide margin over the next three and five-year periods.

History shows that after the S&P 500 outperformed the S&P Equal Weight by a lot, it went on to underperform even more over the next three and five-year periods, with no exceptions. Once concentration gets this extreme, it gives way to years when active value managers – those with the courage to bet against the house - make out like bandits. We believe that outperformance began in July.

PORTFOLIO COMMENTARY

VICTORY IN OUR INDUSTRY IS SPELLED SURVIVAL. — STEVE JOBS

There have been a handful of times over the past two decades that I've felt it was in the best interests of our investors for us to "pound the table." After an unpleasant June for value investors, we shared the following thoughts with some of our partners. **You should interpret this as the Broyhill version of table pounding.**

Anytime in the past decade that we've lagged to this degree, the subsequent relative performance has been our strongest. The most recent example was our underperformance in 2020-2021 and what followed. This feels more extreme. I think our rebound will be more extreme as well. A few bullets on the current setup are below:

- **Markets and investors are going bonkers.** As one friend recently put it, "Optimism. Everywhere. Always." Fewer and fewer stocks are carrying the indices higher. This is NOT sustainable.
- **Capital is flowing into a handful of names at the expense of everything else** – i.e., our portfolio companies are getting more attractive. See our recent thoughts on today's [Herd Mentality](#).
- **We are seeing this dynamic explicitly in our portfolio.** I'm literally watching capital flowing out of our biggest holdings to fund momentum. It's been a slow, steady, painful drip almost daily these past few weeks. It feels like we are at or approaching a breaking point.
- **The recent "plunge" in Nvidia was instructive.** When NVDA crashed from record highs, almost every name in our book went straight up. When the rest of the Mag7 finally crack and drag all of the cap-weighted indices lower, we will have the ride of a lifetime!

There are few examples in history where the gap between the haves and the have-nots has been this wide. While these divergences have been an excellent predictor of long-term performance for us, the timing of any reversal is far from certain. That being said, current market dynamics are not sustainable. If correct, I suspect investors investing with us in coming quarters will be very happy when they look back at their returns in coming years.

Bottom line: We got roughed up in the second quarter, but nothing lasts forever. Extrapolating unsustainable trends into perpetuity is one of the costliest mistakes an investor can make. Rising prices and optimism are difficult to resist, tempting even the most disciplined investors. But throwing in the towel and abandoning a process that has proven profitable cycle after cycle isn't a fact-based decision. It's a decision driven by fear or greed. And it's typically made at precisely the wrong moment.

Our approach at Broyhill has remained consistent for the better part of two decades. It's unlikely to change in future decades, although where we find value will. Today, we see the greatest opportunity where we see the least competition – in smaller, cheaper companies outside the current flavor of the month and increasingly outside US borders. With "American Exceptionalism" fully priced into overheated US equities and the dollar on a bull run for over a decade, investors can trade strong dollars for high-quality, international businesses operating abroad at depressed multiples of depressed earnings in cheap foreign currencies. Instead, everybody owns the same stuff. And all that stuff is based in the US, where equity markets represent ~ 70% of global market capitalization but less than 20% of GDP and less than 5% of the global population. To each their own!

While [AI Insanity](#) vacuums up liquidity from every other corner of the market, we'll stick with those corners of the market that remain neglected and incredibly well-priced. More than half the portfolio is invested in defensive sectors of the market, which represent less than 20% of global equity indices. Exposure to Europe and the UK is rising, and roughly half of our portfolio companies are headquartered outside the US.

TOP HOLDINGS

Our top five investments represented roughly 50% of the equity portfolio at quarter end. In alphabetical order, they were Avantor, Baxter, Fiserv, Nintendo, and Philip Morris. Three of these five weighed on performance most heavily in the second quarter. And just the same, four of the top five were the fund's largest contributors in July. As there was no major activity during the quarter, we provide a brief update on each of our top holdings below.

AVANTOR

Avantor is a leading provider of mission-critical products and services to the life sciences and advanced technologies industries. The company's shares slid 17% during the quarter before rallying 26% in July, following a strong earnings report that alleviated investor concerns about the industry's pace of recovery. While management remained hesitant to make an outright call on the recovery, both commentary and performance continue to trend in that direction. The company reaffirmed full-year guidance, noting increasing signs of improvement in Bioprocessing, which should exit the year at a mid-to-high-single-digit growth rate, and reconfirmed expectations for 20% EBITDA margins by year-end 2025. We continue to believe the guide is conservative as the mix shifts towards proprietary content, and accelerating cost initiatives should drive outperformance, with potential for significant upside revisions as the industry recovery takes hold. For a more comprehensive analysis, investors may access our recent [write-up](#) or our related conversation on [Yet Another Value Podcast](#).

BAXTER

Baxter is a global healthcare company specializing in critical-care products, medical devices, pharmaceuticals, and biotechnology solutions that enhance patient outcomes across hospitals and clinics worldwide. The company's shares slid 12% during the quarter before rallying 7% in July and jumping 7% after reporting earnings in August. We thought the results demonstrated the durability of Baxter's portfolio and confidence in the organic growth trajectory of its underlying business segments. Despite the broad-based outperformance, increased guidance across the board, easing supply chain constraints, accelerating sales of its recently approved infusion platform, and the recently announced sale of its kidney care segment, consensus remains unimpressed and comfortably in "show-me" mode until the separation is finalized. At less than 12x FY25 earnings estimates, we are happy to accumulate shares and significantly increased our position during the quarter. Once it becomes obvious that Baxter's core business segments can generate 4% - 5% organic growth, we doubt the stock will continue to trade at half the market's multiple as peers trade closer to 20x earnings.

FISERV

Fiserv is the premier provider of financial technology services, supporting banks, credit unions, and financial institutions with innovative banking solutions, payment processing, and data analytics to streamline and secure financial transactions. The company's shares slid 7% during the quarter before rallying 10% in July to fresh all-time highs. Clover remains the company's crown jewel, generating over \$300 billion in annualized GPV (Gross Payment Volume) with better monetization, driving 28% revenue growth in the recently reported quarter, and three new hardware products plus pilot programs in Mexico and Brazil going live in the coming months. Simply put, there are few businesses in this industry executing even close to the same level, and fewer still with Fiserv's scale, distribution, and collection of assets. In our initial [write-up](#), we highlighted the embedded distribution advantages often enjoyed by incumbents, noting that "Fiserv can cross-sell products through its large, engrained distribution channels, driving faster growth than even its most rapidly growing peers. And with Clover and Square accounting for less than 10% of a fragmented market, we think there is plenty of room for both to run." Notably, Jack Dorsey, Chief Block Head, Square Head, Chairman, and Cofounder, recently came to the same conclusion, admitting as much on the company's most recent earnings call: "I would state that our product quality is far above the majority of our competitors. Where we have been weaker in the past is how we mirror that with our go-to-market strategy and just updating our approach there, especially given what our competitors have done." We wonder which competitors come to mind.

NINTENDO

Nintendo is a video game company with an iconic library of intellectual property. Shares lost 2% in the second quarter overall before recovering in July with a 3% gain. After its most recent earnings report, the guidance Nintendo set for console and software unit sales seemed more ambitious than reasonable. We are still waiting on the next console to be announced, but in the meantime, management is increasingly focused on monetizing its IP. In recent years, the company has partnered with Universal to open theme parks under the banner of Super Nintendo World and to develop movies based around its characters. These include last year's Super Mario Bros. Movie and a forthcoming live-action movie based on Legend of Zelda. Meanwhile, we expect the anticipated Switch 2 console will bring a greater mix of software sales from new games. Aside from the improved financial profile that software typically carries, including higher profit margins and more recurring revenue, there is also room for the company to grow pricing in its subscription services which are currently priced well below competitors. We have admired Nintendo's creative culture for years and are excited to take part in the financial evolution of the company.

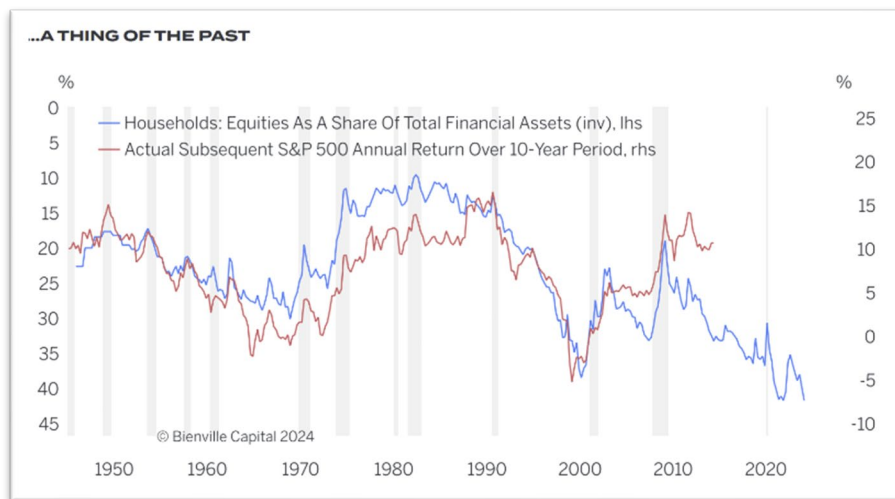
PHILIP MORRIS

Philip Morris International is a multinational tobacco company focused on smoke-free products like heated tobacco and nicotine pouches to create a smoke-free future by transitioning away from traditional cigarettes. The company's shares gained 12% during the quarter and tacked on another 14% in July. Well-publicized supply shortages, increasing competition from unauthorized products, grandstanding politicians, and a temporary halt to online sales did little to slow PM's smoke-free momentum, as sales of reduced-risk products grew to nearly 40% of total company revenues. In fact, management expects an acceleration across its smoke-free business in the second half as supply constraints ease, driving substantial upward revisions to guidance and estimates. Notably, Zyn volume guidance (nicotine pouches) for FY24 has increased from 520 million units at the start of the year to 560–580 million units today, with capacity for 900 million cans next year. After three years of sideways trading, investors are finally waking up to the strength and resilience of PM's earnings power and transition from a manufacturer of traditional tobacco to a faster-growing and significantly more profitable business. The stock's rally over the last quarter was enough to put it ahead of both the S&P and the Nasdaq for the past three years. But at a now "inflated" 14.5x FY25 consensus estimates (which are likely too low), we think today's valuation is a long way from discounting the transformation to a smoke-free Philip Morris.

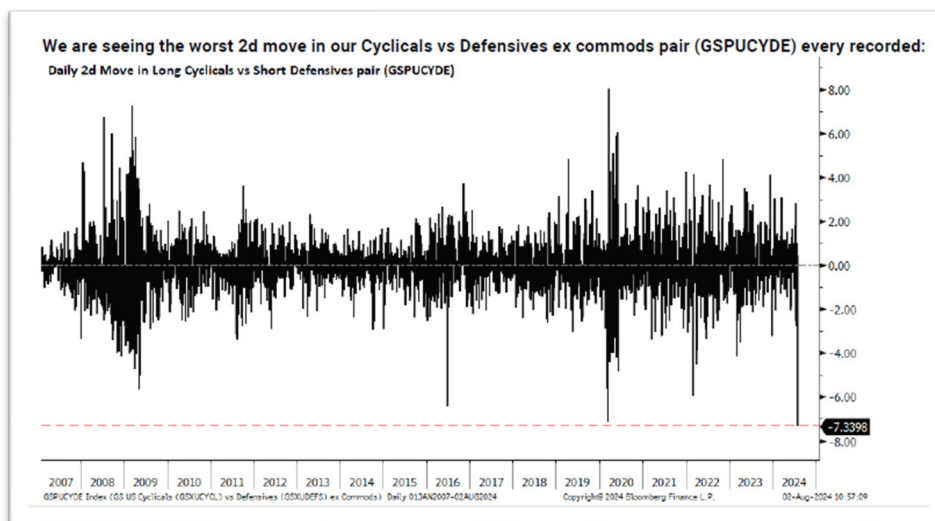
BOTTOM LINE

The distinction between clear foresight and poor judgment can be subtle. It's hard to distinguish being early from being wrong. With the benefit of hindsight, our shift towards defensive sectors, which began late last year, appears early, judging by our performance in the first half of the year. We don't think it will prove wrong when viewed over a longer-term horizon.

Following the recent shakeout, extreme optimism is somewhat less extreme today. Yet, equity investors remain stubbornly complacent as equity allocations – which are inversely correlated with subsequent ten-year returns - remain at all-time highs, above levels reached at the peak of the tech bubble. Bond markets have moved quickly to discount rate cuts consistent with recession, but equity markets remain within spitting distance from all-time highs.



Large-cap growth stocks are still trading at twice the valuation of equal-weight indices just as earnings momentum passes the baton to cheaper value stocks. The recent panic out of cyclical stocks was among the sharpest in history, with markets recording the biggest rotation into defensive sectors ever. We think this move is just beginning. Historically, defensive sectors have performed best once the Fed begins cutting rates.



Source: Bloomberg

Given the record concentration in mega-cap equities and the extreme crowding amongst institutional lemmings, one might conclude that it is too risky to own stocks today. We don't think that's the right answer.

The correct conclusion isn't to avoid stocks.

We think the correct conclusion is to avoid passive indices.

The best way to manage the risk embedded in overconcentrated passive indices is to rebalance away from what's working and towards what's not. We think it's also the best way to pad future returns. There has rarely been a better time to trim momentum-driven tech winners in favor of the market's ignored, undervalued, and lagging defensive sectors.

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 anytime with questions. We enjoy hearing from you.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Pavese', with a long horizontal flourish extending to the right.

Christopher R. Pavese, CFA

APPENDIX: NIFTY HISTORY

The excerpt below was a fitting warning from history about large-cap stock booms, published by Edward Chancellor.

Fifty years ago, the U.S. stock market was in turmoil. Between January 1973 and September 1974, the S&P 500 Index fell by nearly 50%. With the benefit of hindsight, this decline was the second leg of a bear market which commenced in late 1968. However, stocks had rallied from the summer of 1970, led by a small group of large, high-quality companies, before suffering a more severe collapse. Today, as the U.S. stock market rests on the continued success of a handful of giants, this earlier period appears particularly instructive.

The short-lived boom of the early 70s started with the demise of highly speculative stocks in the late 1960s. After inflation picked up and interest rates climbed, technology, computer-leasing and other small-cap growth companies dropped out of fashion. Once inflation peaked in 1970, the market rallied. This time, however, investors were more cautious. They still wanted exposure to growth but now congregated in higher quality, large-cap stocks of companies with proven track records.

Contemporary commentators dubbed the small number of favoured names as “vestal virgins,” “sacred cows” and “religion stocks.” Posterity knows them as the Nifty Fifty. Different Wall Street firms disagreed about the exact membership. But the group included technology firms like Eastman Kodak, Polaroid and Xerox, consumer goods companies such as Avon Products, drugmakers Johnson & Johnson and Merck, and other established businesses like McDonald’s.

What these companies had in common was their ability to deliver above-average growth in sales and earnings. According to the investor Jeremy Grantham, who observed the boom from a small-cap value investment firm in Boston, the Nifty Fifty had produced abnormally few disappointments in prior years.

The investment world at the time was undergoing a profound change. Private investors no longer dominated the stock market. By 1972, institutional managers held around 45% of the shares traded on the New York Stock Exchange. Bank trust departments, of which the largest was Morgan Guaranty, controlled America’s rapidly growing pensions pot. Their managers favoured the liquidity provided by the largest stocks. They regarded the Nifty Fifty as “one decision” stocks: the visibility of their future earnings was seen as so assured that, once purchased, they need never sell the shares.

No price was too high for proven growth stocks. As money flowed from small investors into institutional funds, a remarkable two-tier market opened. By early '73, the median stock on the NYSE was trading at a multiple of 11.5 times earnings, while the average price-earnings ratio for the top 50 stocks stood at a heady 48. An institutional investor told the New York Times that “too many analysts spend too much time worrying about these multiples and not enough time examining the uniqueness of the company... we’re talking about companies where the ability to create and innovate is of a more permanent nature... Go with the best.”

The rising concentration of the market in a mere handful of stocks prompted a Senate investigation. The head of trust operations at First National City Bank (which later became Citibank) assured the Committee that in placing “our primary investment emphasis on large, growing, advanced technology or consumer-oriented companies in the so-called ‘top tier’” his firm was exercising its best judgement in line with its fiduciary responsibilities to clients.

Barton Biggs, who joined Morgan Stanley in mid-1973, recalled that these top tier stocks kept grinding higher even as the rest of the market faltered. “As the year progressed, the Nifty Fifty got narrower and narrower, and by the late summer, only a small number of the biggest and best were holding up.” The sell-off started with an oil embargo on the US by OPEC. The following year Franklin National Bank collapsed, and President Nixon resigned in the wake of the Watergate scandal. Rising inflation brought tighter monetary policy. In the sharp recession that followed, the U.S. unemployment rate hit 9%.

In the stock market selloff, the Nifty Fifty stocks underperformed, declining by 60% according to Ned Davis Research. As one commentator famously put it, they were taken out and shot one by one. Shares in Polaroid and Avon, which suffered specific problems, fell respectively by 90% and 86% from their peaks. But most of the other growth stocks cratered without any serious earnings disappointments. For instance, McDonald's and Xerox both declined 72%.

According to Biggs, most of the damage was done in 18 months. When the stock market took off again in 1975, small-cap and value stocks led the advance. Morgan Guaranty, formerly the keenest proponent of the top tier, had become a heavy seller of large growth stocks which it now deemed to offer little protection against inflation. It took 10 years for the Nifty Fifty stocks to get back to their previous highs in nominal terms, even though in most cases their earnings kept growing.

Today's stock market stars are a different group of very large companies, led by tech giants which investors expect to profit from the boom in artificial intelligence. Nvidia, which this week displaced Microsoft as the world's largest company by market capitalisation, has trebled in value since the beginning of the year. Yet just as in the early 1970s, the market depends on a select group of companies that everyone wants to own. The 40 largest stocks in the S&P 500 currently account for 55% of the index, compared to around 60% in 1973, according to Ned Davis Research.

Interviewed in April 1974, the 79-year old Benjamin Graham despaired of expecting any rationality on Wall Street. Warren Buffett's mentor could not understand how speculative behaviour could have returned so quickly to the stock market after the crash of the late 1960s. But Graham had always been sceptical of buying stocks on elevated multiples based on projected future earnings. In his view, such investments lacked an adequate margin of safety. As he had written four decades earlier, "history constantly reminds us that there is no absolute 'visibility' of prospects in an uncertain world."

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 a composite considered to be a “carve out” or “extracted performance.” This composite has been verified by a third-party firm and reflects the equity returns of actual client portfolios. These results are based on the weighted average performance of the portion of individual accounts invested in the Broyhill Equity Portfolio but may not represent the performance of the entire portfolio. Since many of Broyhill’s accounts are invested per a “balanced” investment model, we believe that this extracted performance composite, which includes only discretionary equity holdings of all Broyhill discretionary accounts, is the most accurate representation of Broyhill’s long term equity performance. Additionally, since this performance represents a pure equity allocation, it does not include the impact of any cash allocation. Performance figures for the total portfolio composite are available upon request. This data may be useful for an investor 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.

Performance is calculated using time-weighted rates of return, net of all fees and expenses, and reflects the reinvestment of dividends and other earnings. Since the composite returns are calculated gross of fees, in order to report net returns, a 1.5% annual management fee has been subtracted from gross reported returns.

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