MAY 2025

Broyhill's equity portfolio returned 2.8% in the first quarter, net of all fees and expenses, exceeding broader equity markets as the MSCI All Country World Index lost 1.2%. Detailed quarterly reports, including account and benchmark performance, portfolio holdings, and transaction history, have been posted to our investor portal.

Volatility was the main theme of the first quarter, particularly among the handful of US technology companies that have come to dominate the performance of passive indices. As we noted in an intra-quarter update, which focused on three specific instances of market volatility, our portfolio performed well as the market began to question the amount of capital pouring into semiconductors and data centers to fuel artificial intelligence.

> *We think the portfolio's performance around these events is illustrative. Across these three instances, the collective declines were -6% for the S&P 500 and -13% for the Magnificent Seven. The Broyhill equity portfolio gained 2% gross of fees over the same time periods and has continued to protect capital in March, holding onto gains through last week, while losses for major equity benchmarks accelerated.*

The result was a historic shift away from US assets and into international assets (particularly of the European variety), as US stocks trailed the rest of the world by the largest margin in decades during the quarter. While it is often difficult for investors to imagine a catalyst capable of sparking such a move, as we noted in our year-end letter to investors, it's much easier to identify the preconditions in place for this to occur.

> *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. 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.*
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> *In a risk-off environment, the high-yielding, defensive nature of European markets should fall into favor . . . 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.*
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> *We are not calling for an end to US supremacy. But surging optimism and record valuations have left them vulnerable. 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.*
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> *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 the end of the day, buying strong fundamentals at compelling valuations ultimately drives long term returns.*

As the calendar turned to April, the announcement of broad-based tariffs triggered meaningful and rapid declines across equity markets, with volatility eclipsed only by the 1987 crash and the 2008 financial crisis. And while this week's temporary truce between the US and China appears to have reignited animal spirits, **with US stocks trading like "Liberation Day" was just a bad nightmare, significant uncertainty remains.**

In the meantime, given the lack of detail in the most recent announcement, it would seem that this administration has its work cut out for it in the coming ninety days, during which we expect to see significant front-loading of trade flows, further aggravating global imbalances. While investors may hope that this initial bout of uncertainty will be resolved quickly once ongoing negotiations are finalized, we remain concerned that the long-term costs of current policies - in the form of higher prices, lower profits, and damaged confidence - will take much longer to materialize and ultimately be much worse than expectations currently reflected in today's asset prices.

More to come in our mid-year letter, but suffice it to say that when the market's time horizon is rapidly compressing, the best opportunities often arise from the ability to extend one's time horizon further. The evolving world order will certainly produce winners and losers. While weaker companies face greater risks today, many higher-quality companies are positioned to gain share as the competitive herd thins out over time. We've spent the majority of the past several weeks re-underwriting every investment in the portfolio, refreshing our estimates, speaking with management teams, quantifying recession risk, and estimating tariff risk under various potential outcomes.

Bottom line: for good, old-fashioned, fundamental, stock picking, this is as good as it gets. We think this is a great time to own a concentrated, globally diversified portfolio of mispriced assets.

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. Top contributors were Philip Morris and Baxter; detractors were Avantor and Six Flags.

Top Contributors

Shares of Philip Morris tacked on an additional 33% in the first quarter after returning 34% last year. The company reported a 53% increase in US ZYN shipments as production capacity increased, fueling a 250 basis point improvement in operating margins and illustrating the positive mix shift to smoke-free products. While we have reduced the position as shares have eliminated their discount to the market over the past year, PM remains our largest investment, with momentum accelerating in its business. Simply put, it's difficult to find another company better positioned for the current economic environment.

Shares of Baxter gained 18% in the first quarter, as the company delivered strong results, with numbers moving higher despite tariff disruptions. We thought Baxter took a big step toward rebuilding confidence, with improved execution and visibility into the balance of the year. Management expects operational sales growth of 4% to 5% this year, which appears reasonable to us. The bigger question, which will require a few more quarters of execution, is if 4% or 5% is sustainable long-term. At 12x earnings, or just over half of the market's multiple, the consensus is taking the under. We are happy to take the other side of this one.

Top Detractors

Shares of Avantor declined 23% in the first quarter, as policy uncertainty around budget cuts for academic institutions and pharmaceutical companies weighed on the life sciences sector. With shares trading at valuations not previously seen in its history as a public company, we believe this is a dramatic overreaction as the market is essentially discounting a halting or meaningful slowdown in scientific progress at these levels. It is rare for companies benefiting from such strong secular growth trends to be valued at trough multiples on trough earnings, but that's exactly how we view AVTR today, and exactly why we've capitalized on recent weakness to continue building our position.

Shares of Six Flags declined 26% during the quarter, as investors became increasingly concerned about the potential for reduced discretionary spending amidst slowing economic growth. We think these fears are misplaced, as regional theme park attendance has historically proven remarkably resilient throughout previous recessions. And following its recent combination with Cedar Fair, the combined company has several levers at its disposal to drive operational improvements and optimize its balance sheet.

KEY TRANSACTIONS

We initiated a few new positions, rebalanced several holdings, and fully exited one position during the quarter.

We initiated a new investment in Uber, the largest ride-share and food delivery provider globally. With investors increasingly focused on the threat from driverless technology, which we believe is at least years away from having any material impact on Uber's business, we think the market is overlooking the incredible benefits of scale currently driving (pun intended) outsized growth in profitability and surging free cash flow. We expect CEO Dara Khosrowshahi to follow a similar playbook to the one he developed at Expedia, where he was a consistent buyer of stock, ultimately repurchasing nearly a third of the company's shares outstanding during his tenure.

We initiated a new investment in Dollar Tree during the first quarter, as the company's announced divestiture of Family Dollar put shares back on our radar. We continue to see significant upside potential from the roll-out of higher price points, which should be much clearer to the market without the noise of a decade-long restructuring in the background. Subsequent to quarter-end, and 48 hours after "Liberation Day," we aggressively increased our position, as shares plummeted ~ 20% in the two days following the announcement.

We established a small position in the offshore oil industry through a basket of three offshore drillers and service providers. We believe that reduced supply, cleaner balance sheets, and an inherent hedge against one source of macroeconomic shocks—higher oil prices—make these businesses an attractive risk-reward.

We exited our investment in Nintendo following the (long-awaited) announcement of the company's Switch 2 console. While we believe the release will provide a renewed spark to fundamentals in the coming holiday season, with shares having doubled in the past twenty-four months, it would seem that much of the upside has already been discounted in the price.

BOTTOM LINE

We look forward to sharing more on our upcoming investor call next week, where we'll provide a more detailed update on recent performance, portfolio positioning, and how we're navigating current volatility. Please reach out to Pam at ir@broyhillasset.com for details if you would like to join us.

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,

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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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, the highest annual management fee we charge (1.5%) has been subtracted from gross reported returns.

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