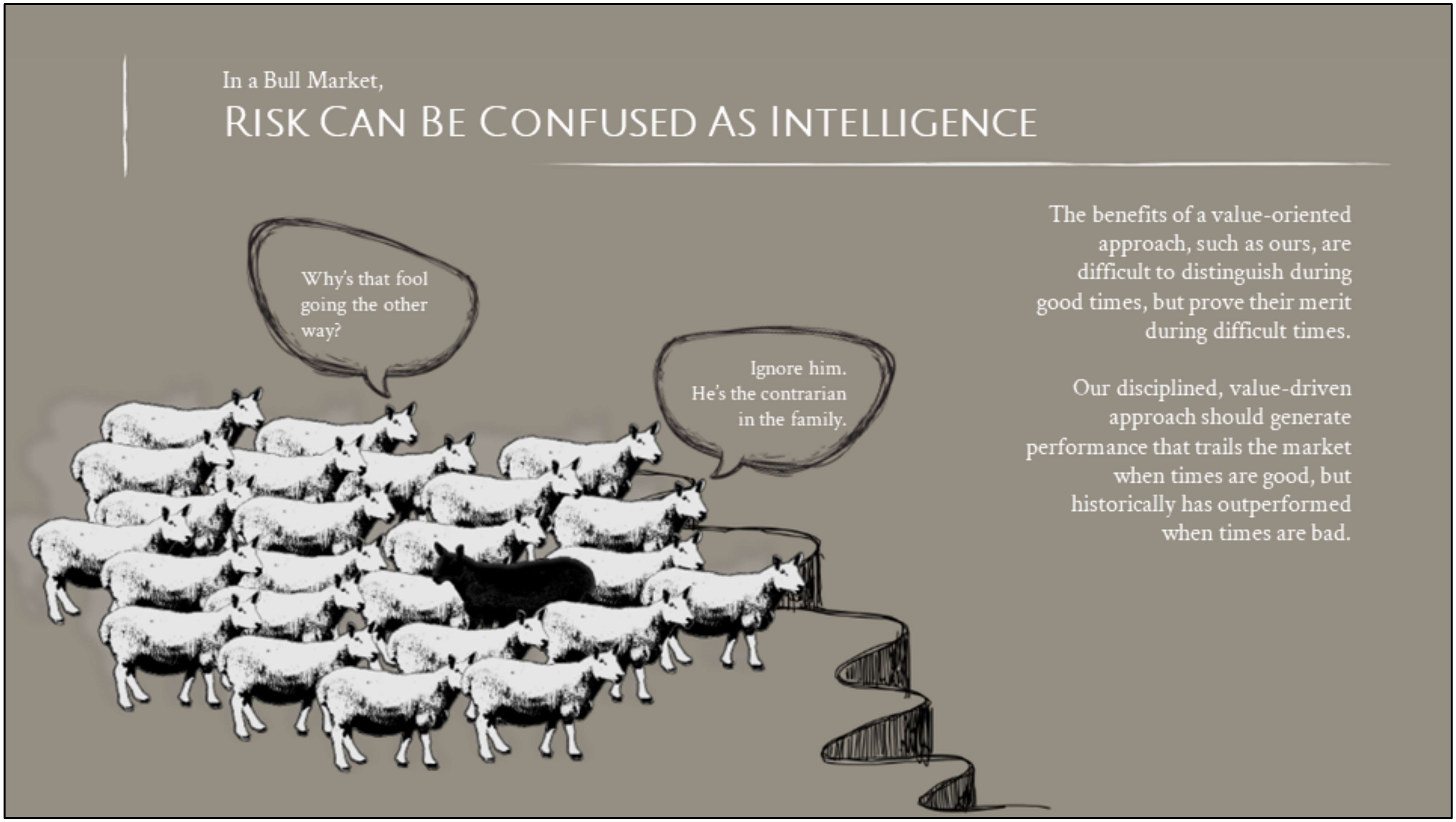
To Hell with Herd Mentality

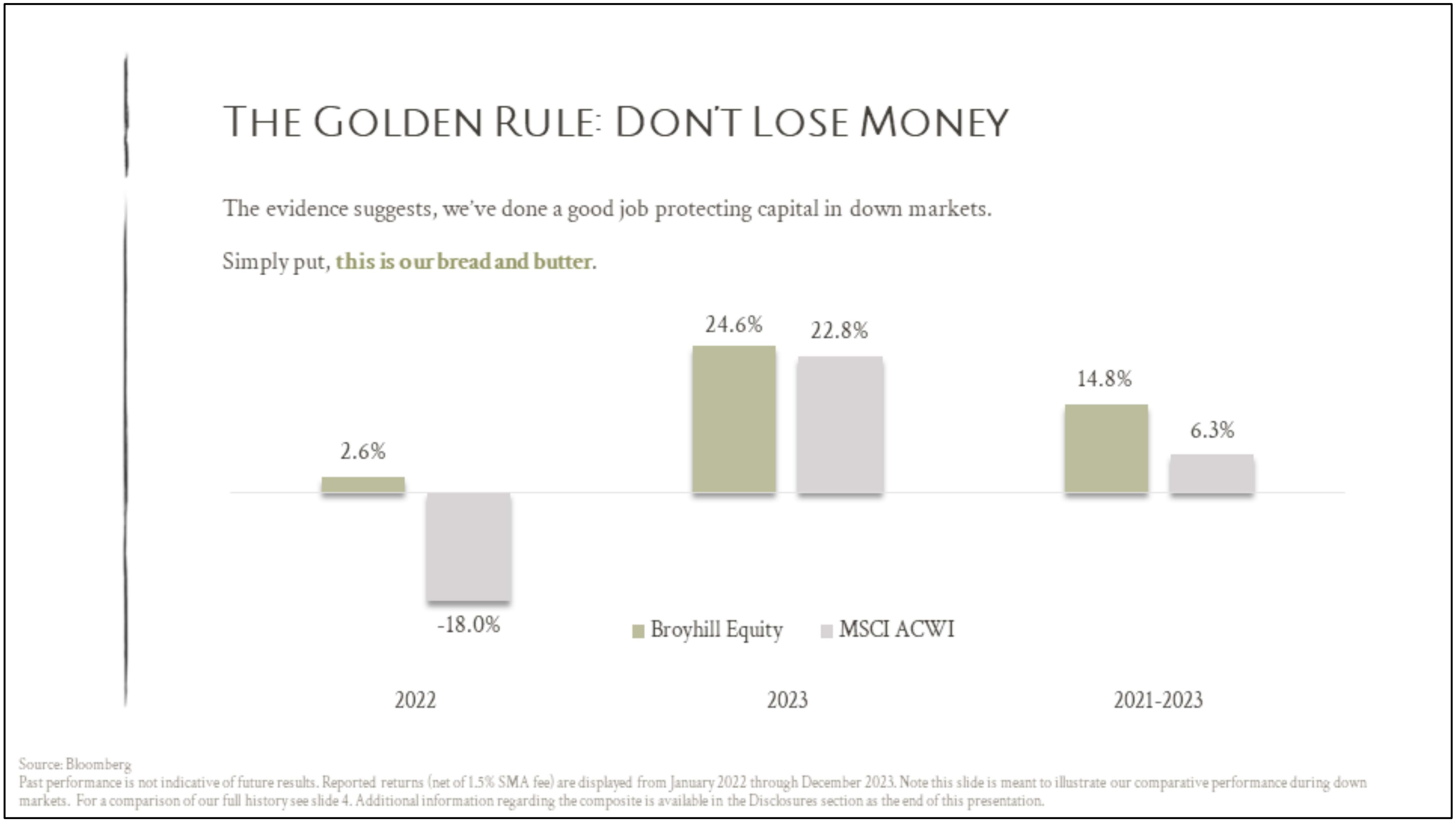
May 2024



We often say, "you don't need Broyhill in a bull market."

The benefits of our approach are difficult to distinguish during good times but prove their merit during difficult times.

We expect to trail the market when animal spirits lead the way but aim to more than make up the difference when the herd reverses course.



Recent performance provides a good illustration of this dynamic, as we've essentially experienced a full market cycle over the last few years. Markets fell sharply in 2022, with the most speculative assets hit hardest. We managed to preserve capital in an extremely challenging environment. As markets rallied in 2023, led by many of the same speculative assets, we still generated respectable performance.

Looking at the total period in the aggregate, one thing becomes very clear: defense wins championships.

Long-term returns compound greatly when complemented by capital preservation.

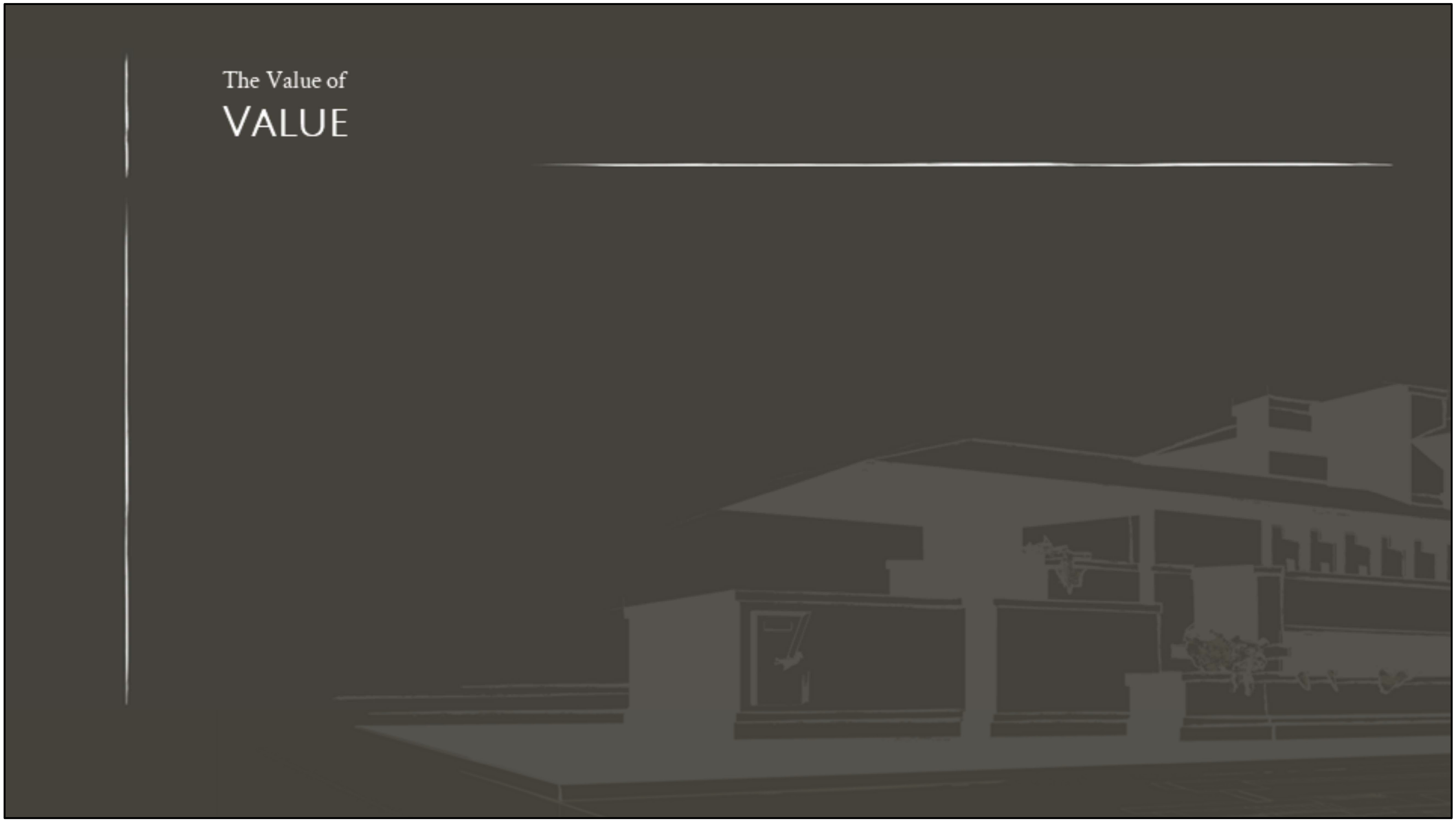
WE AIM FOR SUPERIOR RETURNS WITH MINIMAL RISK

	Inception*	5 Year	3 Year	1 Year	3 Months
Broyhill Equity	13.6	15.3	15.1	18.8	7.4
MSCI ACWI	10.8	11.5	7.5	23.8	8.3
MSCI ACWI Value	8.5	8.4	7.4	18.9	7.0

*Partial year. Inception date as of September 1st, 2015.
Past performance is not indicative of future results. Reported returns (net of 1.5% management fees) are displayed through March 31, 2024. Additional information regarding the composite is available in the Disclosures section as the end of this presentation.

Value has been out of favor since I joined Broyhill in 2005. It has been out of favor since the inception of our equity strategy, and yet we've managed to outperform by just about any measuring stick.

We look forward to seeing what we can do as that multi-year headwind transitions to a tailwind in the years to come.



Let's check in on that transition . . .

In reading The History of Nations, we find that, like individuals, they have their whims and their peculiarities, their seasons of excitement and recklessness, **when they care not what they do.**

We find that whole communities suddenly fix their minds upon one object and go mad in its pursuit; that **millions of people become simultaneously impressed with one delusion**, and run after it, till their attention is caught by some new folly more captivating than the first.

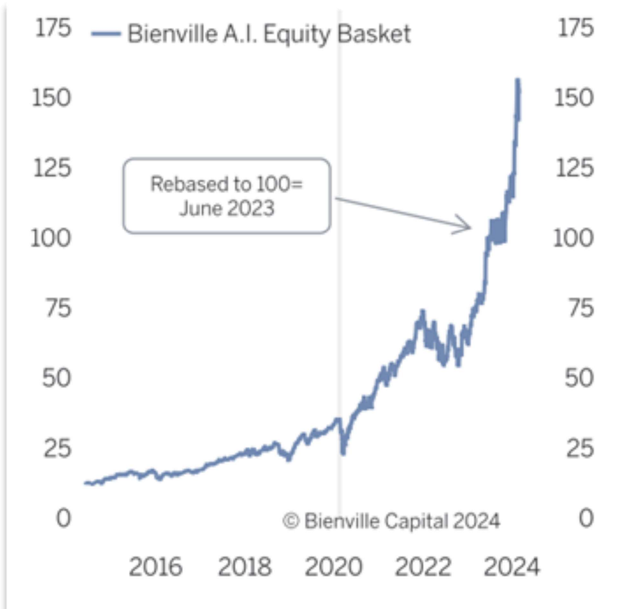
– Charles Mackay
Extraordinary Popular Delusions and the Madness of Crowds

This excerpt from Mackay's classic on the "madness of crowds" was first published in 1841.

Unless Musk's Neuralink proves otherwise, AI is unlikely to change human psychology.

The same patterns have played out again and again throughout history.

A.I. EUPHORIA IS ABSOLUTELY INSANE



Source: Bienville Capital

A disconnect between fact and fiction lies at the heart of all great asset bubbles. Technological change has been a constant for centuries, but once in a lifetime, new technology promises a revolutionary shift in the economy and huge rewards for riding the wave of profound change.

Nothing captures the collective imagination of investors like technological change. Today's Absolute Insanity may have legs, as investors are again captivated by shiny new toys and one hell of a compelling narrative. But those investors would be well served to recall that all manias are built on a foundation of truth.

It's just that, eventually, that truth becomes so stretched it is discounted by the market. At that point, continued outperformance depends on that truth being stretched further than already glowing expectations. Those lucky enough to spot these waves early and skilled enough to ride them successfully without falling off stand to generate tremendous wealth. Unfortunately, most of us mere mortals are not that skilled. As such, the most logical, rational, and prudent course of action is to recognize when such themes are stretched to extremes and promptly step aside, as such extremes represent dangerous distortions that can trigger very unstable unwinds. These conditions may elevate risk to portfolios; at the same time, they elevate opportunities for others.

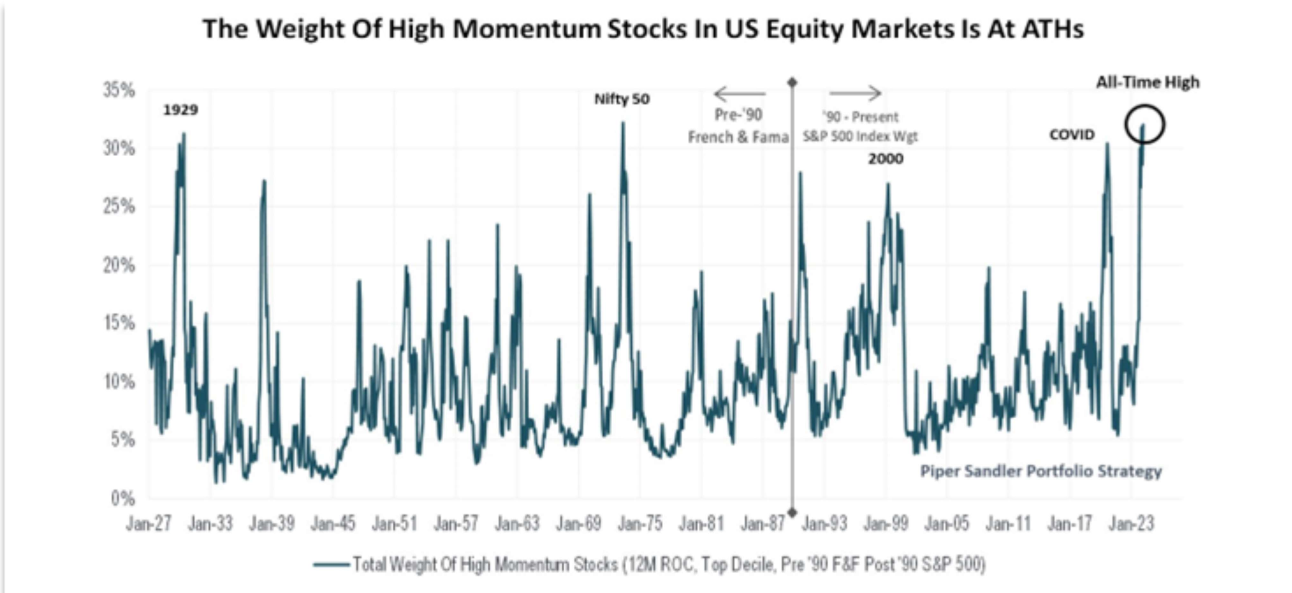
The Herd is Running . . .

Source: Bloomberg

We have seen a number of these "secular" themes come and go over our decades of experience. Markets dominated by the "new, new thing" is not a particularly new development. But the current level of intensity does feel different. The one commonality across all of them: when the herd is running, nobody wants to get in the way.

Today's herd is running faster than ever, with surging animal spirits driving markets higher since the last big selloff in October and momentum stocks leading the way to an extent not seen since the dot-com bubble.

AND MOMENTUM IS LEADING THE WAY

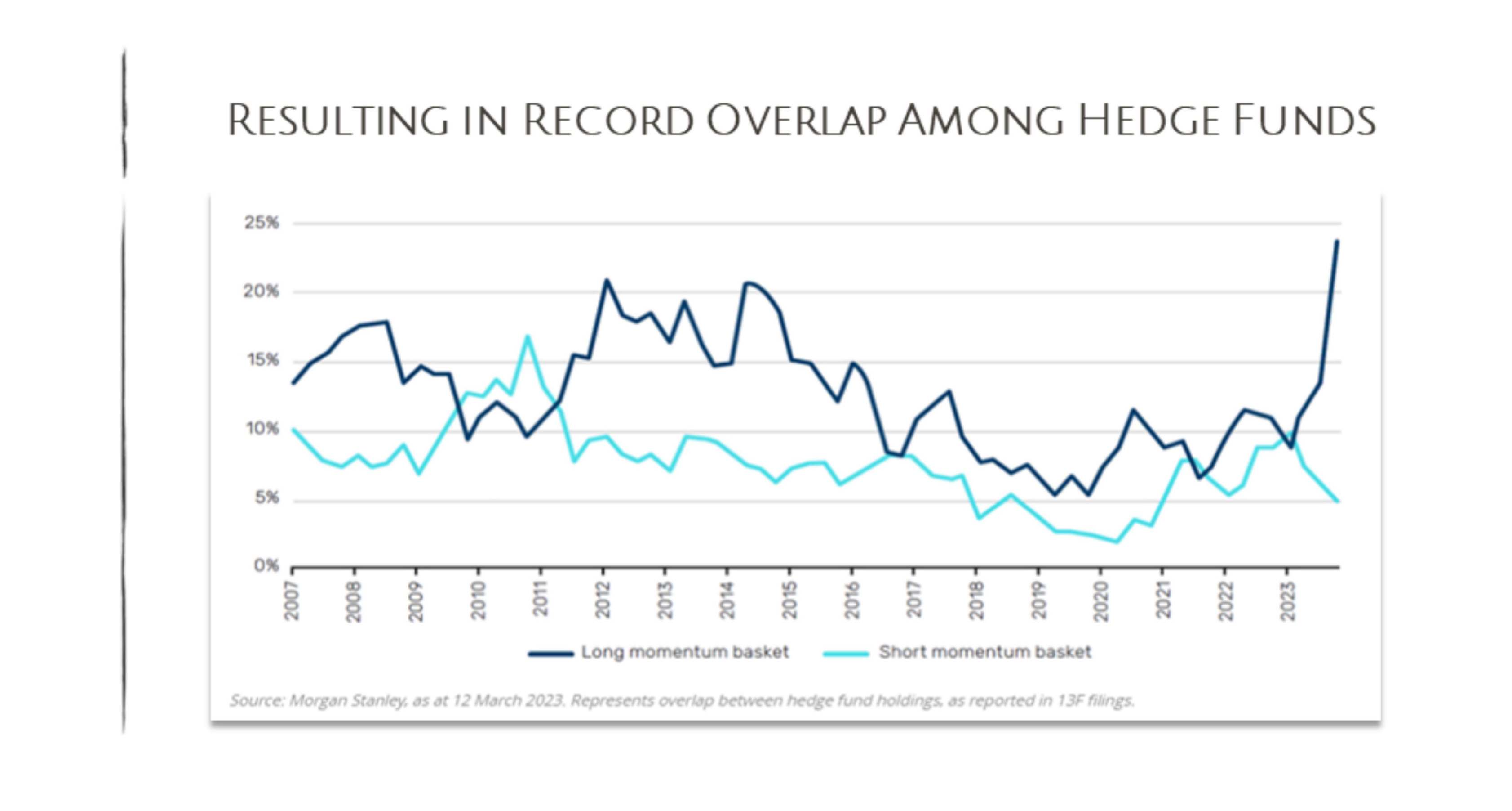


Source: Piper Sandler

Once again, betting on winners—anything connected to AI—has been especially rewarding of late.

But it's getting very crowded. The weight of momentum stocks in the S&P has never been this high at any point in the past century.

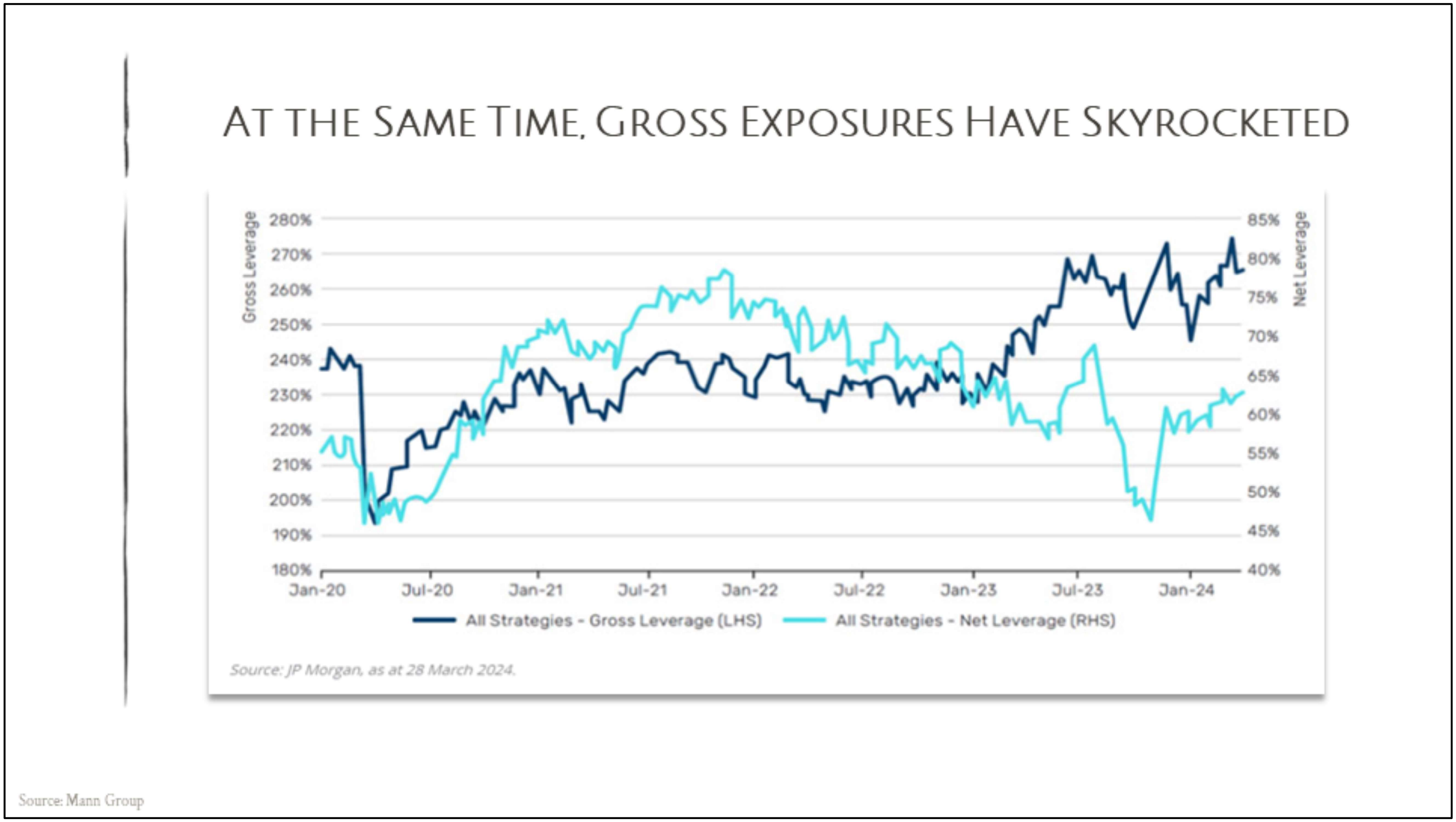
Passive investing and the related increase in herding have resulted in more pervasive, more potent, and more perilous levels of concentration.



Source: Mann Group

Momentum has rarely worked this well.

So, it should come as no surprise that today, there is a record overlap between the long momentum factor and hedge fund holdings.



At the same time, hedge funds have aggressively ramped gross exposures.

Needless to say, given the level of herding across markets, when and if these trends reverse, the fallout amongst the lemmings will be one for the record books.

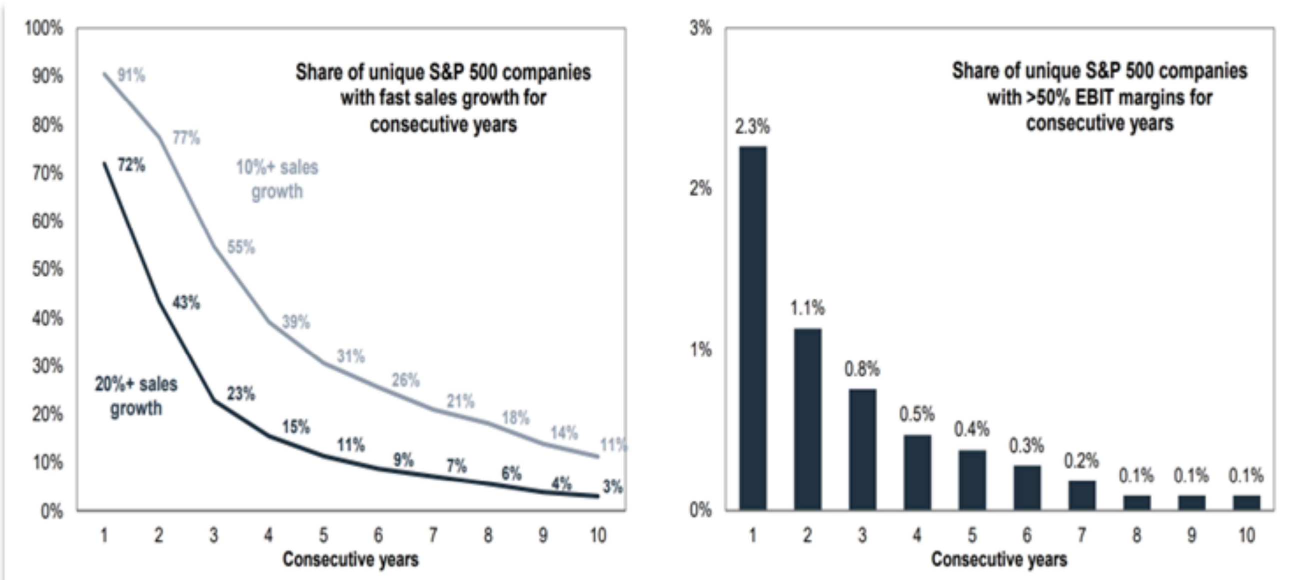
CONCENTRATION HAS SURGED TO RECORD LEVELS

Source: Goldman Sachs

As today's "Magnificent Seven" have captured investors' imagination, the concentration in the biggest stocks is the highest in decades. The 10 largest stocks make up a third of the S&P 500's market value, far above the 27% share reached at the peak of the dot-com bubble. Then, as now, a bubble inflated on the heels of a very compelling narrative. But when actual growth lagged expectations, the tech-heavy Nasdaq plummeted ~ 80% over the following years.

The late stages of a bull market are almost always pushed higher by fewer and fewer stocks as the market capitalization of those companies grows larger and larger. Rapid growth rates and elevated margins decline as companies become dominant and competition increases. As a result, the same mega-cap growth stocks that powered the market higher have historically dragged it lower following the peak. Two years after March 2000, for example, the cap-weighted S&P 500 fell more than 20% while the average stock in the index actually rose by 25% over that period.

Yet History is Not on Their Side



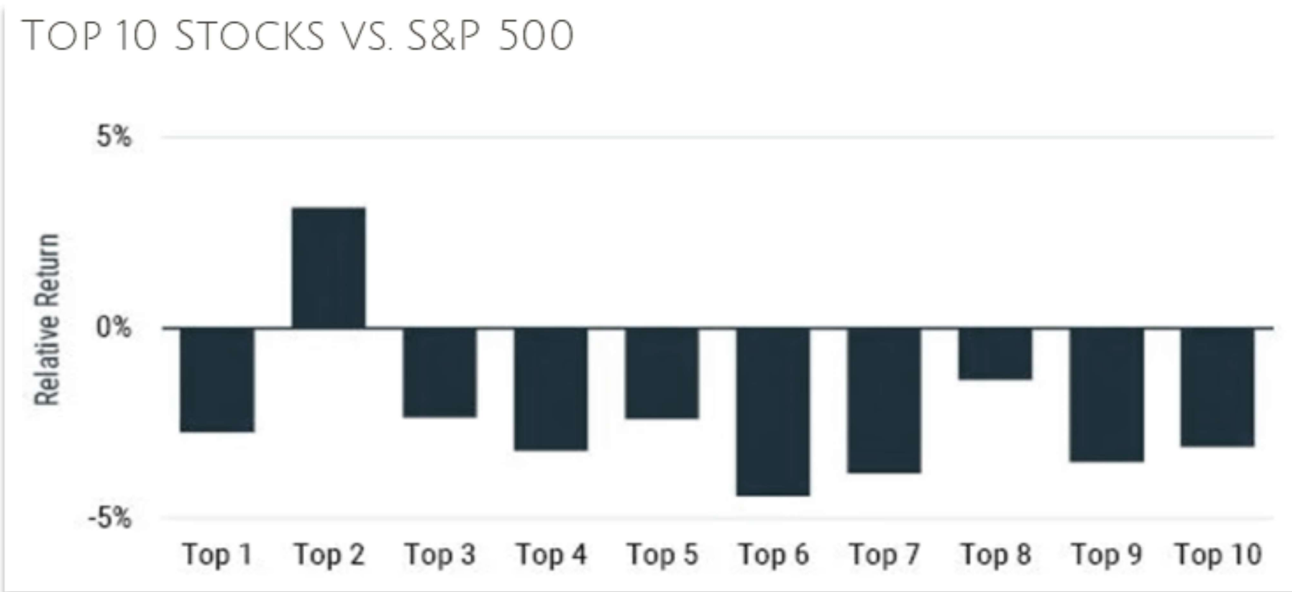
Source: Compustat, Goldman Sachs Investment Research

While increasing concentration has helped drive increasing returns – the S&P has compounded at 16% annually over the past five years - history demonstrates the challenges of maintaining such rapid growth and record profitability.

Since 1985, just 121 companies have increased sales by more than 20% for 5 consecutive years, and just 4 have maintained operating margins greater than 50% for 5 consecutive years.

On average, companies with high valuations often struggle to grow into their multiples regardless of realized growth rates.

BIG IS ANYTHING BUT BEAUTIFUL



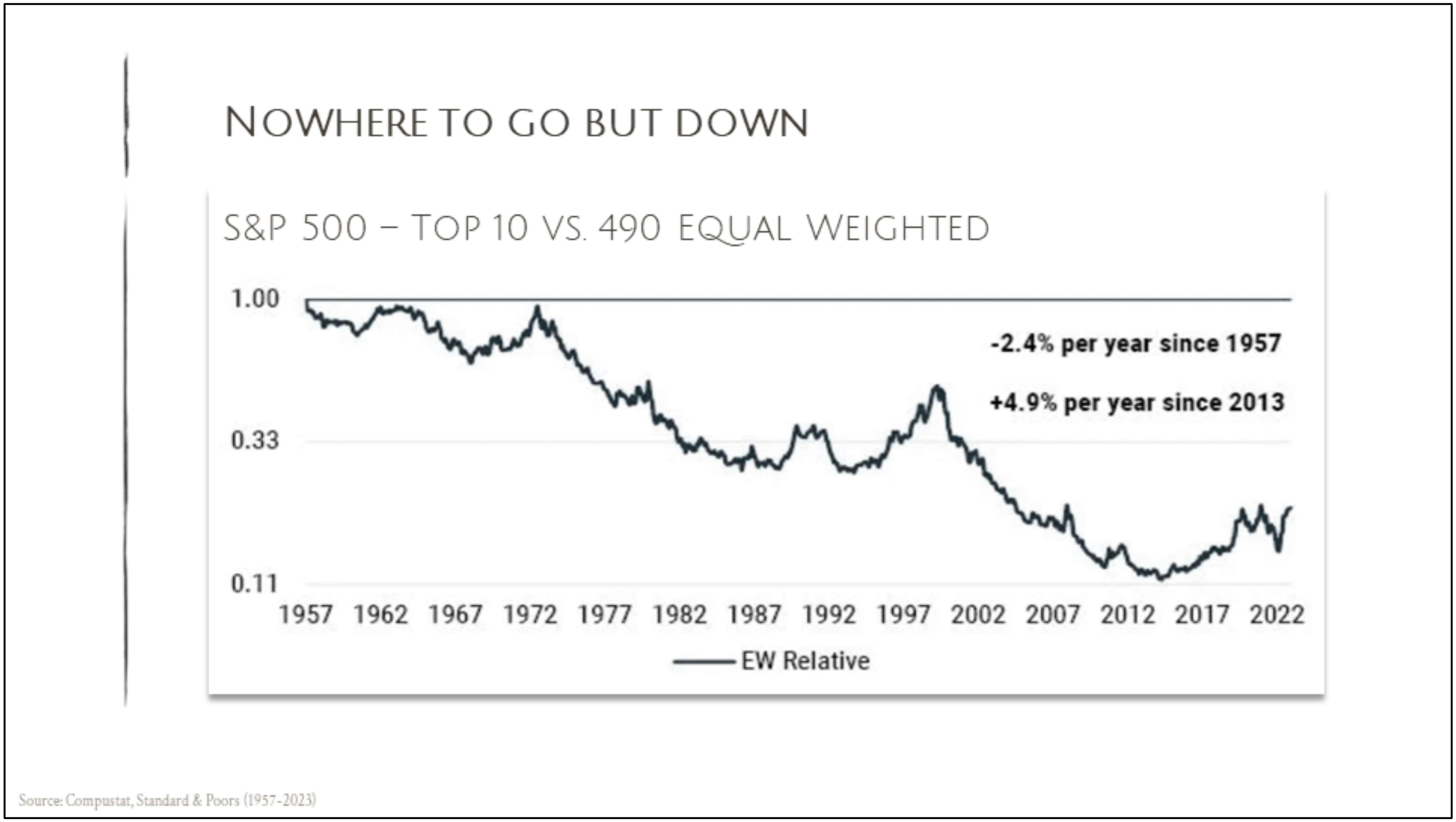
Source: Compustat, Standard & Poors (1957-2023)

If you look at the 10 largest companies in the S&P 500, odds are that they meaningfully outperformed the market over the preceding decade.

On a forward-looking basis, however, big is generally anything but beautiful. Historically, it's been a bad idea to buy the biggest stocks.

That's because, by definition, the largest stocks became the largest by becoming expensive.

The good news is already in the price.



Good returns in the face of high valuations require exceptional earnings growth.

But exceptional earnings growth is harder to come by for the largest companies in the world.

The largest stocks don't always underperform, but on average, they have trailed the average S&P stock.

IT'S GETTING VERY CROWDED

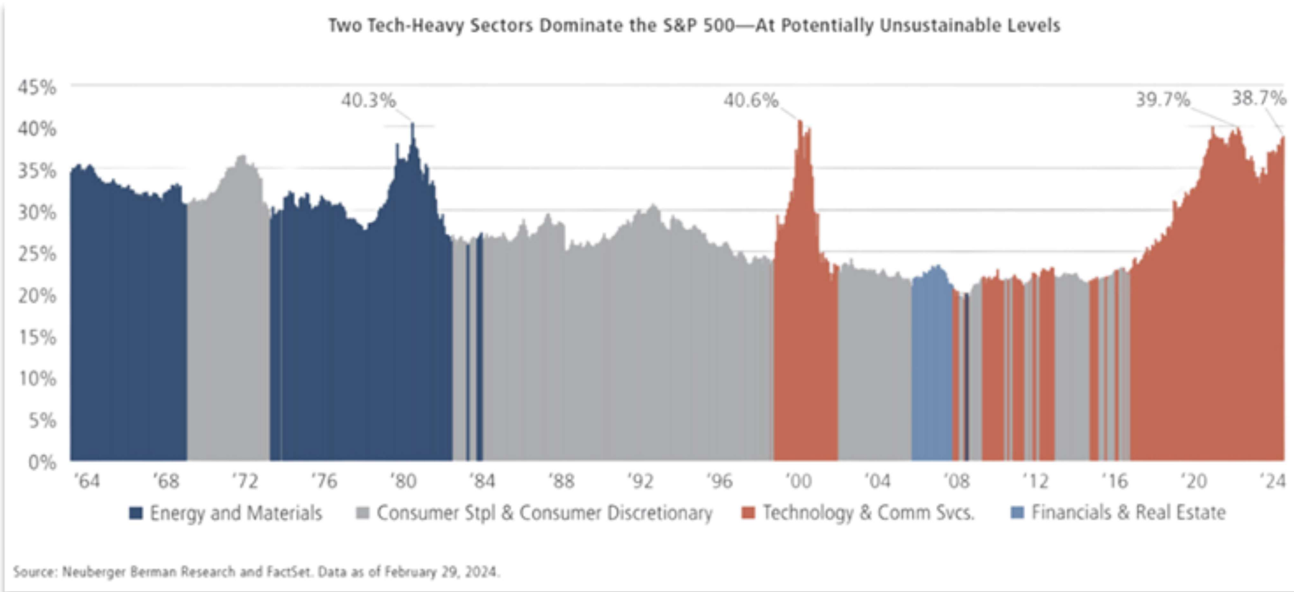
Source: Goldman Sachs

The weight of the top 10% of stocks in the S&P 500 has only been in this range twice before – 1929 and 1999. Once concentration gets this extreme, it tends to give way to years when active value managers – those with the courage to bet against the house - make out like bandits.

It's worth highlighting that all of the technological innovations popularized during these periods – automobiles, aviation, radio, and the internet – did indeed change the world and dramatically increased productivity. AI may do the same. Yet all the related "story stocks" still came crashing down to earth. In the case of the dot-com crash, no catalyst was required. Asset prices simply rolled over due to exhaustion.

Again, AI may do the same. When and if it does, we believe the disclocation will represent a rare opportunity for bold managers to compound returns far in excess of the market.

CONCENTRATION IS EQUALLY EXTREME ACROSS SECTORS



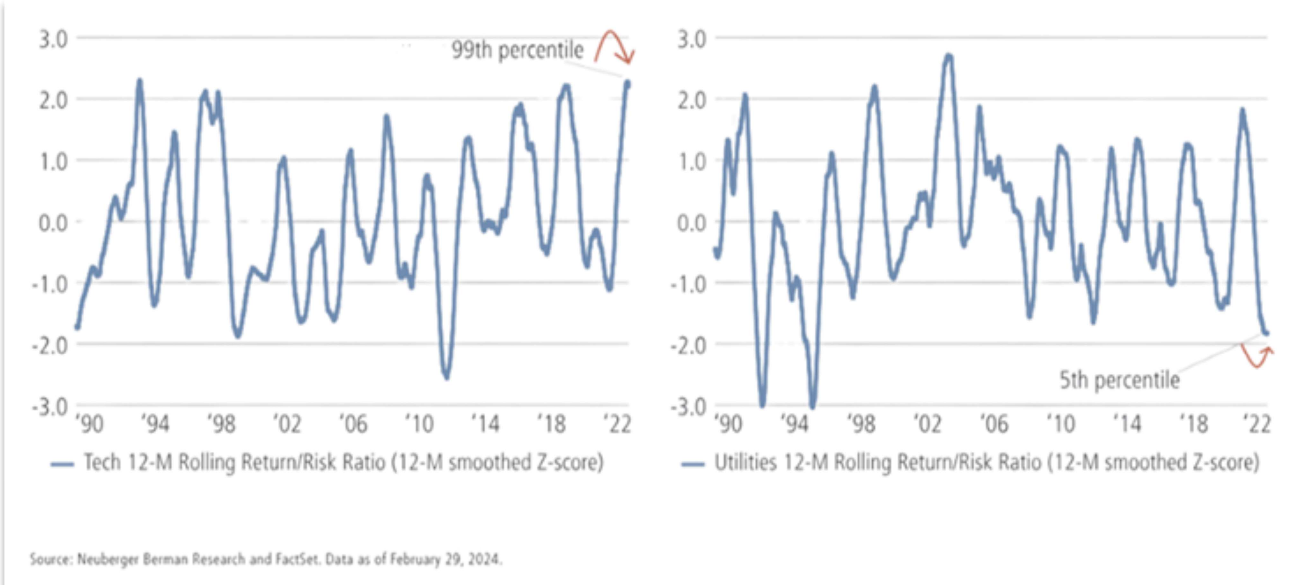
Source: Neuberger Berman Research

Concentration is equally extreme across sectors. Two sectors - Information Technology and Communication Services – now represent nearly 40% of the market, a level only briefly breached three times: the Iranian Oil Shock, the Internet Bubble, and the COVID Boom.

History warns that extremes in sector concentration are rare and short-lived, marking a peak in sentiment, foreshadowing the end of a trend, and introducing "uncomfortable" volatility. Fund managers are the most bullish since the market peaked in January 2022, highlighting US (tech) stocks as the most crowded trade on the planet. Investor positioning appears equally extreme, with the tech sector recently sitting at the 94th percentile, increasing the risk of a chaotic unwind should growth begin to fall short of elevated expectations.

On paper, this seems like an obvious contrarian bet. In the real world, however, it's never obvious where the consensus sits, let alone when they will decide to change their seats.

RISK REWARD RATIOS CAN SIGNAL POTENTIAL REVERSALS



Source: Neuberger Berman Research

The decision to fight the trend is never easy. The best we can do is estimate the probabilities and consequences of various outcomes and make an informed decision based on careful analysis, intuition, and common sense. With that framework in mind, research suggests keeping a watchful eye for a collapse in volatility alongside rising prices. Such a combination may hint that the rally is running out of gas, as the absence of volatility, when accompanied by a continued rise in asset prices, may indicate that groupthink has set in. As such, extended risk/reward ratios can capture peaks in sentiment that precede trend reversals.

The current risk/reward ratios of two polarized sectors are particularly noteworthy. Information Technology's ratio ranks in the 99th percentile of data, while Utilities' ratio ranks in only the 5th percentile. We see similar extremes in Communication Services, which recently reached the 98th percentile, while both the Healthcare and Staples sectors sit at the 3rd percentile relative to history.

LAGGARDS ARE TRADING AT TROUGH VALUATIONS

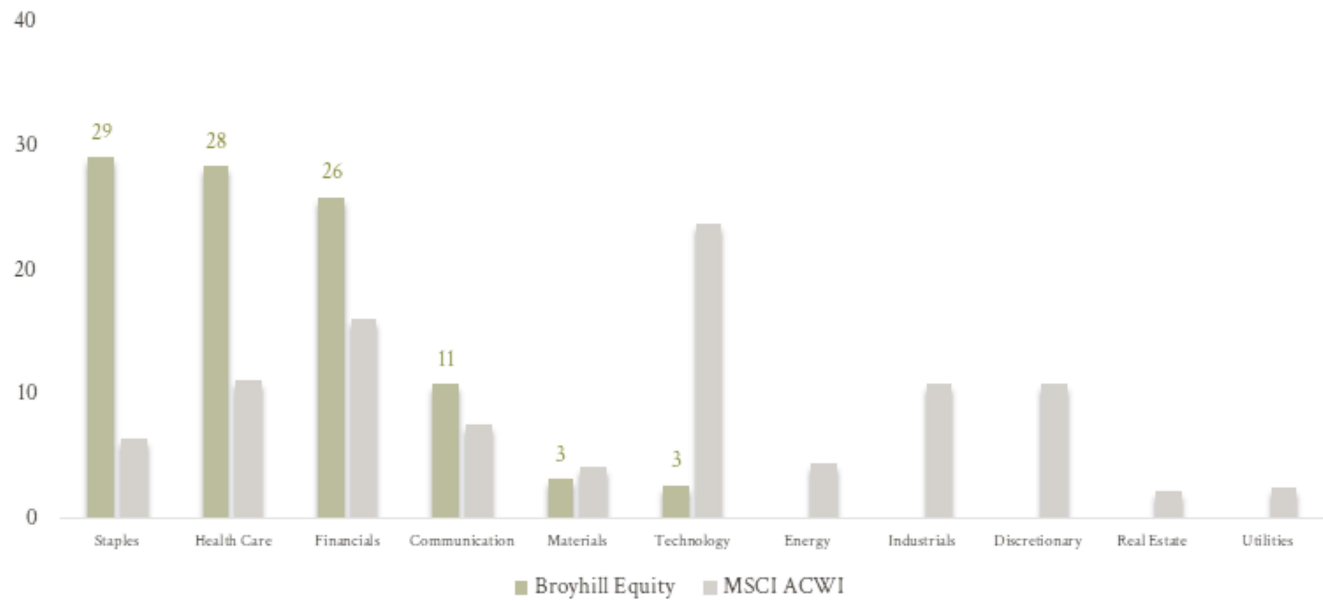
Source: Neuberger Berman Research

Extremes across so many sectors are historically rare, with the current level of groupthink on par with the polarization last seen during the dot-com frenzy. We believe reversions across so many sectors represent a significant risk to portfolios and significant opportunities for others.

Given today's polarized sentiment, extremes in sector positioning, and rampant enthusiasm for AI, we think a rotation from growth to value could be even more intense than usual, representing a significant opportunity for active managers to take advantage of dislocations. Investors have historically done very well investing in laggards when conditions have reached similar extremes. Recent research from Goldman Sachs examined 26 peak-to-trough momentum reversals since 1930. Momentum laggards appreciated in absolute terms in every instance.

The effect is always perfectly clear in hindsight: markets sell off, investors flee vulnerable stocks first, then crowd into safe havens, rotating out of prior leaders and into the laggards. With laggards trading at trough valuations, we think value is primed to snap back harder than ever.

We Are Positioned Accordingly

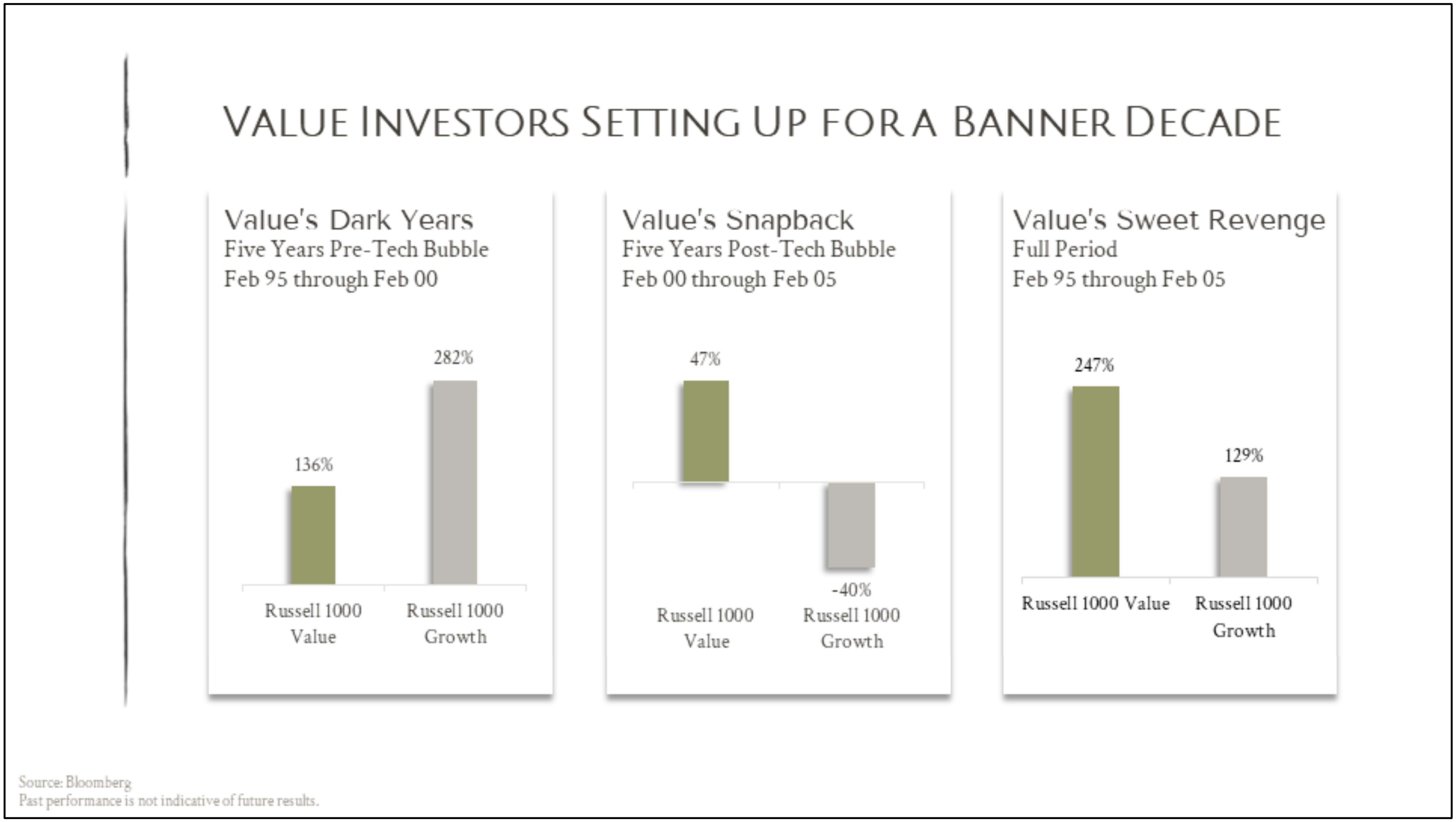


Source: Bloomberg
Sector allocations are shown as of March 31, 2024.
Allocations are provided solely for illustrative purposes, and there can be no assurance that future investments will be similar to those set forth herein.

We are positioned accordingly, with close to half of the portfolio invested in staples and healthcare, more than three times the global market's exposure to these cheap, defensive, high-quality sectors.

Big Cap Tech's recent performance has been incredibly strong of late, and as such exposures are incredibly high, despite a laundry list of growing tail risks. This performance may not last as long as many think.

We think it's wise to take action while you can rather than when you "need" to. It's hard to resist the urge to leave all your chips on the table after such a hot hand. But this is precisely when investors are rewarded most for moving chips to another, less crowded table.



We think the current setup could be a once—or twice—in-a-generation opportunity to rebalance portfolios. Just as in the wake of the Internet bubble, what part of the market you own could mean the difference between a lost decade for crowded, expensive assets or very attractive returns on assets where capital is truly scarce. The years following 2000 were banner years for value managers. This was an era when lots of stocks were undervalued, and good stock-picking was rewarded. As a result, even after accounting for the massive run in growth stocks leading up to the tech bubble peak, value outperformed by a wide margin over the full period. We think the decade that follows will look very similar.

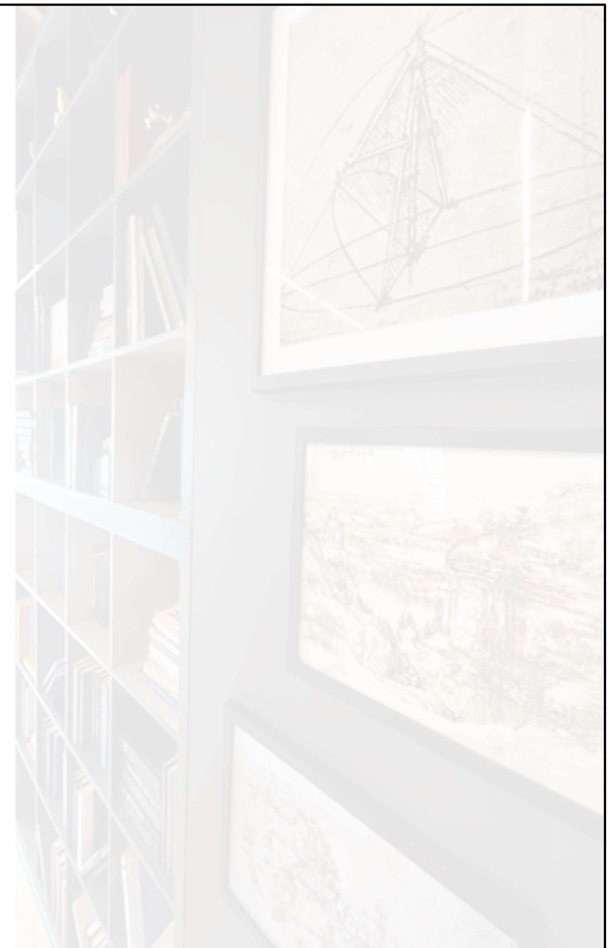
As the market becomes less concentrated—which is our assumption—active value managers are poised to have a decade for the record books. This would be a welcomed change!

Appendix

About Us

Broyhill Asset Management is a boutique investment firm, initially established as a family office and guided by a disciplined, value orientation.

Founded in the foothills of the Blue Ridge Mountains, we operate outside of the fray and invest with a rational, objective, long-term perspective.



What We Do

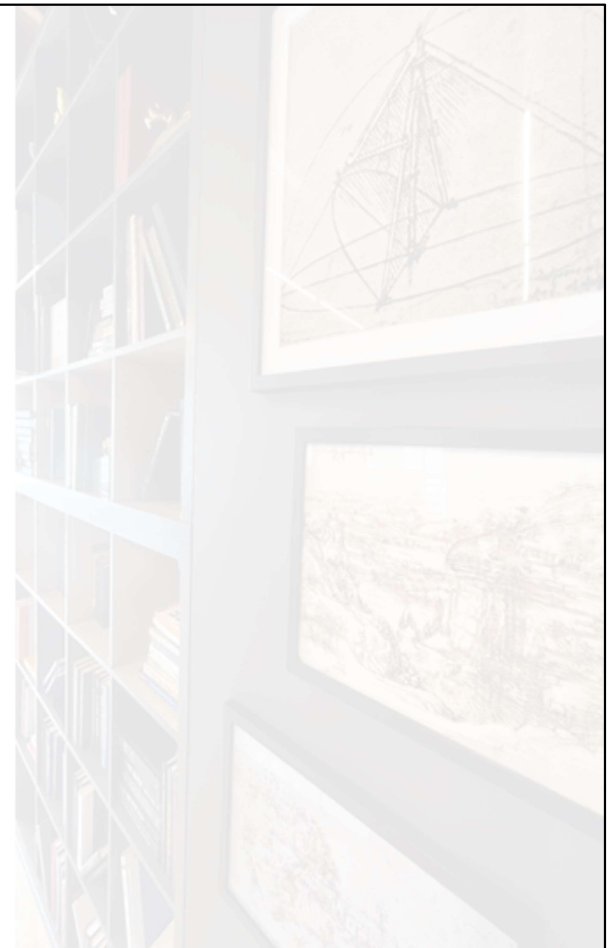
Broyhill offers **like-minded investors** the ability to invest alongside of the Broyhill Family, leveraging the same research-intensive investment process to construct portfolios for investors.

With roots as a family office, **our first and foremost goal is protecting your wealth.**

This manifests itself in a lengthy research process, high hurdles for investment, and a time horizon longer than most.

The Broyhill Portfolio

The Broyhill Equity Portfolio is a concentrated, value-oriented equity portfolio of publicly traded equities that mirrors the equity portfolio managed for the Broyhill family.



OUR ADVANTAGE

One advantage of being founded in the foothills of the Blue Ridge Mountains is that **we operate outside of the fray.**

Removed from Wall Street's groupthink, we can climb the mountain and survey the investment landscape with a rational, long-term perspective.

In an environment where price is set by investors who are obsessed with the next tick, we seek to improve our odds by tuning out the noise. This means making fewer, better decisions over a longer time horizon where competition has dwindled.

By playing in a different arena than the crowd, we can expect different results.

Organizational Chart

M. Hunt Broyhill
Chairman

Christopher Pavese, CFA
President and Chief Investment Officer

Operations

- **Pam Reid** — *Chief of Staff*
  - **TBD** — *Admin*
- **Kyle Minges** — *Chief Operations Officer*
  - **TBD** — *Controller*

Investments

- **Andrea Sefler, PhD, CFA** — *Director of Research*
- **Olivia Guillebeau** — *Investment Analyst*
- **Patrick Wells, CFA** — *Senior Portfolio Manager*

OUR TEAM

Christopher Pavese, CFA

President & Chief Investment Officer

Chris serves as President & Chief Investment Officer of Broyhill Asset Management. He leads the firm's research and investment process, focused on idea generation, investment strategy, and portfolio construction. He is a CFA Charterholder, Past President of the Board of the CFA Institute's North Carolina Society and current member of the CFA North Carolina Society Strategic Advisory Board. Chris is an official southerner-in-training and understands the importance of sweet tea and the multiple meanings of "bless your heart."

Patrick Wells, CFA

Senior Portfolio Manager

Patrick Wells started his journey with Broyhill as an analyst, fresh out of Wake Forest and amidst the rigorous CFA exams. After his tenure, spanning almost a decade with a New York investment firm, his North Carolina roots beckoned. Patrick's return to Broyhill as a Senior Portfolio Manager marks a homecoming, where he now spearheads our separately managed accounts and collaborates closely with our investment team. Patrick resides in Charlotte with his wife and son. He's often found pounding the pavement, whether it's for fitness or chasing his energetic toddler.

Andrea Sefler, PhD, CFA

Director of Research

Andrea holds a PhD in organic chemistry from the University of California, Berkeley and is a CFA Charterholder. After a rewarding scientific career at a large pharmaceutical company, Andrea transferred her analytical skills to the investment industry. Her background brings structured inquiry and scientific rigor to Broyhill's investment process. Despite her career shift, her love of science and investing are long-lasting and entwined: she bought her first stock with a cash prize from a science fair competition in grade school.

Olivia Guillebeau

Investment Analyst

Olivia has a passion for discovering important truths others choose to ignore. Her interest in financial analysis ignited at Appalachian State University where she competed as a Broyhill Fellow in the CFA Institute Research Challenge, winning the Americas' Regional Championship and finishing top five in the world. When she isn't peeling through earnings' transcripts and SEC documents, she enjoys mountains to climb, exercise and body conditioning by 'Joe,' romantic comedies and displaying the exploits of her cat, 'Mister Cowboy!'

OUR TEAM

M. Hunt Broyhill

Chairman

Hunt holds several positions within the Broyhill Family Office—the first of which began at an early age, as a Broyhill. Today, he serves as President, Chairman, and Chief Executive of BMC Fund and as Chief Executive Officer of Broyhill Asset Management. Hunt is also a former member of the Economic Development Board of the State of North Carolina where he allegedly swam across the 55' waters of the Tampa Bay for a Navy Seal Foundation Fundraiser. Hooyah!

Kyle Minges

Chief Operations Officer

A born and bred Tar Heel, Kyle earned a bachelor's degree in Business Administration and a Master's of Accounting from the University of North Carolina at Chapel Hill. His recent tenure includes stops at Lyrical Partners and Bostwick Capital, where he solidified his commitment to building institutional-quality operational structures. As the Chief Operating Officer at Broyhill, Kyle embraces each day with steadfast curiosity, driven by a genuine love for the work and an eagerness to conquer the challenges it presents.

Pam Reid

Chief of Staff

Pam brings more than two decades of experience in business operations and project management to Broyhill Asset Management. At Broyhill, Pam serves as air traffic controller managing internal operations and projects; as an integrator of continuous process improvements; as a communicator sharing the right message at the right time; as a truth teller providing a comprehensive view on situations without turf considerations; and as a confidant without an organizational agenda.

BROYHILL FAMILY LEGACY

1913

Tom Broyhill runs Kent Coffin which manufactures coffins and hard wooden chairs.

1919

James Edgar Broyhill ("Ed") works in his brother Tom's furniture business as bookkeeper, clerk and sales.

1926

Ed Broyhill first starts the Lenoir Chair Co.

1933

Ed and Tom buy a controlling stake in Harper Furniture and the "Lenoir Line" (Lenoir Chair & Harper) of furniture products is born.

1937 to 1940

Multiple small factories are purchased and added to the "Lenoir Line" - Newton, NC, Marion, NC and Conover, NC.

1948

Paul Broyhill starts in family business; with sales at roughly $15 million per year it is one of the largest U.S. furniture manufacturers.

1949

Furniture inventory "crisis" leads to the unheard of Broyhill furniture "sales force" and the first of its kind "furniture sales training program."

1950 to 1979

Paul "The Builder" Broyhill architects Broyhill Furniture Industries into one of the greatest household names in the home furnishing business; sales surpassing $260 million a year, operating 20 factories with more than 7,500 employees.

1980

Broyhill Furniture Industries was sold to Interco, the proceeds of which became the foundation of the Broyhill Family Office, which was managed internally for the next two decades.

2005

Chris Pavese joins the Broyhill Family Office as Managing Director and Senior Portfolio Manager of BMC Fund, Inc.

2011

Chris is appointed President and Chief Investment Officer of BMC Fund, Inc. and the Broyhill Family Foundation.

2022

The Board approves Broyhill Asset Management as Investment Advisor, effectively separating the investment arm of the family office, and establishing BAM as an independent investment boutique.

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FOR MORE INFORMATION:

Charlotte, North Carolina
ir@broyhillasset.com
828.610.5360

Disclosures

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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.

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.

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For additional information about other indices or strategies mentioned here, you may contact us at ir@broyhillasset.com.