February 2025

EXECUTIVE SUMMARY

Broyhill underperformed broader equity markets last year, as our long-term, value-driven approach struggled to keep up in a short-term, momentum-driven market. At the end of the day, we were just out of sync with an AI-obsessed market fueled by American Exceptionalism. But despite recent underperformance, we remain ahead of markets over the past three years, while maintaining near zero exposure to megacap tech stocks and half of the book invested outside of the US.

At the turn of the calendar, the scoreboard read as follows. Growth stocks beat value stocks by about 20 percentage points. Large stocks beat small stocks by about 20 percentage points. Domestic stocks beat international stocks by about 20 percentage points. And the healthcare sector posted its second consecutive year of record underperformance. Against this backdrop, our value orientation, shift towards smaller capitalization stocks, transition toward foreign markets, and outsized exposure to defensive sectors like healthcare and consumer staples, clearly weighed on performance. In this letter, we take each of these factors in turn, dissecting the impact on performance, reviewing current positioning, and detailing the upside potential ahead.

- **Growth vs Value.** The outperformance of US growth stocks accelerated in recent years, creating a challenging environment for value investors. With increasingly misguided opinions fueling increasingly crazy markets, the challenge is maintaining the discipline to separate signal from noise. This is our sweet spot, best exemplified by our investment in NICE, which remains clouded in uncertainty.
- **Domestic vs International.** Global equities underperformed last year, but this divergence has created extraordinary opportunities, with Europe trading at its cheapest valuation in history. We're finding exceptional businesses like Evolution, the leading provider of live casino games, trading at a single-digit multiple of operating profits despite 70% EBITDA margins and a long runway for growth.
- **Big vs Small.** The lower end of the market cap spectrum has become a fertile hunting ground, with small companies trading at their lowest relative valuation in decades. As such, we have shifted down the market capitalization spectrum (chart on page nine), as more investors are crowding into the biggest names. We returned to smaller businesses that actually benefit from crowds, like Six Flags Entertainment.
- **Aggressive vs Defensive Investing.** The healthcare sector posted its worst relative returns in history, weighing heavily on our performance. We've capitalized on recent weaknesses, increasing our position in Baxter and initiating a new position in Charles River Labs. We also maintain conviction in Avantor, which trades at a 25% discount to depressed peers.

Value investing is harder than ever to stick with, as periods of underperformance have lasted longer and fallen deeper. But that is precisely why the rewards are more lucrative than ever for those who endure. For investors able to look beyond recent trends and focus on fundamental value, we believe our portfolio stands to benefit as markets revert from these extremes, and are excited to share several organizational updates in this letter.

INTRODUCTION

The road to excess returns is a long one, with plenty of bumps along the way. A value-driven approach often struggles to keep up in short-term, momentum-driven markets, as investors dump cheap stocks, driving them lower, to buy expensive stocks, pushing them higher. Last year was a bumpy one for Broyhill, but we have navigated enough bumps in the past to know that they ultimately plant the seeds of outperformance.

Broyhill's equity portfolio returned 5.5% in 2024, net of all fees and expenses, falling far short of broader equity markets. While periodic underperformance is expected along the journey to long term outperformance, it does not make the experience any easier. At the end of the day, we were just completely out of sync with an AI-obsessed market fueled by American Exceptionalism. The last time we felt this bad was in the final months of 2021. That bumpy stretch was followed by the best relative performance in our history. We wouldn't be surprised if we were looking at a similar set up today. Case in point: markets violently reversed on January 27th as China AI startup DeepSeek raised doubts about US dominance. The sell-off in momentum was a ~ 7 sigma event, the third largest decline in half a century. Yet, our portfolio moved decisively in the opposite direction, gaining more than 2% on the day as markets tumbled; and closing January up 3.7% on the month - a powerful reminder of the fickle nature of sentiment and the importance of owning a truly differentiated portfolio.

Even more important than a single month of year, and despite recent underperformance, we remain comfortably ahead of markets over the past three years, despite near zero exposure to megacap tech stocks, which have propelled most of the return on passive indices, and about half of the portfolio invested outside of the US, where performance has severely trailed domestic equities. Our portfolio currently trades at an average of 14x forward earnings, nearly ten points cheaper than the broader market, despite consensus expectations for ~ 15% annual earnings growth over the next three years, three points faster than S&P 500 companies.

Given today's extreme valuations and record crowding, we believe a concentrated portfolio of mispriced assets, with little overlap to more conventional, consensus portfolios, should provide a prudent hedge with compelling upside potential. In our opinion, the current bifurcated market environment has never been more conducive to Broyhill's classic value investments. With huge sums of high-frequency, leveraged capital chasing weekly data at one end of the spectrum, and trillions invested in sleepy mutual funds at the other extreme, we believe we are perfectly positioned to capture the value between pods and passive – patient enough to weather the volatility created by the former while capitalizing on the inefficiencies ignored by the latter. If that's something that resonates with you, we would encourage you to reach out and learn more.

SWIMMING AGAINST THE AI TIDE

At Broyhill, we invest with conviction in a concentrated portfolio of mispriced securities. By definition, many of these investments are out of favor or facing temporary challenges when we begin accumulating shares. As a result, our portfolio typically looks different than the market, different than passive indexes, and different than other active managers. Our returns do, too. That is a feature, not a bug of our investment philosophy. It means accepting that short-term performance will diverge from the market from time to time. And understanding that divergence will not always be in our favor.

Last year was the most recent case in point. Investors were focused elsewhere, and markets were unwilling to reward us for differentiation. But investor focus is notoriously fickle. We do not know when it will change or what the catalyst will be. But over time, we have learned that our patience is ultimately rewarded.

We kicked off last year with "okay" start. Our equity book was about a point ahead of global equities through the first week of August, and only a couple points behind the tech-dominated S&P 500. But it was all downhill from there with trends violently reversing in the fourth quarter, led by the most speculative pockets of the market, which rallied hardest. The performance of low beta relative to high beta stocks reached the 1st percentile. The underperformance of value relative to growth reached the 2nd percentile as value posted its worst relative month since October 2021, and nearly its worst in history. Meanwhile, fewer than 20% of stocks outperformed the market in December, the lowest reading on record. While US equities were only off a couple of points in December, it was a blood bath under the hood, with most sectors falling more than 5% on the month.

At the turn of the calendar, the scoreboard read as follows. Growth stocks beat value stocks by about 20 percentage points. Large stocks beat small stocks by about 20 percentage points. Domestic stocks beat international stocks by about 20 percentage points. And the healthcare sector posted its second consecutive year of record underperformance. Against this backdrop, our value orientation (given the extreme spreads relative to growth), gradual shift towards smaller capitalization stocks (which are priced at a material discount to their larger peers), transition toward foreign markets (which have underperformed for more than a decade), and outsized exposure to defensive sectors like healthcare and consumer staples, clearly weighed on performance.

In the short term, every one of these portfolio tilts has dragged down returns. In the long term, we expect they will be the engines that power future outperformance. In the rest of this letter, we will take each of these factors in turn, dissecting the impact on performance, reviewing current positioning, and most importantly, detailing the upside potential in the years ahead.

FOOLS RUSH IN: PAYING UP FOR PERFECTION

In a recent memo titled 2035: An Allocator Looks Back Over the Last 10 Years, Cliff Asness, Founder and CIO of AQR Capital Management, speculated on what the next decade might hold for investors, through a clever thought exercise. He envisioned sitting in the year 2035, looking back at returns for the last decade. While not pleasant for today's consensus favorites, we think he may be on to something.

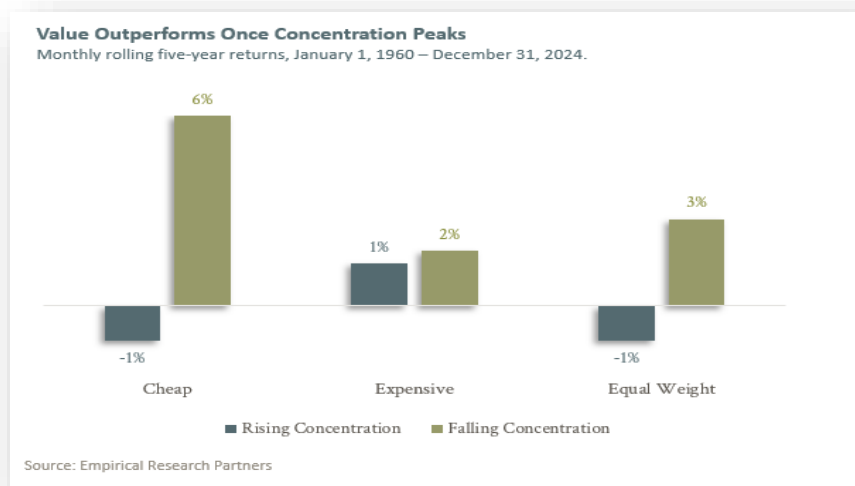
> *It turns out it was the old-fashioned idea of buying profitable, low-risk, fairly- or cheaply priced companies that worked over 2025-2034. We had fired all those types of managers despite the spread between "cheap" and "expensive" stocks still being quite high (it had peaked in early 2021) especially in the super expensive U.S. We did that despite some of the most prescient and good-looking people telling us about the opportunities in this old-fashioned subset of active management looked better than normal - Cliff Asness*

US growth stocks have been the undisputed leader of global equity markets for the past decade. That outperformance accelerated in recent years, with growth outperforming value by some 50% since the market bottom in the fourth quarter of 2022, making for quite a challenging environment for value investors. That challenge is particularly tough to overcome when the largest, most expensive growth stocks outperform, as performance becomes increasingly concentrated, resulting in continued value underperformance.

While today's leaders may enjoy their dominant position for some time, current valuations imply significantly higher long-term earnings growth and investor positioning looks elevated. At the opposite end of the spectrum, shares of undervalued companies, priced for little growth and questionable terminal value, despite incredibly strong and steady economics, offer a compelling opportunity for disciplined investors able to capitalize on mispriced fundamentals.

If retail investors continue blindly embracing and aggressively throwing capital at the AI theme, existing trends are likely to continue. But any slowdown in those flows, any hint of reversal, or any sign that investors are headed towards the exit, might be all that is needed to kick off decades of mean version in growth vs value. Such a reversion would be consistent with prior peaks in concentration. Recent experience notwithstanding, periods of rising concentration have historically lasted half as long as periods of declining concentration.

Once concentration peaks, and begins to decline, subsequent value outperformance has historically more than offset prior underperformance. Considering that the last five years saw markets concentrate faster than any other period in history, we think the next five years may be equally dramatic. When concentration unwinds, it has historically done so suddenly and lasted for years. The only other five-year period that comes close was the five years leading up to the dot-com bubble, which was followed by five years of value outperformance of nearly 1500 bps annually.



Imaginations are running wild today, with no ceiling on businesses poised to benefit from AI and no floor for those at risk of disruption. There is no price too low for investors to sell companies with a less certain future, especially if that future is in question from AI. But despite investors' confidence in their ability to distinguish between winners and losers, the future is far from certain. For investors able to correctly assess the odds, uncertainty creates compelling value.

This is our bread and butter at Broyhill. Our edge lies in developing a differentiated perspective. We thrive in uncertainty, navigating the messy, tangled narratives others avoid. While others obsess over access to better and faster data, our focus remains on the rational processing of that data.

Getting information has never been the challenge. In fact, today's abundance of information, with the world at our fingertips and round-the-clock trading, does more to amplify volatility than magnify returns.

With increasingly misguided opinions fueling increasingly crazy markets, the greater challenge is maintaining the discipline to separate signal from noise. That is exactly where we want to play.

Our investment in NICE exemplifies this approach. NICE is an Israel-based enterprise software company focused on improve customer experience for over 25,000 organizations in more than 150 countries. Its flagship product, NICE CXone, is the leading cloud contact center solution. The stock's valuation has declined from a peak of 45x earnings to a single-digit multiple of operating profit, as investors are concerned about decelerating revenue growth in the face of increasing competition, and analysts are worried that AI could displace the need for contact center agents. Despite these concerns, we believe NICE remains well-positioned to benefit from the long-term secular trends towards digital transformation, cloud adoption, and AI. The bull case for the stock is predicated on the company's strong market position, the industry's necessary transition to the cloud, and an underappreciated opportunity to monetize AI solutions.

Revenues have grown at 12% annually for the past three years. They are expected to grow about that fast over the next three years. Earnings have grown faster than sales for the past three years as operating margins have improved from 28% to 31% over the same period. And earnings are expected to outpace sales for the next three years as operating margins are set to approach 33% as the company shifts to the cloud and gains operating leverage from a greater scale. NICE has net cash on its balance sheet and is increasingly directing excess cash to value-creating repurchases with shares valued at a price that is completely disconnected from fundamentals. Over time, we believe management will put the negative narrative to rest as it consistently demonstrates continued growth in its cloud business, showcasing the benefits of its AI solutions, and its ability to expand margins. As the industry continues its transition to the cloud, we anticipate a substantial re-rating in the stock.

AMERICAN EXCEPTIONALISM: VALUE BEYOND BORDERS

> *After being left for dead by so many U.S. investors, the global stock market did better with non-U.S. stocks actually turning in historically healthy real returns. It turned out that, just as we thought, the U.S. really did have the best companies (most profitable, most innovative, fastest growing). But it also turned out that paying an epic multiple for the U.S. compared to the rest of the world mattered more than we thought, and international diversification eventually worked. It turns out there was indeed a price at which European stocks made sense. - Cliff Asness*

Last decade's losers are often a decent starting point in the hunt for undervalued assets. And there are plenty of losers scattered abroad. Global equities again underperformed US markets last year, although the MSCI All Country World Index still generated a healthy 18% return. Unfortunately for investors in international equities, the story was far less compelling. Returns on non-US developed market equities were a modest 5.5% last year, with returns on European equities closer to 2% for US-based investors.

While our heavy allocation to Europe weighed on performance last year, Europe now trades at its cheapest valuation in history – a record 40% discount to US equities – after a greater than two standard deviation underperformance in the final six months of the year. Such an extreme divergence has historically set the stage for outsized returns.

Despite today's lofty valuations, investors have never been more bullish, nor have they ever owned more US equities. That shouldn't come as a surprise. Narrative typically follows price and US stock prices have been the envy of the world, compounding at 14% annually versus 7% for European equities over the past fifteen years. Investors have had little need for diversification as there has been no stopping US Exceptionalism. Nosebleed valuations are of little concern to investors flocking to America, but recent gains have left US equities undeniably expensive, trading at a record 60% premium to international equities.

It is hard for investors to move away from what is working, particularly when it's working so well. However, history suggests that dominance is rarely permanent. While US performance has been stronger than the rest of the world, that wasn't always the case. From 1979 through 2009, US and European equity markets delivered identical 11.5% annual returns. Investors may struggle to envision a catalyst for reversion today, but extremes of this magnitude have historically represented compelling opportunities. In the decade following the 2000 peak, for example, international equities outperformed US equities in seven out of ten years.

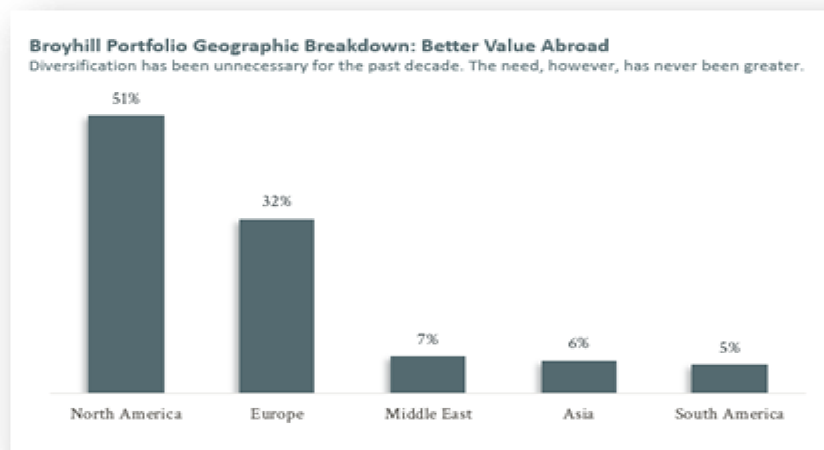
This is most pronounced in Europe, where relative valuations sit near the 99th percentile versus history. Europe has been in the doghouse since Russia invaded Ukraine in early 2022. But, after posting its worst underperformance since the 70s, sentiment and capital flows are plumbing historic lows. Is it any wonder investors have lost all confidence in the Euro Zone after 17 years of underperformance relative to US markets?

Many investors are equipped with a long list of explanations for the gap, but whatever your reason, the contrast has never been as stark as it is today. Others simply acknowledge the disparity but lack the imagination to visualize any catalyst for reversion. We don't know what will close the gap, but when valuation spreads are this extreme, the potential rewards are too great to ignore. It may be a new German government determined to reignite growth across the Eurozone. It may be stronger policy prescriptions for China's slowing economy. It may simply be a whiff of disappointment in the US or more restrained tariff policies that provide the necessary spark.

In a risk-off environment, the high-yielding, defensive nature of European markets should quickly fall into favor. Of course, severely depressed valuations and lopsided positioning may be the only catalyst required. Things don't have to be great. They just need to be a smidge above awful to see outsized and differentiated returns.

We are not calling for an end to US supremacy. Faster growth and superior profitability have justified US valuations to date. But surging optimism and record valuations have left them vulnerable. The US has usually been seen as superior to Europe, but it's not usually twice as expensive. The more important question is not which is better, but how much better and at what price? Betting on the sure thing is rarely the most profitable strategy. Superior returns come from superior odds, not superior stories. With the Magnificent 7 now larger than the entire Europe STOXX 600 Index, it is hard to make that argument with a straight face.

Given unprecedented concentration in US markets and record valuation divergences with the rest of the world, diversification has never been more important. Even in weak economies with poor policies, there are plenty of high quality, global enterprises detached from local challenges. And at that end of the day, buying strong fundamentals at compelling valuations ultimately drives long term returns. We are positioned accordingly with a substantial allocation to "global compounders" trading at half the valuation of US peers.



One such opportunity is Evolution, the leading provider of live casino games to large operators like FanDuel, DraftKings, and BetMGM. Based in Sweden, the company operates studios across the globe, where dealers live-stream games to customers playing on generic tables or custom, branded environments. Evolution's market dominance stems from its continuous product innovation and development, which drive player engagement, first-mover advantage and significant scale, fueling exceptional economics, and a robust technology platform, which provides a competitive edge over other suppliers. The majority of its revenues are generated from commissions, calculated as a percentage of winnings, making Evolution a highly profitable royalty stream on the rapidly growing online casino market. With labor the company's largest expense, the model is highly scalable, as fixed costs are spread across millions of players. This results in one of the most profitable businesses we've ever studied, with EBITDA margins hovering around 70%, driving strong, recurring free cash flow.

While slowing growth, increased competition, regulatory challenges, and operational setbacks, have weighed on shares and prompted a flurry of downgrades, we believe the company is well positioned to navigate these challenges. Growth has slowed but the runway remains long, with iGaming only about a quarter of the global casino market, and the fastest growing Live Casino segment, only a single digit slice of that pie. The UK Gambling Commission's review of Evolution's license has created uncertainty, but the region only represents 3% of sales, and management has successfully cleared stringent regulatory reviews in the past. Cyber-attacks in Asia and strikes in Georgia have slowed growth and weighed on margins, but Evolution is addressing the issues while investing in new studios in Brazil and the Philippines, setting the stage for growth to reaccelerate. Looking ahead, we think analysts are overemphasizing short-term headwinds, as rating downgrades have come almost exclusively from multiple contraction rather than material changes to estimates. With shares trading at a single digit multiple of operating profit (down from 50x just a few short years ago), and management accelerating capital returns to shareholders through dividends and buybacks, we think Evolution represents an exceptional value at the current price, with the potential to generate outstanding returns over a multi-year investment horizon.

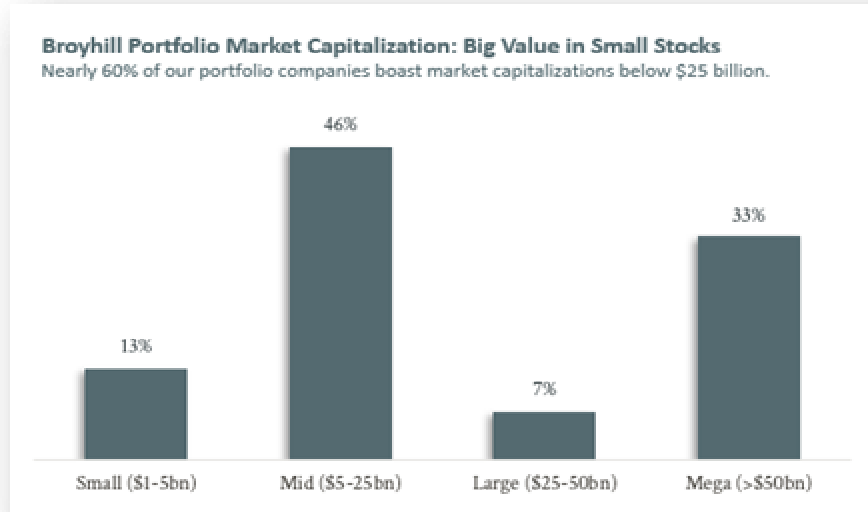
THE MEGACAP MIRAGE: BETTING ON THE LITTLE GUYS

> *It turns out that investing in [large cap] U.S. equities at a CAPE in the high 30s yet again turned out to be a disappointing exercise. Today, the CAPE is down to around 20. The valuation adjustment from the high 30s to 20 means that despite continued strong earnings growth, [large cap] U.S. equities only beat cash by a couple of percent per annum over the whole decade. - Cliff Asness*

In the last decade, sentiment has shifted from "this $500 billion company is so big, it can't possibly continue to grow at this rate" to "this $500 billion company is so small, there's no way it can compete with the big boys." Anything "subscale" in today's winner-take-all markets has been left for dead. Consequently, after several years of record underperformance, smaller value stocks are decidedly cheap versus history.

This valuation disparity has not gone unnoticed. But it has yet to be rewarded. Our portfolio has shifted down the market capitalization spectrum, where we have increasingly found compelling value in smaller companies.

Nearly 60% of our portfolio companies boast market capitalizations below $25 billion. That exposure weighed on returns last year as small and mid-cap stocks failed to keep pace with surging US large caps. We suspect the next decade will look markedly different.



Increasing flows to passive funds (which recently surpassed over half of all assets in equity funds) combined with an increasing infatuation with the largest companies in those funds, has magnified the demand for mega-cap stocks at the expense of small-cap stocks.

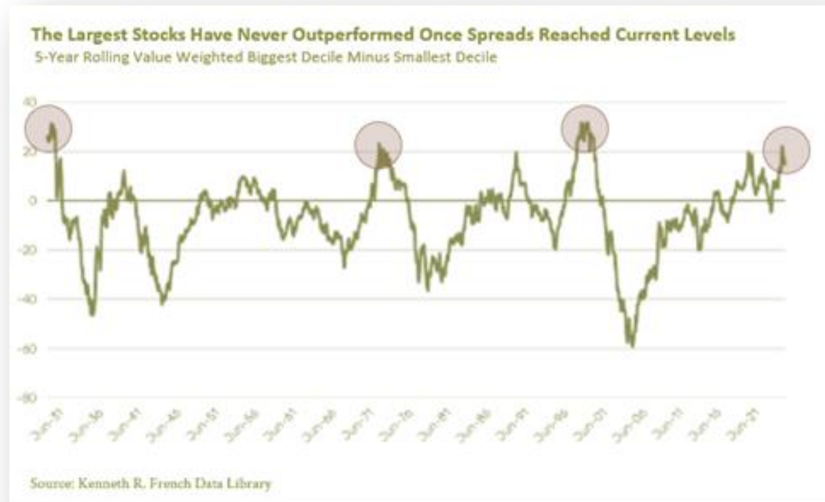
The extraordinary performance of large cap equities has made diversification seem unnecessary. We suspect we are approaching a time when that view may change as demanding valuations and unrealistic growth expectations make a repeat performance unlikely.

Concentration can reverse for many reasons, but at the end of the day, competition catches up to every leader.

Today's market leaders are so dominant, the current winner-take-all market environment may seem permanent. But that is almost always the case at the peak of the cycle. It is certainly possible that today's leaders will continue to dominate, leveraging their superior scale, profitability, and competitive moats. But history suggests otherwise.

Every other cycle of consolidation has reversed. A recent study by Research Affiliates showed that the biggest companies have trailed the market on average by 5% - 6% annually over the last half century. The only times the top decile of companies by size outperformed the next-largest decile by such a wide margin were during the Great Depression, the Nifty Fifty, and the Dot Com Bubble. The largest stocks have never outperformed on a rolling five-year basis whenever the value spread reached these levels.

Greater concentration has historically been followed by greater volatility and lower returns. It's also highly correlated with future equal-weight outperformance (a good proxy for smaller company stocks). Contrary to recent experience, the equal-weighted S&P has beat the cap-weighted index in nearly 80% of ten-year periods for over half a century.



Importantly, the strongest periods of equal-weight outperformance occurred in the decade following a peak in concentration. With concentration more extreme today at the 99th percentile of history, the magnitude of small cap outperformance over the next decade should be equally extreme.

For contrarian investors, the lower end of the market cap spectrum has become an increasingly fertile hunting ground. Prior to the pandemic, the S&P Equal Weighted Index traded at the same multiple as the S&P 500. After small-cap stocks posted their worst relative performance since 1998 last year, the discount fell to about 25% relative to the cap-weighted market.

Globally, small companies trade at their lowest relative valuation in two decades, despite outpacing large caps roughly 70% of the time on a rolling three-year basis.

Small companies are unusually cheap today. They are also less exposed to slowing global growth and potential risks from new trade policies, with only 20% - 25% of sales outside the states, versus the Nasdaq and the Magnificent 7, who derive nearly half of their revenues abroad. At current valuations, we think small and mid-cap equities offer a safeguard against excessive crowding, with compelling upside potential.

Speaking of crowds, while investors continued flocking to the biggest names in the market, we returned to a business that actually benefits from them. Thrill seekers returned to theme parks after COVID emptied their queues and crushed their stocks. Broyhill followed suit, returning to the sector after the merger of two of the largest operators in the industry – Six Flags and Cedar Fair. After following the industry for nearly two decades, with our first investment in the wake of the financial crisis, we can say with confidence that this management team has the experience required to drive value, and deliver on $200 million in synergies from eliminating redundancies, rationalizing suppliers, optimizing season passes, and capitalizing on ancillary revenue streams across their expanded portfolio. We also see a significant opportunity to recover lost attendance at legacy Six Flags parks, where strategic investments and improved guest experiences should translate to an incremental 10 million guests. For perspective, a return to 2019 levels would represent a ~ 50% increase over FY23 attendance, with potential asset sales (and debt pay down) representing additional catalysts. Throw in an upcoming Analyst Day and the shorts (which still represent nearly 10% of the float) may be soon running for cover.

Management is targeting $800 million in free cash flow by 2027, implying better than 10% annual growth over the next three years, and EBITDA margins of 35% or better. The stock is currently valued at less than 8x EBITDA. It traded closer to 10x in the years leading up to COVID, while legacy Six Flags historically traded at a two-turn premium. If management executes on its targets, we don't think 10x is a stretch, particularly when one considers the added benefit of the recent C-Corp conversion, which should increase liquidity, drive institutional ownership, and expand the shareholder base. On our numbers, that would put shares at roughly double recent trading levels.

SAFETY FIRST: WHEN BORING BECOMES BEAUTIFUL

With about half of our portfolio invested in defensive sectors like healthcare and consumer staples, noncyclical investments weighed heavily on performance last year. The healthcare sector posted its worst relative performance in history in 2024 following its then worst relative performance in 2023. The sector fell more than 6% in December alone, bringing fourth quarter losses to double digits, and leaving returns for the year below cash. Broyhill's investments in the industry did not fare much better, with McKesson and Fresenius being our only winners. Baxter and Avantor, discussed below, weighed most heavily on returns with both stocks declining ~ 20% on average in the fourth quarter.

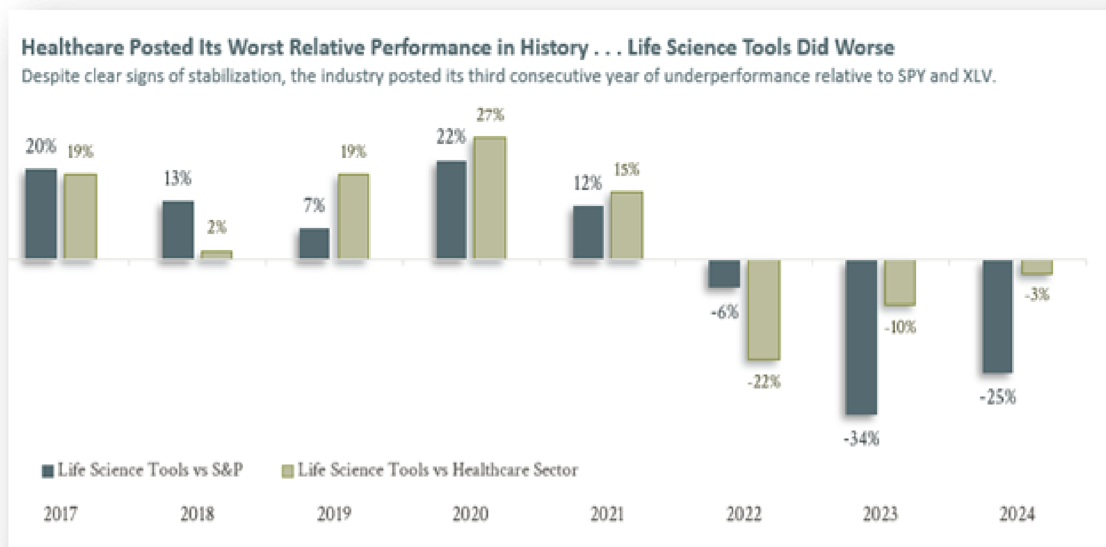
The ideal investment at Broyhill is one we can comfortably underwrite to a three-to-five-year double with minimal downside risk. Using round numbers, this pencils to a 15% - 25% IRR. We won't get them all right. But if we remain disciplined, independent, and rational, focused solely on the process, we believe the outcome, net of mistakes, should yield above average returns, with below average risk.

Truth is, finding three-to-five-year doubles is not a particularly difficult hurdle for aggressive investors. It's when you combine that mandate with one that demands "minimal downside risk" that the challenge becomes far more difficult.

We believe defensive sectors like healthcare and consumer staples are particularly ripe hunting ground for three-to-five-year doubles with minimal downside risk today. Healthcare companies, in particular, face plenty of uncertainty around the new administration, but those risks appear overly discounted at current prices. While investors remain concerned about the potential impact of tariffs on the MedTech and Tools industries, we believe most of our portfolio companies adjusted their sourcing during the last Trump administration, minimizing any potential impact this time around. Meanwhile, the healthcare sector now stands at its lowest weighting since 2000, leaving the median stock trading at 16x earnings, its cheapest relative valuation in the past two decades.

We capitalized on post-election volatility, rebalancing exposures across the sector, and initiating a new position in Charles River Labs during the fourth quarter. We also increased our investment in Baxter on weakness throughout the year. Shares were up through the third quarter as the company demonstrated consistent performance across its business segments, but the stock shed nearly a quarter of its value in the fourth quarter, leaving shares down 22.4% on the year, as Hurricane Helene knocked their largest IV solutions manufacturing plant offline. Trading below 12x this year's earnings - less than half of the market's multiple - we believe investors have substantially underestimated the value of this business and see a clear path to realizing that value ahead. With their Marion, NC, plant now back online, the sale of the company's renal care division pending, and portfolio restructuring behind it, a few quarters of clean results should go a long way to restoring investor confidence, closing the valuation gap relative to peers, and driving material upside in the shares.

In addition to Baxter, our investment in Avantor (AVTR) declined nearly 20% in the fourth quarter as investors fixated on the potential implications of letting RFK Jr. "go wild" with health and food policy. During the quarter, some of the most promising segments of the industry, with the most attractive return profiles and strongest secular tailwinds, traded like all science were set to grind to a halt. But with shares now trading back at levels reached before its strong third-quarter report, which sent the stock nearly 30% higher, we think the market has overly discounted the potential uncertainties of an RFK-led HHS before he's even been confirmed while completely ignoring the improvement in underlying demand which took hold in recent quarters and is poised to accelerate through the year. Despite clear signs of stabilization across the industry, the group posted its third consecutive year of underperformance relative to both the broader market and the healthcare sector, leaving its relative valuation near historical lows. This seems even more extreme considering that the industry has been bouncing around tough earnings for the past year, while the broader market trades at record multiples of record earnings. At the same time, our investment in Avantor trades at a further 25% discount to its depressed peers despite consensus expectations for industry leading earnings growth through FY26. As valuations have historically expanded, alongside accelerating organic growth, we believe Avantor has significant upside as growth rebounds and multiples expand.



BOTTOM LINE

> *The 'new era' doctrine – that 'good' stocks were sound investments regardless of how high the price paid for them – was at bottom only a means of rationalizing under the title of 'investment' the well-nigh universal capitulation to the gambling fever. The notion that the desirability of a common stock was entirely independent of its price seems incredibly absurd. Yet the new-era theory led directly to this thesis. An alluring corollary of this principle was that making money in the stock market was now the easiest thing in the world. It was only necessary to buy 'good' stocks, regardless of price, and then to let nature take her upward course. The results of such a doctrine could not fail to be tragic. – Benjamin Graham & David L. Dodd, Security Analysis, 1934*

The powerful rally in equities has left US markets priced for perfection. The two-year return on the S&P sits in the 93rd percentile of periods in the last century, leaving overpriced US large caps increasingly vulnerable. Fortunately for investors, and perhaps contrary to popular wisdom, there are plenty of opportunities outside of the US, as valuation gaps between US megacaps and just about everything else sit at historic extremes.

Taking a contrarian view can be painful in the short term. That pain has only intensified as markets have become less efficient over time, stretching valuation spreads to extremes that have persisted much longer. But reality cannot be ignored forever. Value investing is harder than ever to stick with, as periods of underperformance have lasted longer and fallen deeper. But that is precisely why the rewards are more lucrative than ever for those who endure. It takes a special type of person to stand apart from the crowd; to retain a healthy dose of skepticism amidst a universal belief in the prevailing consensus narrative. It is not for the faint of heart. Or for the weak stomach. But for those willing to break from the herd, the rewards are worth the worry.

Betting against US equity market exceptionalism has been a sucker's game. But trees don't grow to the sky. That being said, the higher they grow and the longer their growth goes uninterrupted, the less people worry about forest fires. Large cap growth stocks have had quite the growth spurt, while value stocks have been left to wither in their shadows. Investors would be well served by pruning the tallest, most crowded trees in the forest, and feeding those that have been starved of capital's sunlight.

Diversification has been unnecessary for much of the past decade. As such, the demand for diversification has never been lower. The need, however, has never been greater. You can diversify away a lot of risk. But you cannot diversify away human nature. And human nature means markets overshoot, sentiment swings to extremes, and investors mistake recent trends for permanent truths. So as long as markets reflect human behavior, old school value investing – built on exploiting these behavioral flaws - will survive. Today's exuberance has set the stage for it to thrive.

ORGANIZATIONAL UPDATES

We separated from the Broyhill Family Office in November 2022 and have been running full sprint since . We feel fortunate to have enjoyed steady growth to date, with assets under management reaching $265 million as of year-end. In fact, we recently rearranged the layout of our new offices to make room for some new faces!

We are extremely excited to announce that Jim Watson has joined Broyhill as the firm's Chief Operating Officer. Before landing in Charlotte, Jim spent nearly two decades at Park West as COO, where he successfully scaled the firm from a few million to a few billion in assets under management. While we bid farewell to Olivia at year end as she embarks on new adventures in Austin, we continue building for the future.

In addition to Jim's leadership, we are thrilled to share that we will soon welcome a seasoned analyst from a top-tier investment institution, bringing additional depth and experience to our investment team, and a fresh perspective to our research capabilities. I've rarely been more excited about what's ahead. We'll certainly face our share of additional bumps along the journey, but we expect to treat any short-term bumps as long-term opportunities. And we hope you do the same.

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,

Christopher R. Pavese, CFA

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?

Stay curious. Click here to subscribe.

For more information:

ir@broyhillasset.com | 828.610.5360

DISCLOSURES

Broyhill Asset Management LLC ("Broyhill") is an investment adviser in North Carolina. Broyhill 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. Broyhill only transacts business in states in which it is properly registered or exempted from registration. A copy of Broyhill's current written disclosure brochure filed with the SEC which discusses, among other things, Broyhill's business practices, services, and fees is available through the SEC's website at www.adviserinfo.sec.gov.

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.

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 the 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 how 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 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 concerning 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. Any securities mentioned in these materials may or may not be held by Broyhill currently or in the past.

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 representation of 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, expressed 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 are typically used as proxies for the overall market's performance. 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 the 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 the 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 ir@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