Broyhill Investor Call – Equal Opportunities

September 2024

Thanks for joining us.

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Here's the plan for today.

We'll start with some thoughts on the current investment landscape.

More specifically, what we think it means for the outlook going forward.

Then, we'll turn our focus to how we're currently positioned for that environment and why we think that NOW is the single best investment opportunity we've seen since I joined Broyhill nearly 20 years ago.

Most of you are familiar with Broyhill, but for those new faces on the call, we thought it would be helpful to provide a brief overview of the firm today.

We are a value-driven investment boutique that was recently spun out of a single-family office.

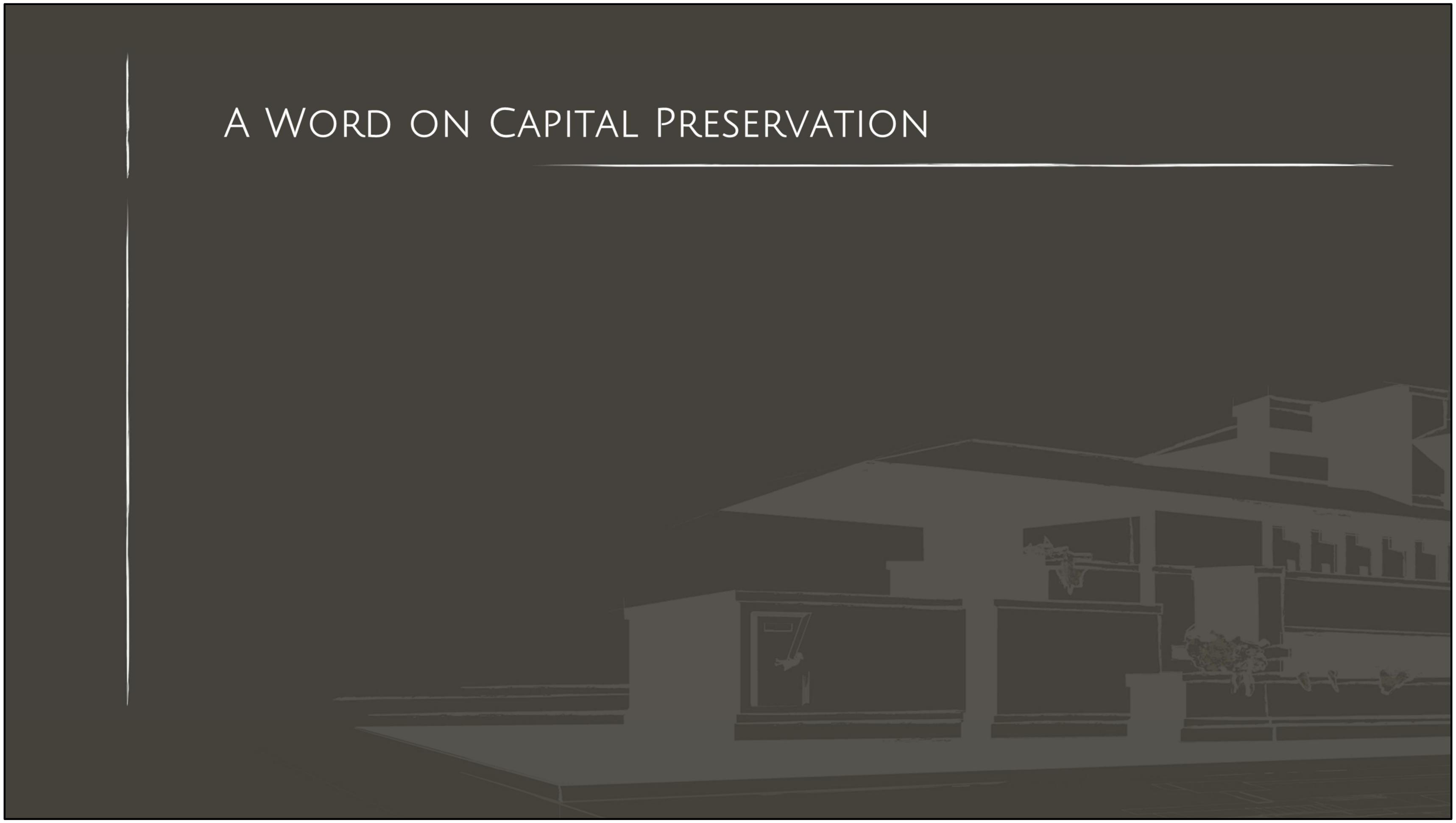
What We Do

We manage a
concentrated global portfolio
of public equities,
solely available to a single family for a generation.

The core of what we do has remained the same for as long as I've been at Broyhill. We manage a concentrated portfolio of global equities solely available to a single family until recently, when we opened to external investors.

It's classic value investing. It's not always the sexiest approach or the one that works all the time. But that's why it works over the long term.

Because most investors lack the patience and, frankly, the common sense to stick with it.



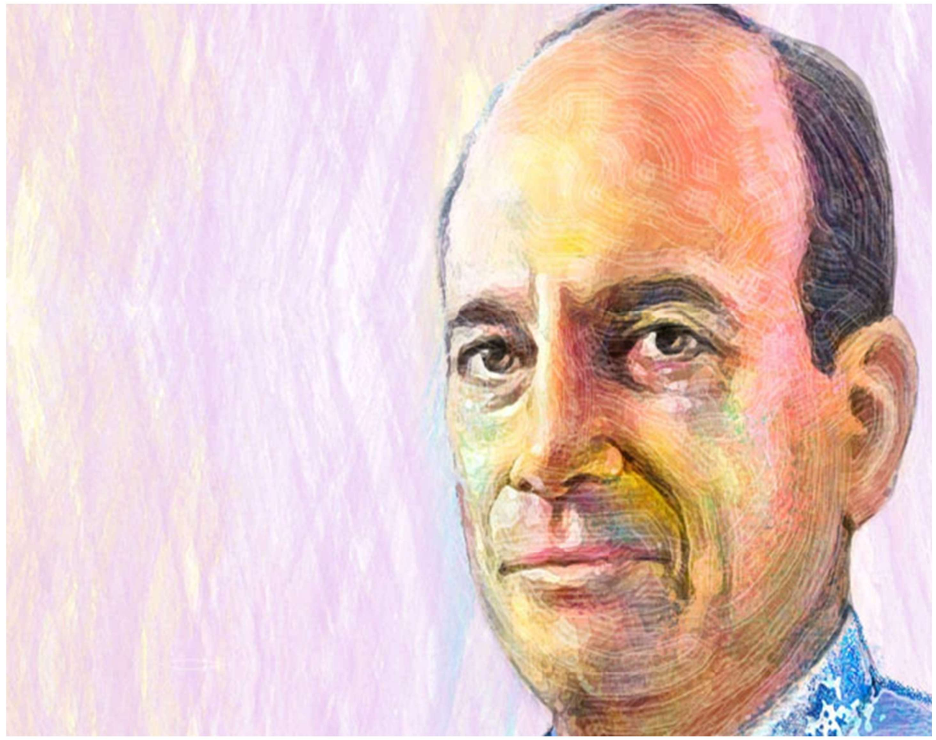
Speaking of common sense.

Let's start with an obvious but often overlooked investment truth.

"For most individuals, the best strategy is not the one that's going to get you the highest return.

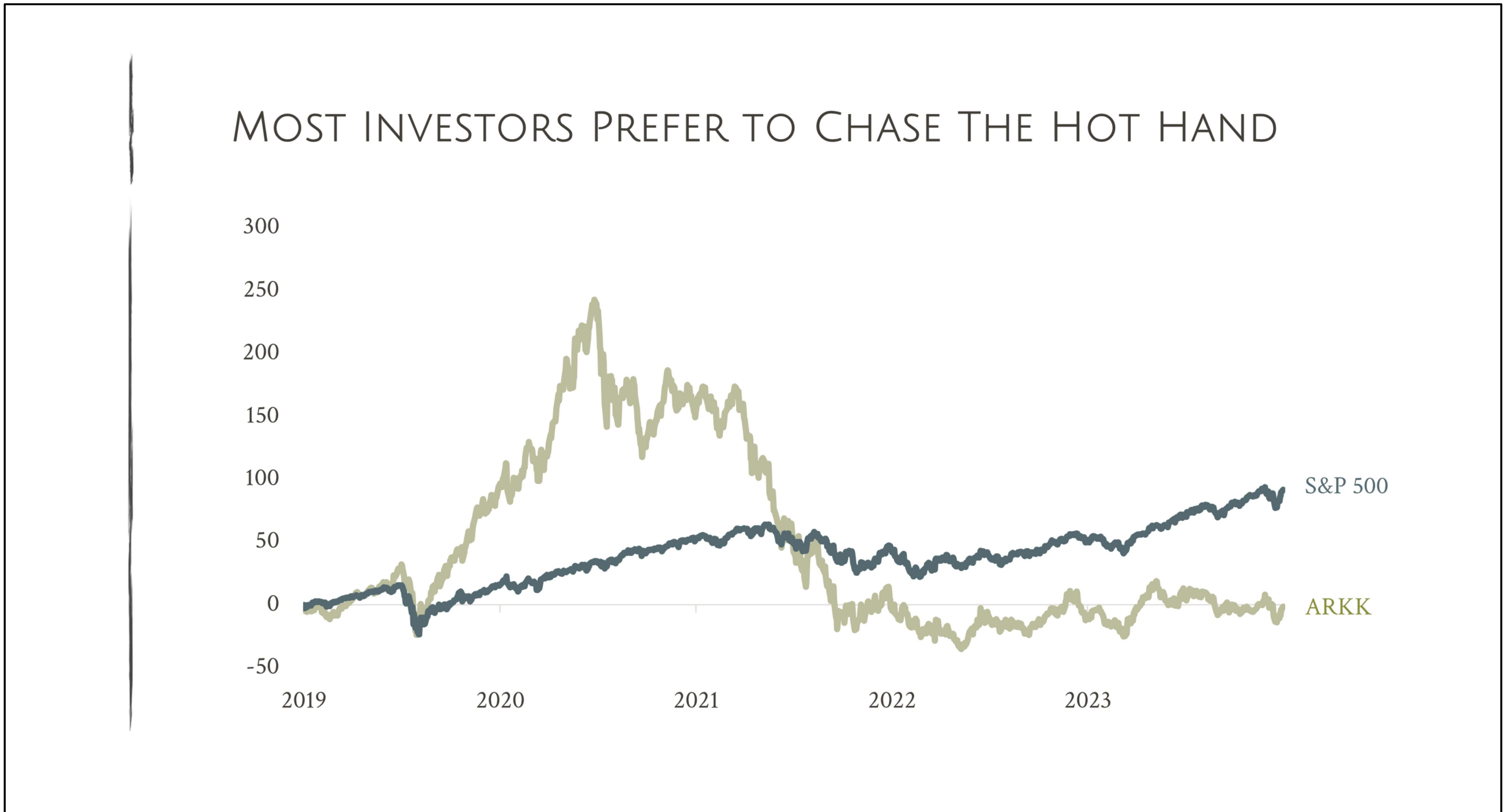
Rather, the ideal is "a good strategy that you can stick with even in bad times."

- Joel Greenblatt



For most folks, the best strategy isn’t the one that's going to get the highest returns.

For most folks, the best strategy is the one you can stick with . . . even in bad times.



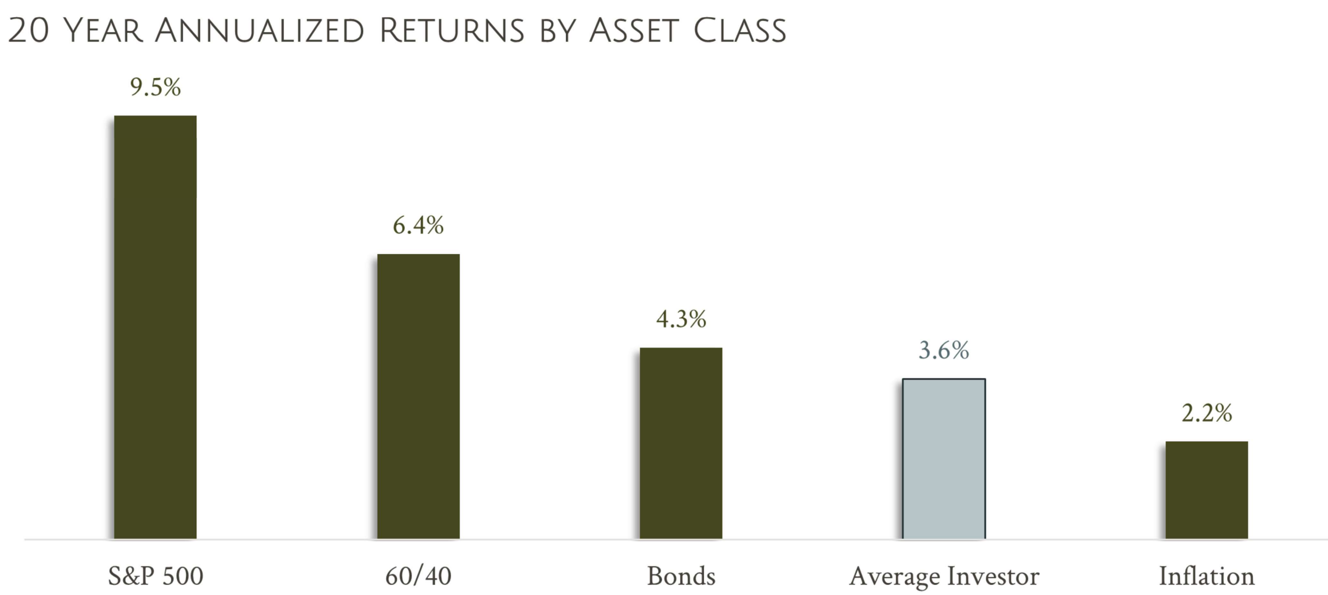
Source: Bloomberg

That probably sounds counter-intuitive. Surely, your goal as an investor should be to find those strategies that generate the best returns, right?

Unfortunately, this is exactly what most investors do. They pile into strategies that have performed best . . . at precisely the wrong time.

Total assets at Cathie Wood's ARK surged during COVID. The fund pulled in nearly $10B in 2021 alone! Cathy then went on to wipe out over $14B in shareholder value. For that incredible feat, she earned Morningstar's recognition as the top wealth-destroying firm of the last decade!!

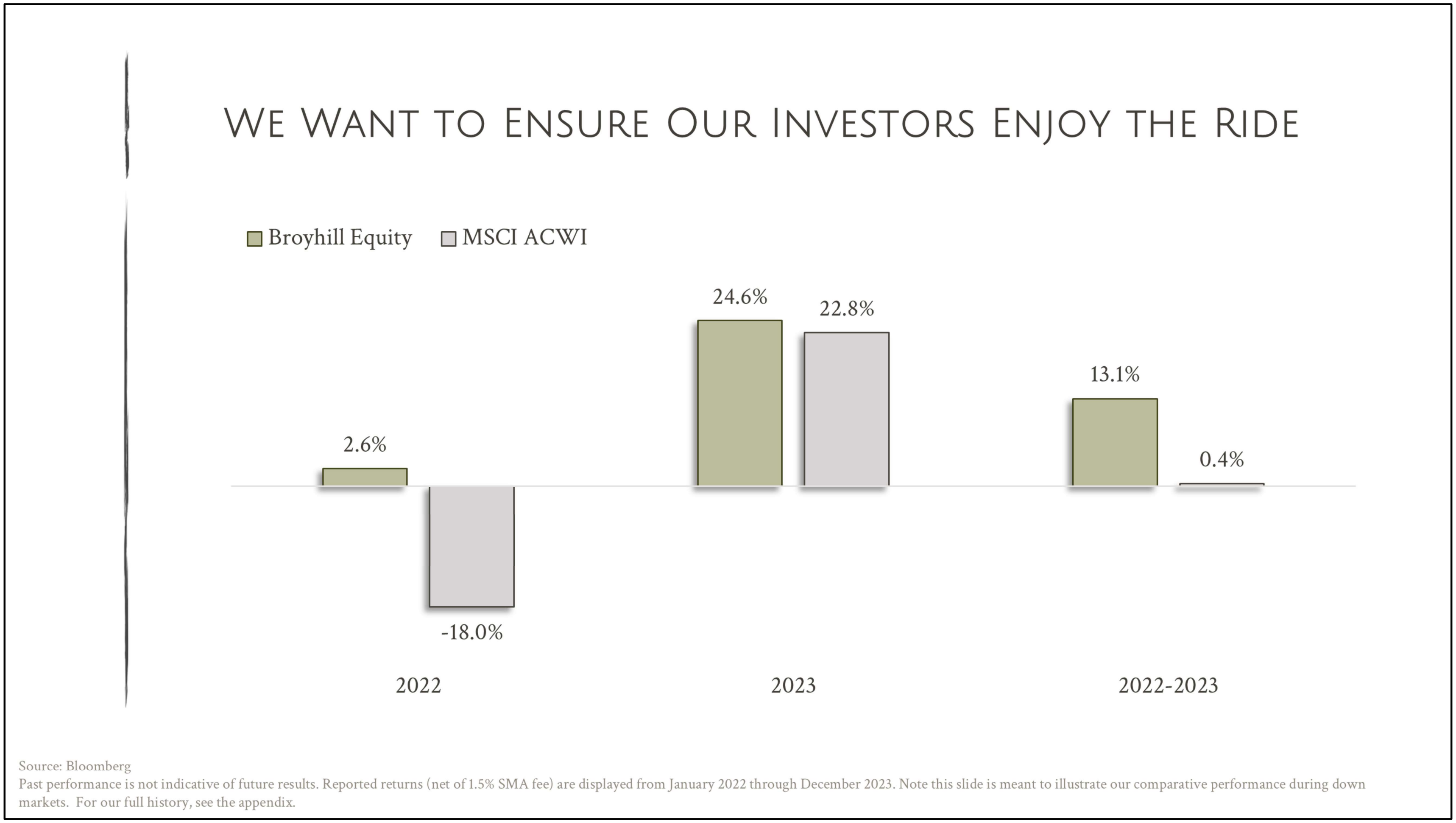
THE AVERAGE INVESTOR BARELY OUTPERFORMS INFLATION



Source: JPM

This is exactly why the average investor has barely outperformed inflation over the past two decades.

Most of us are really good at identifying what's hot! Unfortunately, we are just as quick to bail when it's not!



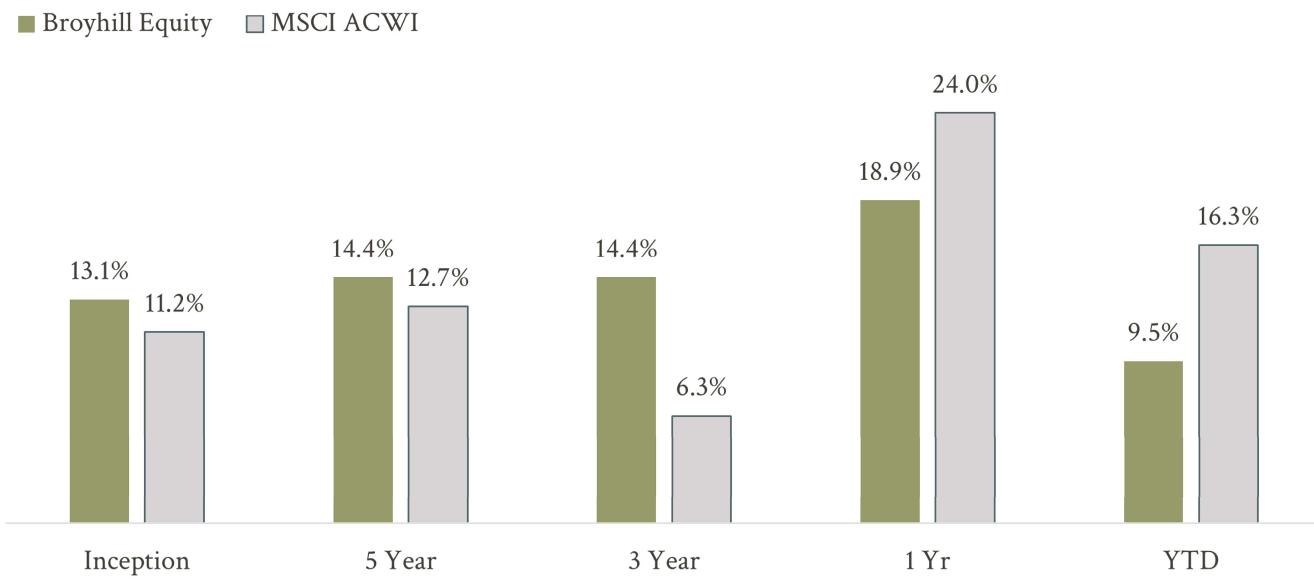
Spectacular returns are hard to resist in the short term.

But they often come with equally spectacular losses, which few investors can stomach. And most investors abandon.

That's why we optimize our approach at Broyhill to ensure that all of our investors stick around long enough to enjoy the ride.

Because a more disciplined, value-driven approach, that minimizes the risk of large losses, is more reliable, and a lot less stressful over the long term.

It May be Bumpy, But It Tends to Work Long-term

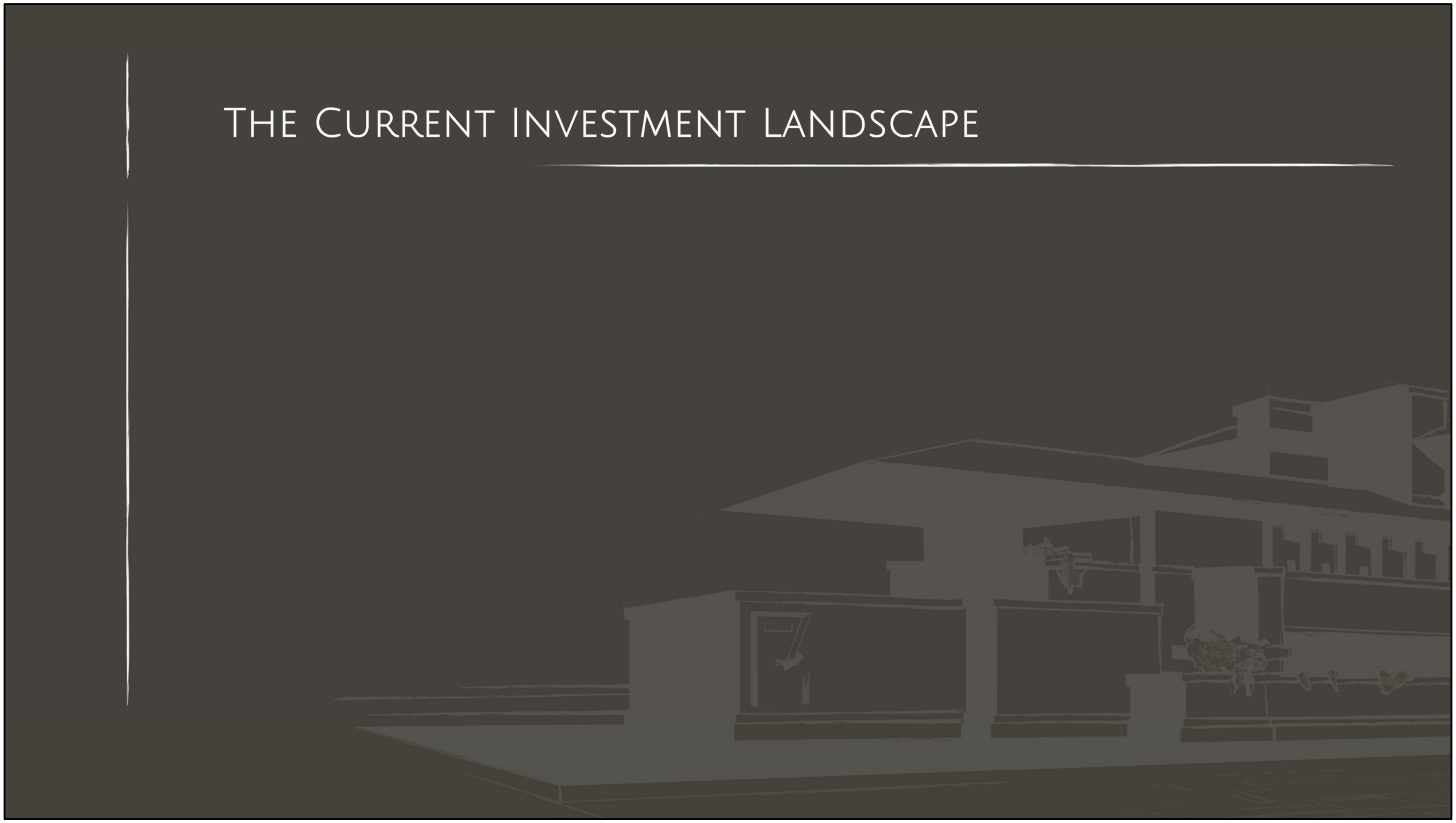


Inception: September 1st, 2015.
Past performance is not indicative of future results. Reported returns (net of 1.5% management fees) are displayed through August 31, 2024. Additional information regarding the composite is available in the Disclosures section. For our full return table, see the appendix.

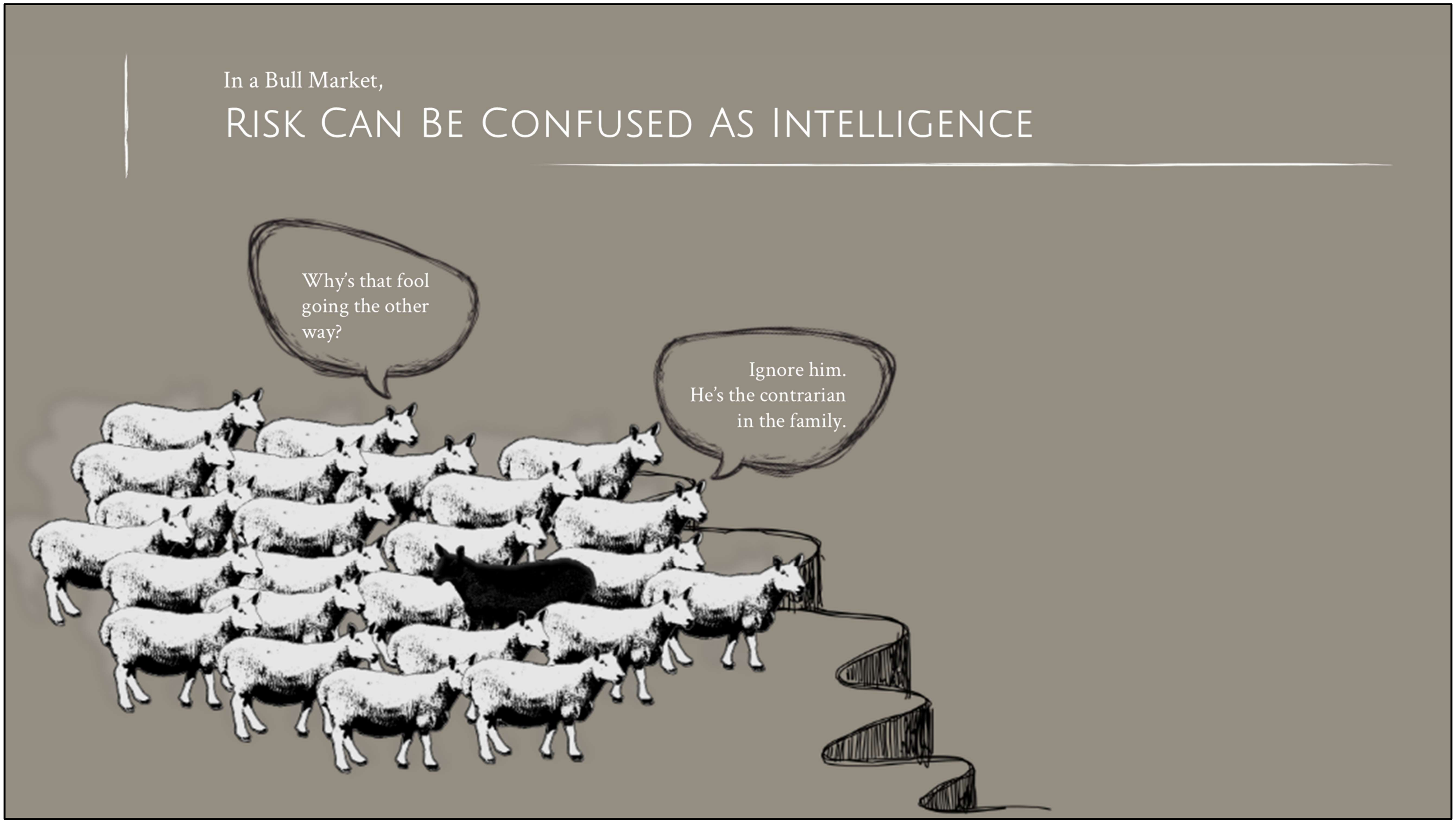
Slow and steady wins the race.

It might not feel as good on the way up. But it works very well in the long term.

And makes it much easier for our clients to actually earn the returns we are reporting.



Okay. With that brief intro out of the way, let's take a look at the current market environment.



The benefits of a value-oriented approach, like ours, are tough to see during good times but prove their merit during tough times.

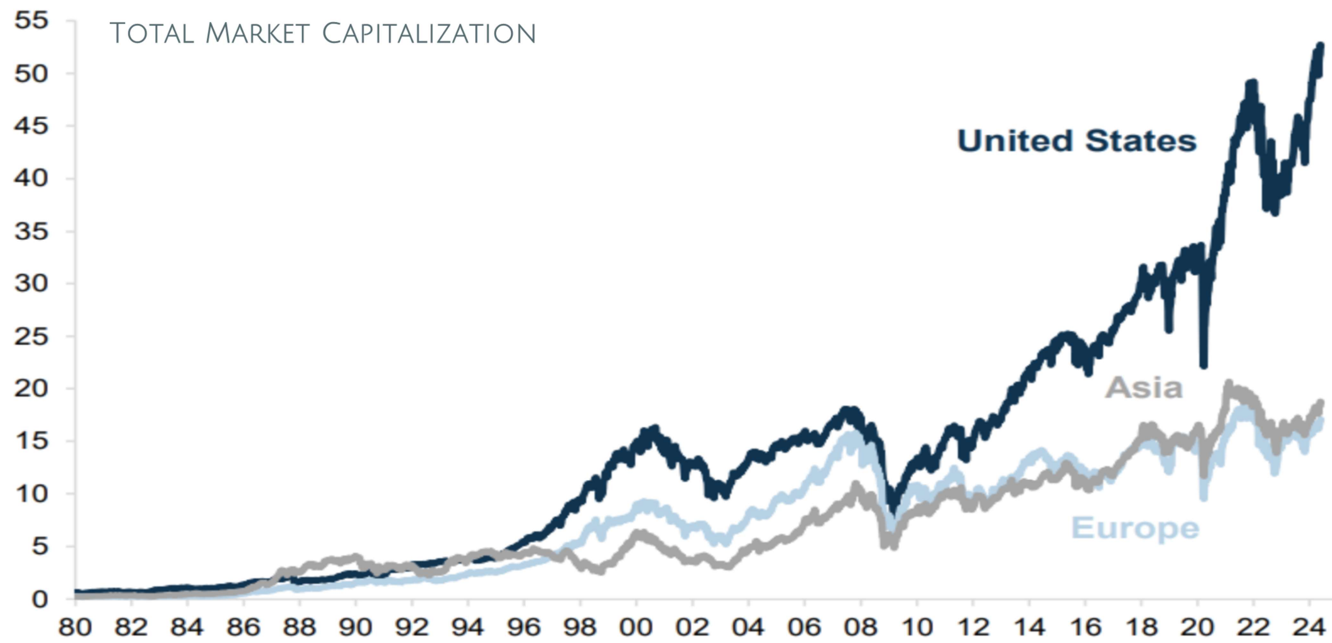
That's why we often say, "You don't need Broyhill in a bull market." But how do you know if you are in a bull or bear market? Nobody rings a bell at the top, right? Or do they?

This picture was taken at Computex, the world's biggest computing conference, held on June 6th in Tawin.

NVDA CEO filled a 4,000-seat stadium with paparazzi, drawing the largest audience ever.

Shares peaked two weeks later and lost a third of their value at the most recent low.

US Investors Have Done Very Well of Late



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

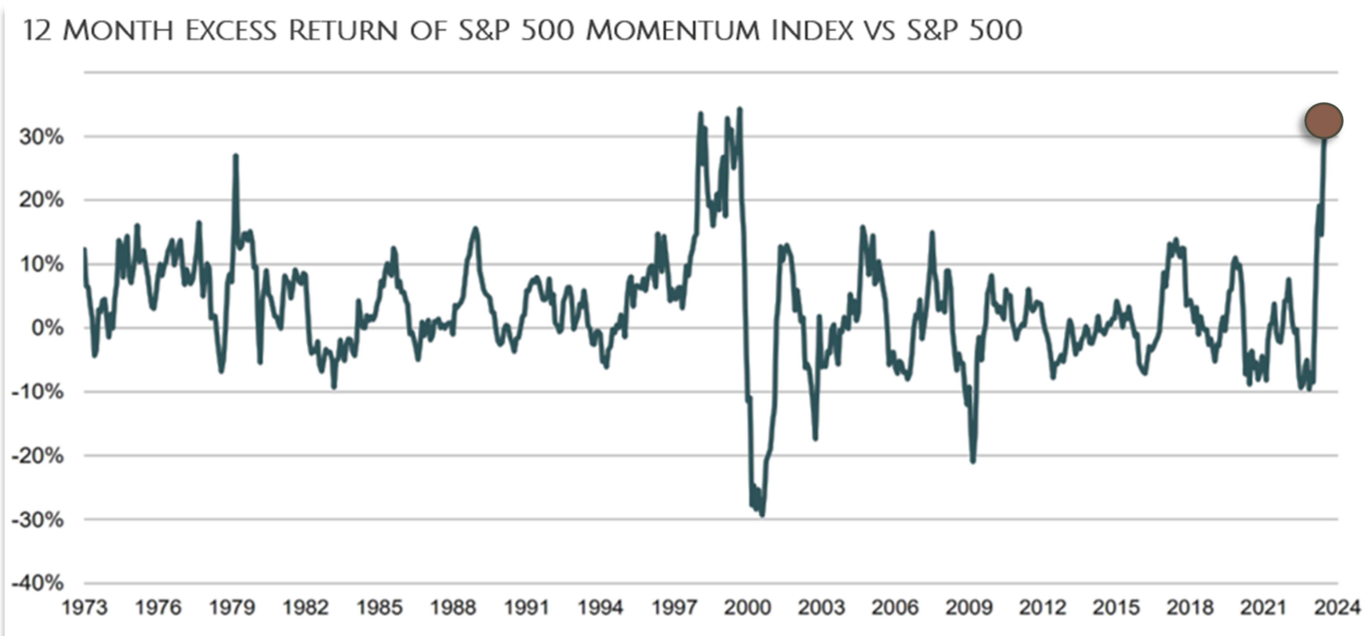
US investors have done VERY well of late.

Betting on winners has been especially rewarding.

These are great companies. Well, most of them, anyway.

But a great company isn't always a great stock. The price you pay matters. We'll come back to that in a moment . . .

Momentum Reached Extremes in June



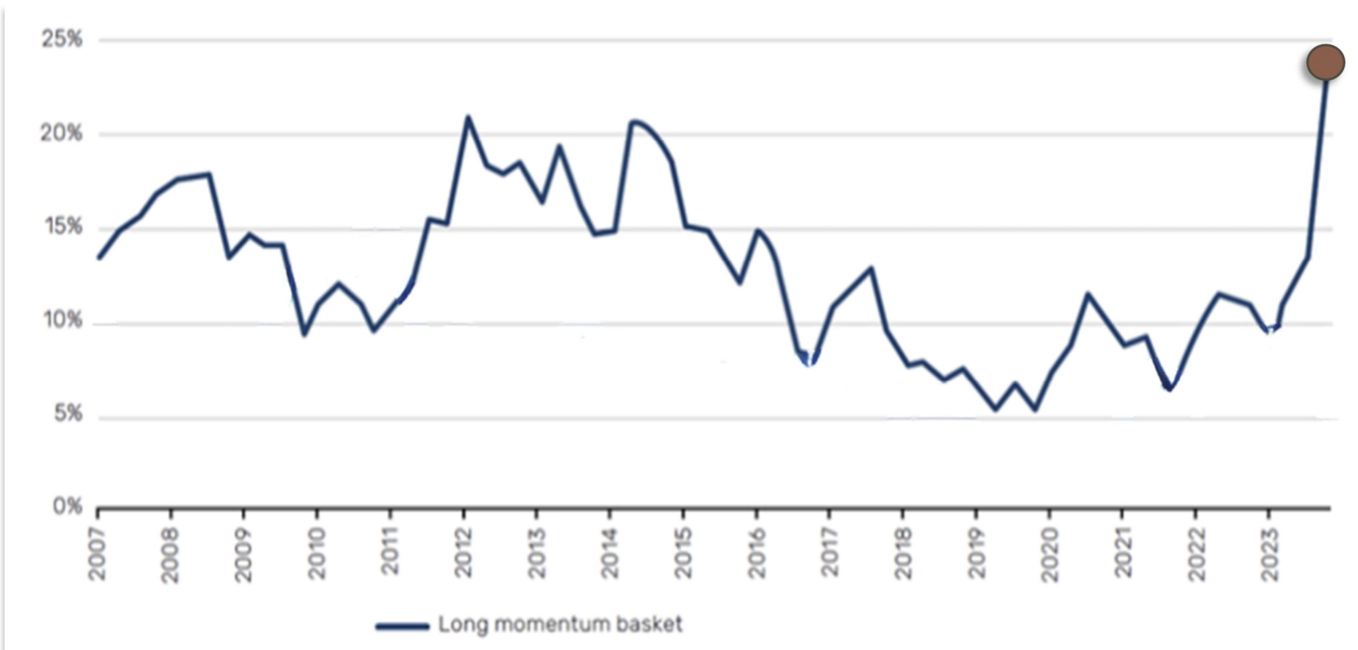
Source: S&P Dow Jones Indices

Momentum has certainly been working in everybody's favor. But it clearly got ahead of itself in June.

Back then, we highlighted how extreme this move had gotten in a piece titled To Hell with Herd Mentality.

We cautioned that parabolic moves like the one we see here are unsustainable and have historically marked important market turning points.

Resulting in Record Overlap Among Hedge Funds



Source: Morgan Stanley as of March 2023

Making matters worse, EVERYBODY OWNS THE SAME STUFF.

That works wonders on the way up. Not so much on the way down.

The weight of momentum stocks in the S&P has never been this high at any point in the past century.

So, it should come as no surprise that we also see a record overlap across hedge fund holdings . . . all betting on the same momentum stocks.

It's Getting Very Crowded

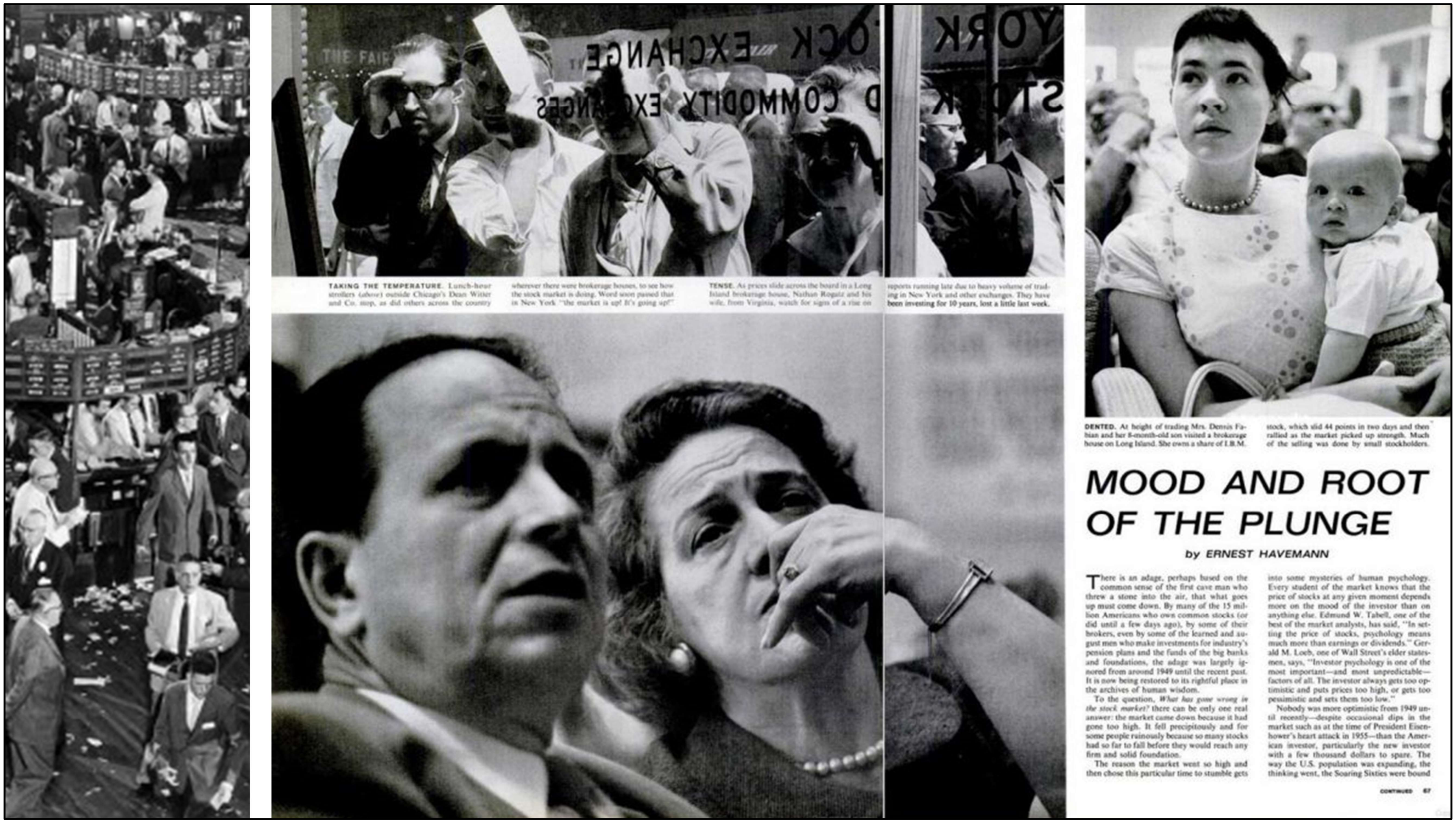
Source: Goldman Sachs

While this level of concentration is rare, it's not unprecedented.

Concentration in the S&P has been around this range twice before – in 1929 and 1999.

You can also see spikes in concentration in the mid-60s and mid-70s that also corresponded with market tops.

Since we don't have good data back to the 20s, let's look at the two most recent analogs – the 70s and the 90s.



TAKING THE TEMPERATURE. Lunch-hour strollers *(above)* outside Chicago's Dean Witter and Co. stop, as did others across the country wherever there were brokerage houses, to see how the stock market is doing. Word soon passed that in New York "the market is up! *It's going up!*"

TENSE. As prices slide across the board in a Long Island brokerage house, Nathan Rogaiz and his wife, from Virginia, watch for signs of a rise on reports running late due to heavy volume of trading in New York and other exchanges. They have been investing for 10 years, lost a little last week.

DENTED. At height of trading Mrs. Dennis Fabian and her 8-month-old son visited a brokerage house on Long Island. She owns a share of I.B.M. stock, which slid 44 points in two days and then rallied as the market picked up strength. Much of the selling was done by small stockholders.

MOOD AND ROOT OF THE PLUNGE

by ERNEST HAVEMANN

There is an adage, perhaps based on the common sense of the first cave man who threw a stone into the air, that what goes up must come down. By many of the 15 million Americans who own common stocks (or did until a few days ago), by some of their brokers, even by some of the learned and august men who make investments for industry's pension plans and the funds of the big banks and foundations, the adage was largely ignored from around 1949 until the recent past. It is now being restored to its rightful place in the archives of human wisdom.

To the question, *What has gone wrong in the stock market?* there can be only one real answer: the market came down because it had gone too high. It fell precipitously and for some people ruinously because so many stocks had so far to fall before they would reach any firm and solid foundation.

The reason the market went so high and then chose this particular time to stumble gets into some mysteries of human psychology. Every student of the market knows that the price of stocks at any given moment depends more on the mood of the investor than on anything else. Edmund W. Tabell, one of the best of the market analysts, has said, "In setting the price of stocks, psychology means much more than earnings or dividends." Gerald M. Loeb, one of Wall Street's elder statesmen, says, "Investor psychology is one of the most important—and most unpredictable—factors of all. The investor always gets too optimistic and puts prices too high, or gets too pessimistic and sets them too low."

Nobody was more optimistic from 1949 until recently—despite occasional dips in the market such as at the time of President Eisenhower's heart attack in 1955—than the American investor, particularly the new investor with a few thousand dollars to spare. The way the U.S. population was expanding, the thinking went, the Soaring Sixties were bound

CONTINUED

Following the bust of highly speculative stocks in the late 60s, investors poured capital into high-quality, large-cap stocks in the 70s, now known as the Nifty Fifty. And as the rally continued, it was led by fewer and fewer stocks. In fact, the rising concentration in a handful of companies even prompted a Senate investigation. That should sound familiar. Google, Meta, Amazon, Apple, and VNDA are all currently facing antitrust litigation.

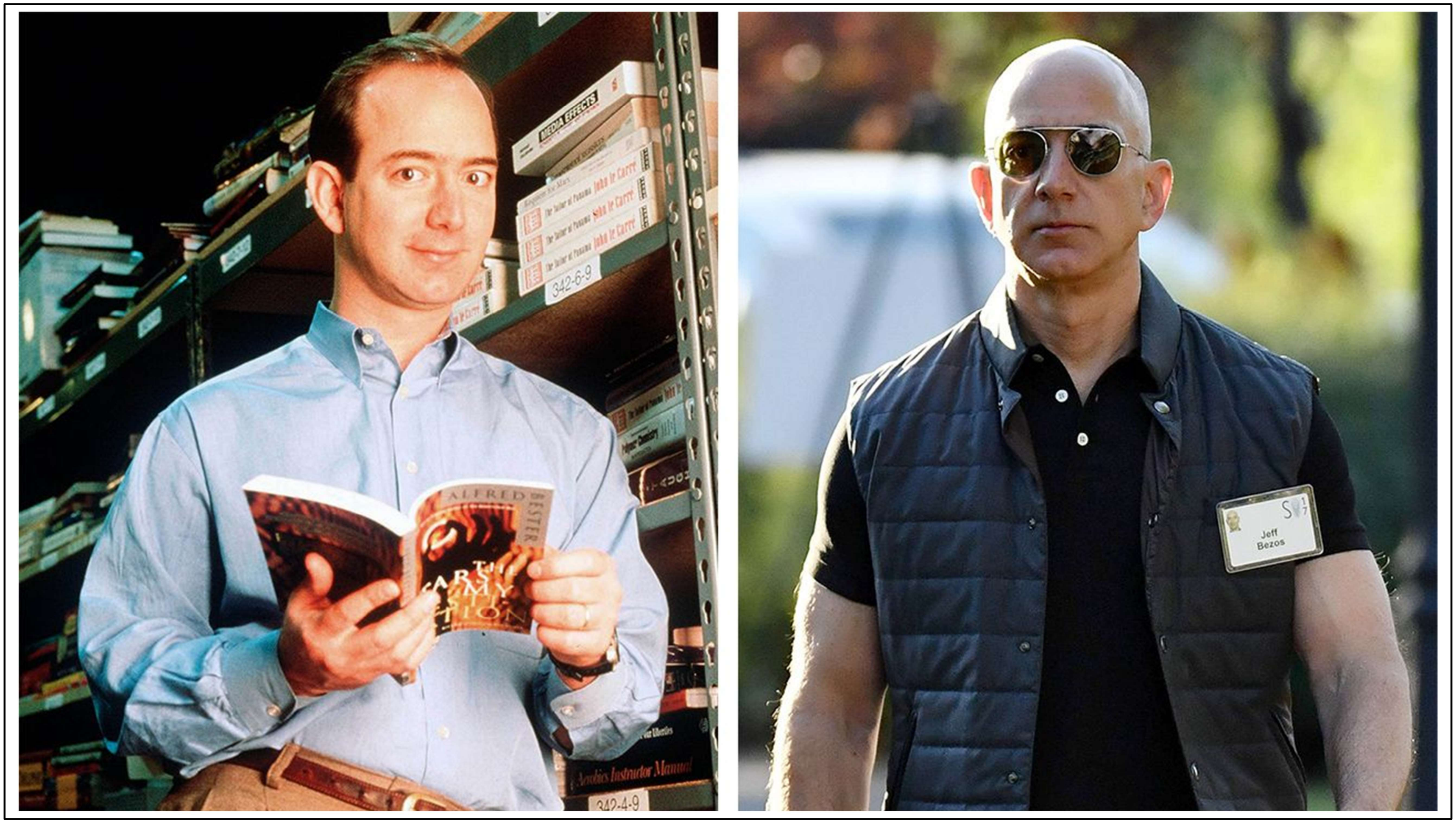
No price was too high for these exceptional businesses, creating a tale of two markets. On the one hand, you had the top fifty stocks surging to extreme valuations. Meanwhile, the median stock in the market traded at just 11x or 12x earnings.

Even though most stocks in the market were arguably cheap, the S&P still managed to fall ~ 50% from peak to trough, dragged down by the largest companies in the index.

It didn't matter that these great businesses continued to perform well.

McDonald's grew revenues 24% annually from '72 to '80, but that wasn't enough to stop a 72% decline from the stock's peak.

That's what happens when you overpay for good businesses. And that's why good businesses aren't always good investments. Again, price matters.



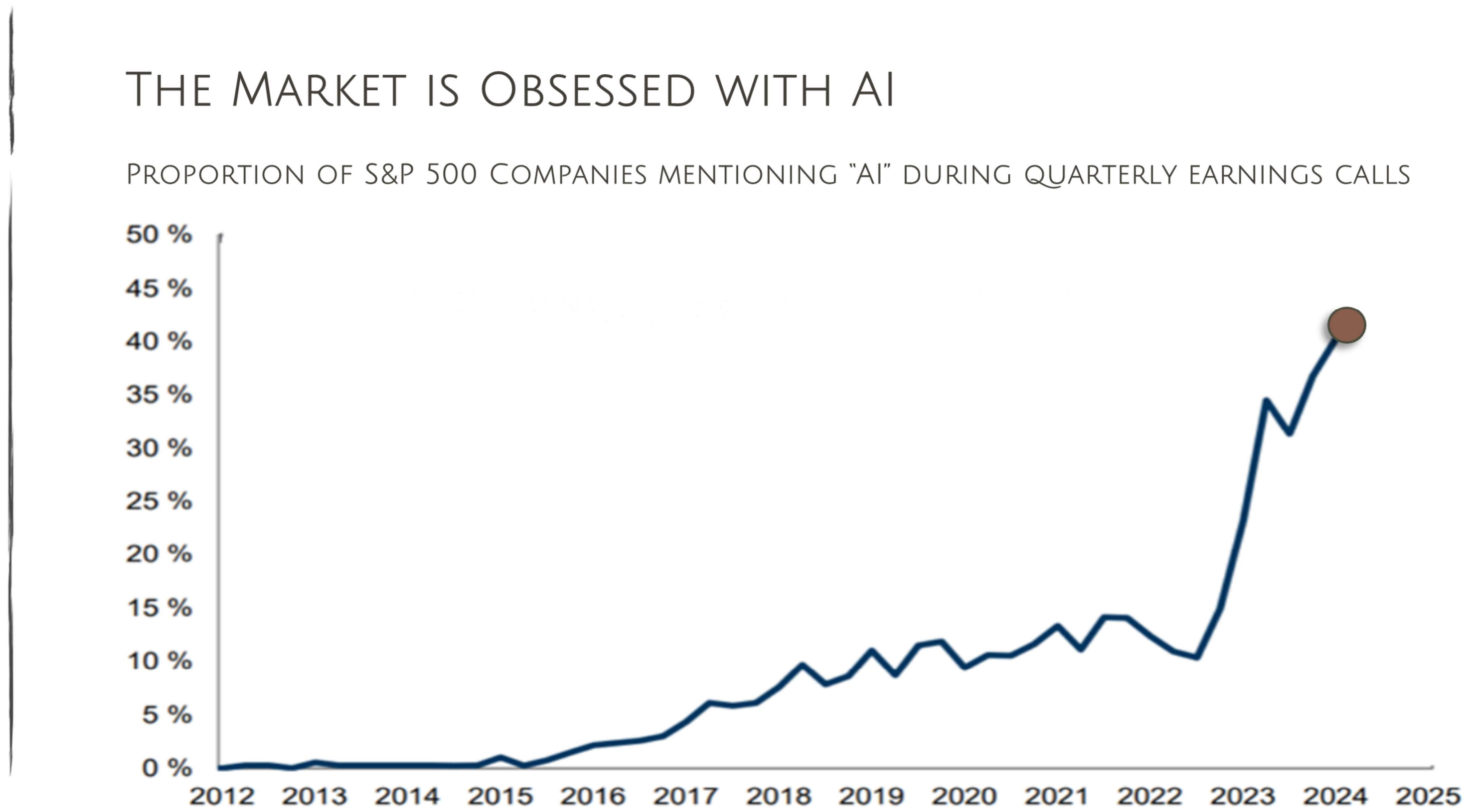
AMZN traded around 25x sales in 2000. For what it's worth, that's right around where NVDA trades today.

Over the last two decades, Jeff Bezos has turned an online bookstore into one of the most dominant companies ever. He also pulled off a similar feat personally. But neither was enough to stop shares from dropping 90% from its 2000 peak. The stock didn't surpass that high for another decade.

I know many investors who own AMZN today. I know fewer that owned it in the 90s. I don't think I know anybody who's owned it from the 90s to now. **Once again, this is why investors should optimize for strategies they can stick with.**

In this case, AMZN went on to earn a respectable rate of return even for those who bought in 1999. But that assumes they had the nerves of steel to hold on through a 90% decline.

So sure, AMZN turned out great for those with Diamond Hands. But you could have earned similar returns with a lot less volatility and a lot less agita by just buying what was out of favor back then. And AMZN is the ONE exception from this period in history. If you had bought just about anything else, you would have been lucky to have outperformed cash for the past quarter-century.

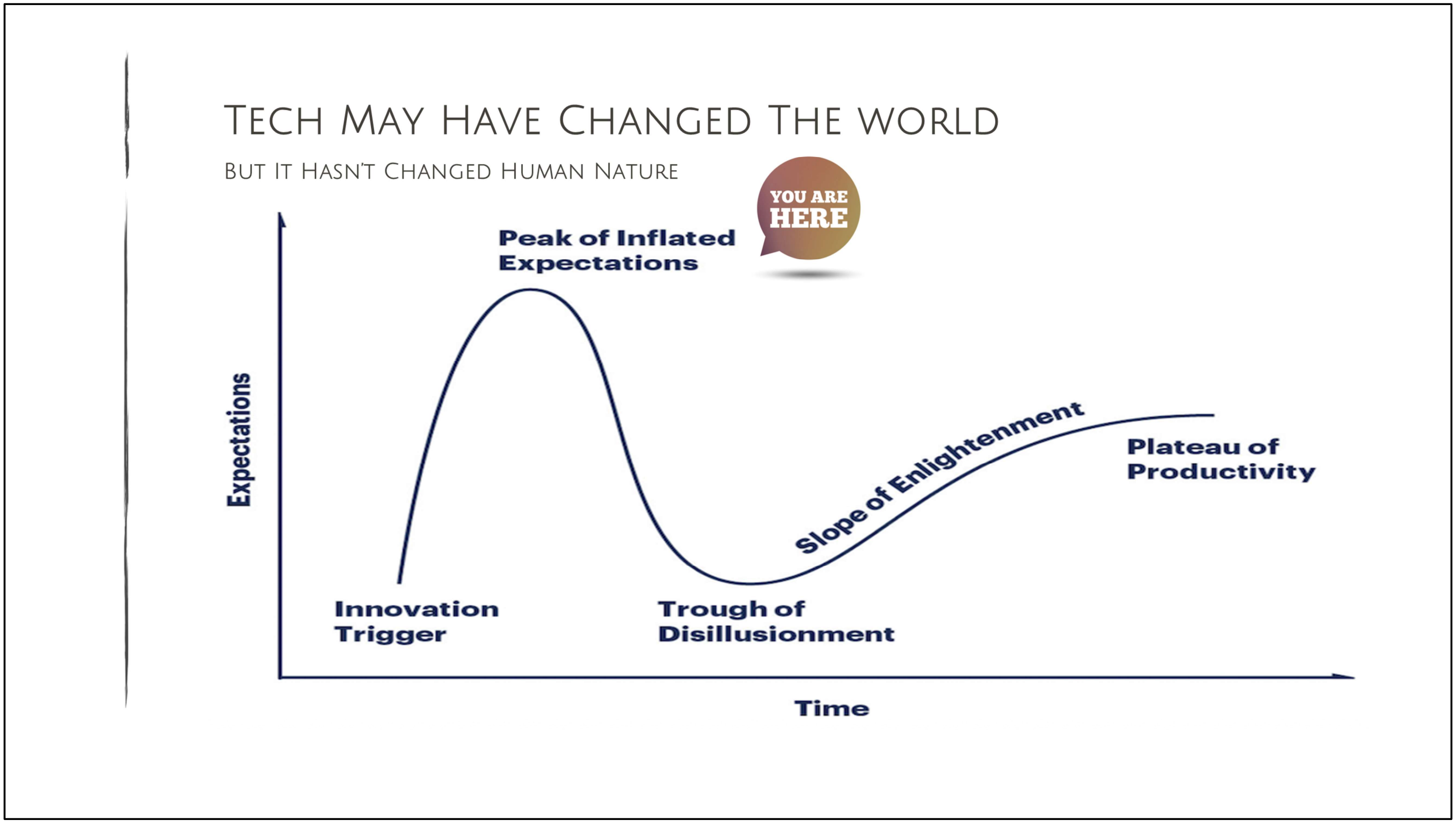


Source: Goldman Sachs

Which brings us full circle back to today. The market's obsession with AI may well turn out to be justified. The long term impact may even be underestimated. We have no idea.

But we are confident that AI's peak impact on productivity is likely far in the future. Historically, it's taken one to three decades for new technologies to be broadly implemented across the economy.

This is a slow process that takes time to unfold. Consider that the first email was sent in the 70s. The 'internet' was born in the 80s. But the web only became publicly available in the 90s. And broadband internet only became increasingly common in the 2000s.



But that didn't stop the telecom sector from dumping ~ $250 billion into capex to build out fiber optic cables during the late 90s. The only problem . . . broadband internet – which you needed to drive enough demand through those pipes - was still a decade away.

I don't think anybody would say that the internet hasn't lived up to the hype on display in the 90s. It's just that markets tend to get overly hyped and way ahead of reality on the ground. Technological change has been a constant for centuries. It has changed the world. But it hasn't changed human nature.

We get overexcited about the long term potential and forget that it's not a straight line from A to B. That's why we see Gartner's Hype Cycle play out over and over again throughout history. And why we think we are in a similar place today.

But it's not all bad news.

There is a silver lining. Particularly for value investors.

So, let's take a look at the opportunities being created by these distortions.

Route 493 – The Road Less Traveled

S&P 500 Forward PE Ratio with and without the Magnificent 7

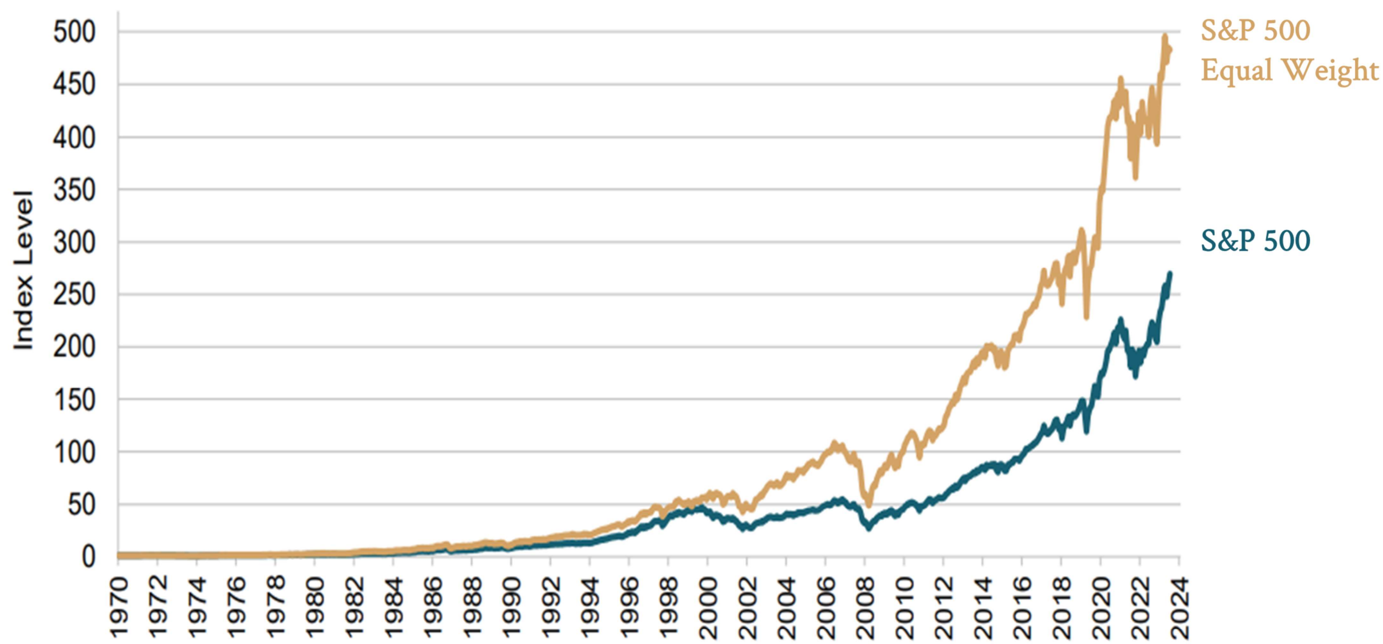
Source: LSEG Datastream and Yardeni Research IBES, and Game of Trades

Folks are paying a hefty multiple for passive indices heavily concentrated in momentum stocks.

Just as we saw in the 70s and in the 90s, the market is again relying on a small group of companies that everyone wants to own. These are really high-quality businesses, just as they were in the 70s and 90s. But as a result, their valuations already reflect that. The "Magnificent 7" trades at 30x earnings. The rest of the S&P trades at ~18x. And the median stock in the index trades even cheaper than that.

So if you own the S&P today, or a Vanguard mutual fund, or are invested in a fund or strategy hugging the benchmark, we'd strongly encourage you to rethink those exposures.

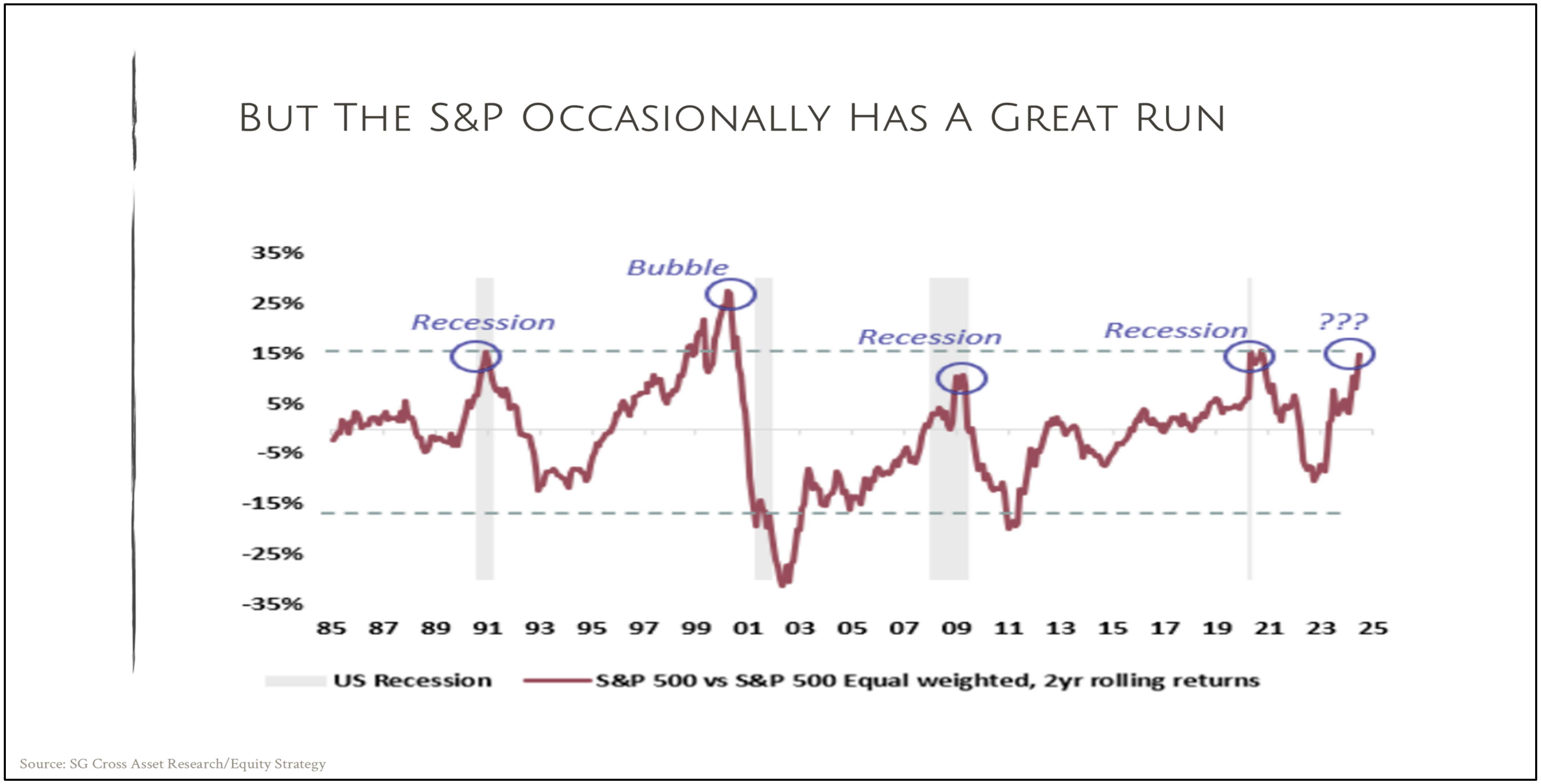
An Equal-Weighted Index Has Been a Better Bet



Source: S&P Down Jones Indices ss of June 28 2024

To explain why, let's start with a couple of definitions. The S&P is a cap-weighted index. That just means the biggest companies are weighted the most. You can also construct an index using equal weightings – meaning every company has the same weighting in the index.

As it turns out, that has proven to be a better mousetrap. Over the last 65 years, the Equal Weight Index has outperformed the S&P. By a lot.



This chart shows the ratio of S&P returns vs Equal Weight returns. So, red line up . . . S&P is doing better. Red line down . . . Equal Weight is doing better.

Here's the thing about concentration. When the biggest stocks do well, they become a bigger piece of the index, and the S&P 500 outperforms.

That's what we've seen the last couple of years and in the later stages of most bull markets. This is what we are seeing today. But, the reverse is also true. The same mega-cap growth stocks that power the market higher have historically dragged it lower following the peak.

That's why we think it's time to focus on the other 493 stocks in the index or even outside of the index.

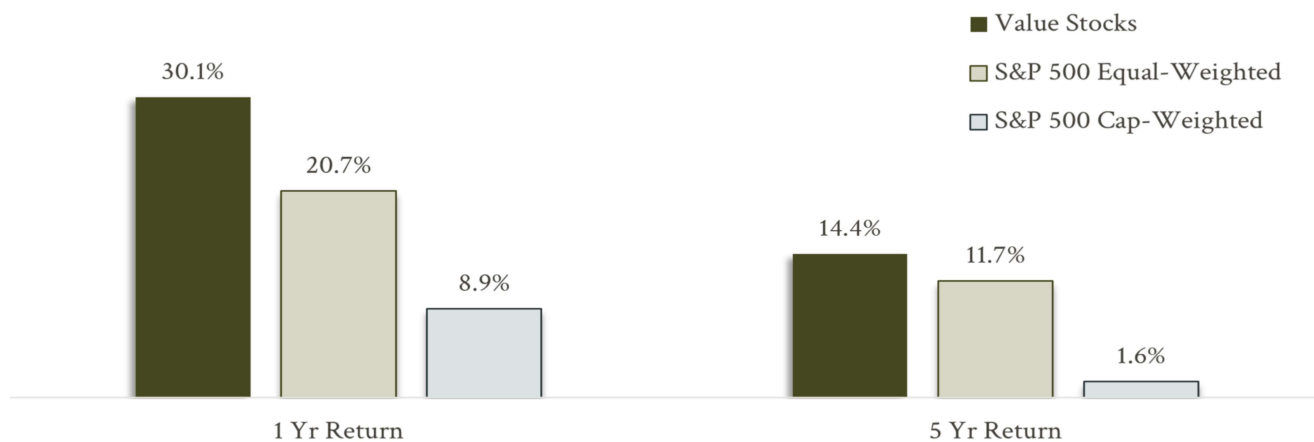
Today's consensus favorites are likely to lead the S&P lower when they turn. Just as they have at the end of every other cycle. But that doesn't mean all stocks in the index will decline or even that most will. For example, the S&P fell by about 50% from the peak in March 2000 . . . but the average stock in the index actually rose by 25% over that period.

In the past, when the S&P has outperformed by this wide a margin, it has been a red flag for passive index performance. More importantly, it's been a green light for value investors like us.

Value's Return Should Be Very Rewarding

Value Outperforms Following Extremes

Average Return Following Extreme Cap-Weighted Outperformance



Source: FactSet, Sanford C. Bernstein & Co., Pzena

Using history as our guide, the next 3-5 years should prove to be very rewarding for active value investing.

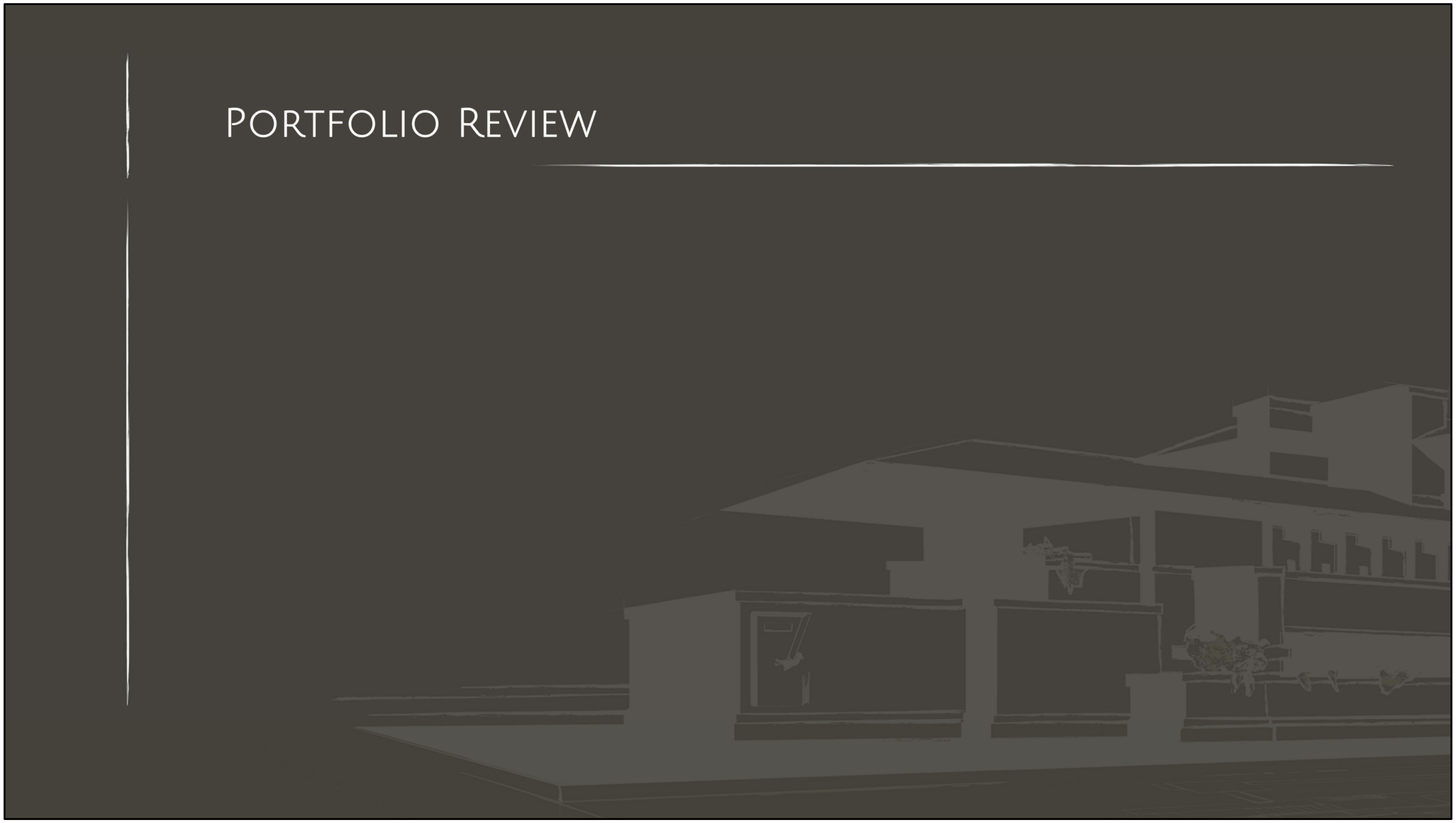
We looked at the most extreme periods of S&P 500 outperformance relative to the Equal Weight Index over the past 65 years. If you slice that time horizon into six-month periods, you get more than 750 data points to examine.

The S&P beat the Equal Weighted Index by more than 10% in just 15 of those 750 periods. Or less than 2% of the time. Four of those occurred since the pandemic.

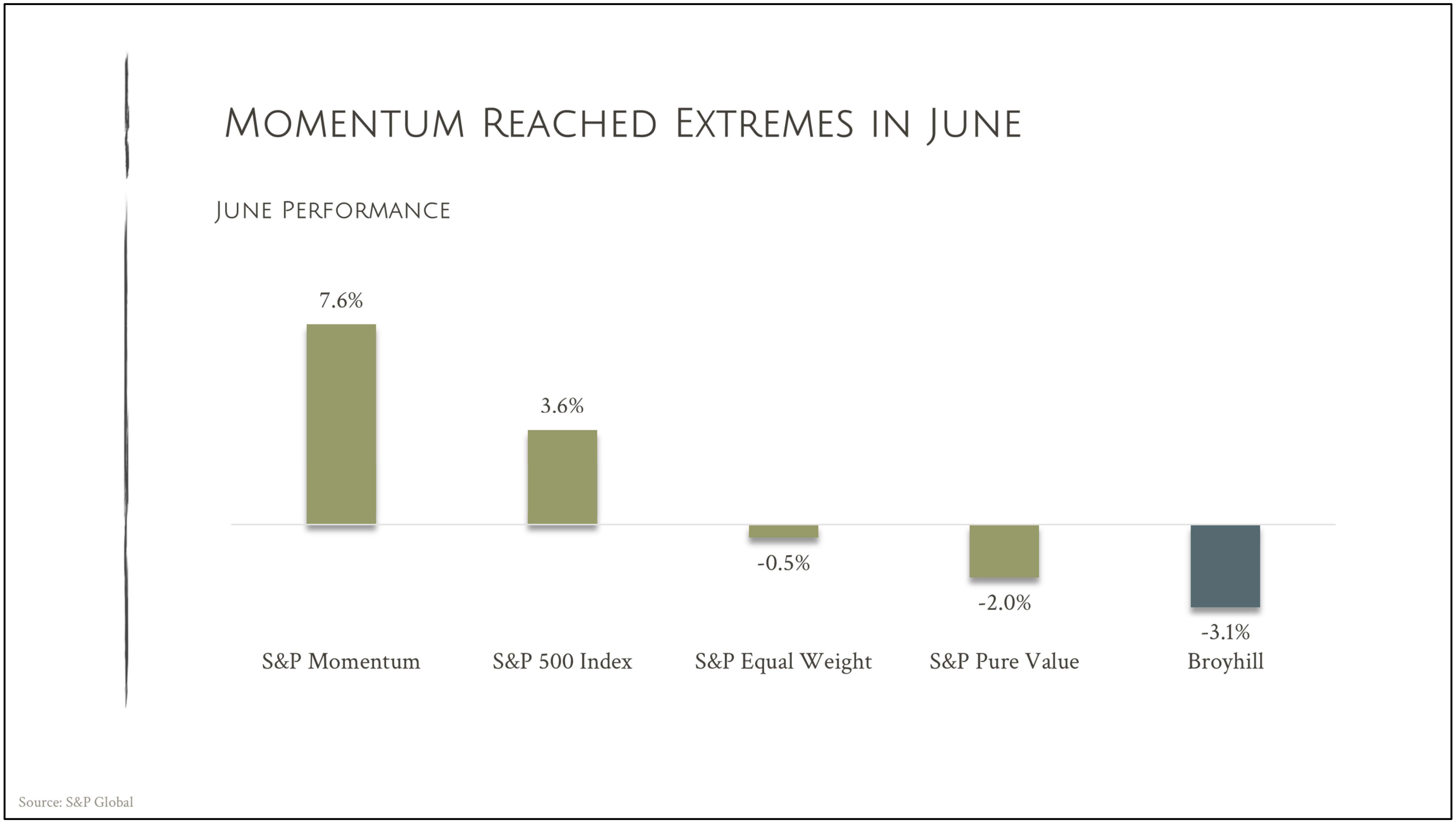
Extremes of this magnitude in the past, have been followed by an equally extreme snapback in performance.

The Equal Weight Index went on to significantly outperform the S&P over the next one, three, and five years, with no exceptions. And value outperformed both by an even wider margin.

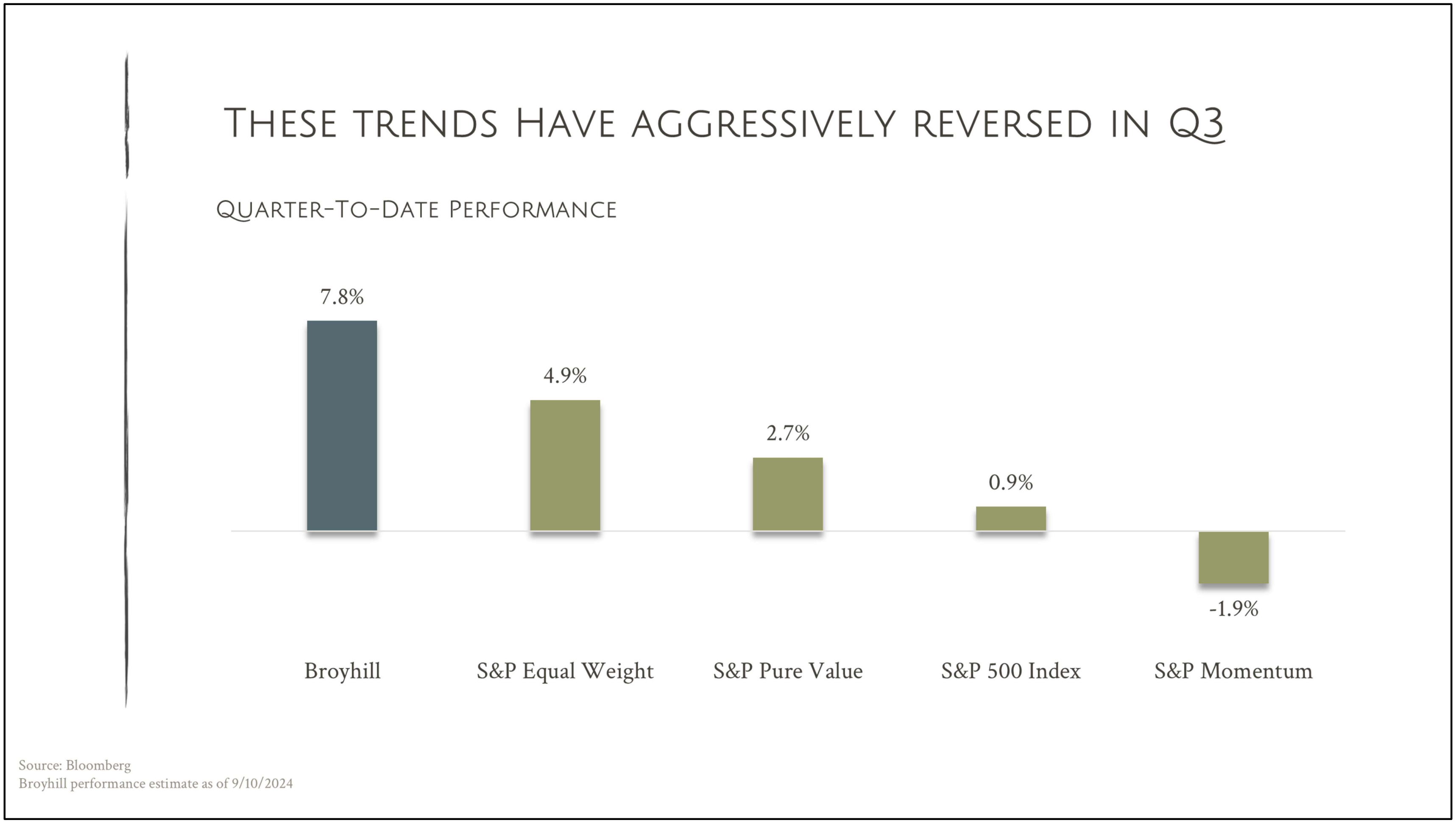
Bottom line: Once concentration gets this extreme, it gives way to years when active value managers – those with the courage to bet against the house - make out like bandits.



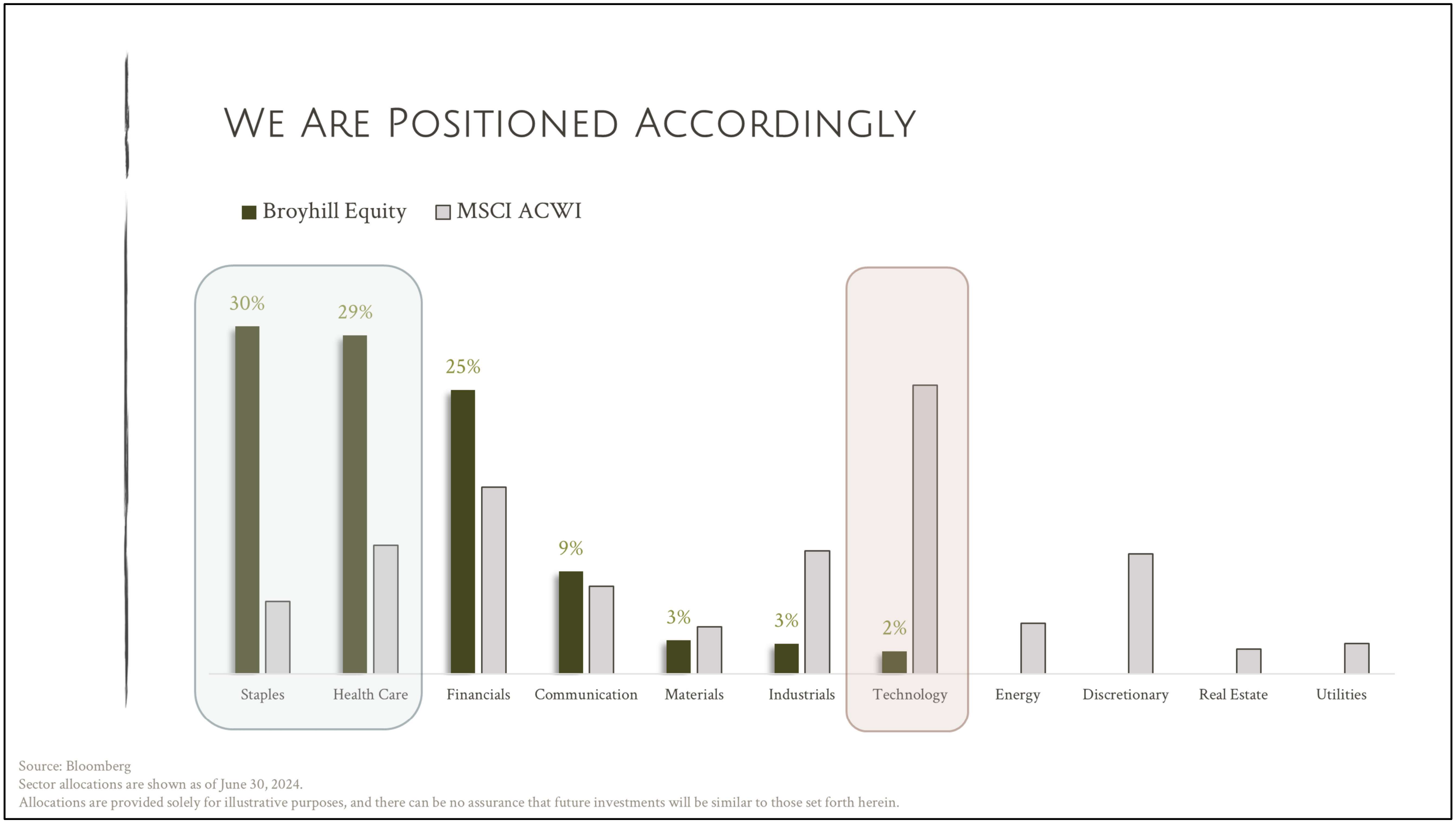
So what does that mean for Broyhill?



We underperformed in the second quarter as market leadership narrowed and momentum reached extremes.



But right on cue, those trends aggressively reversed in July and August, driving an equally impressive snapback in our performance.

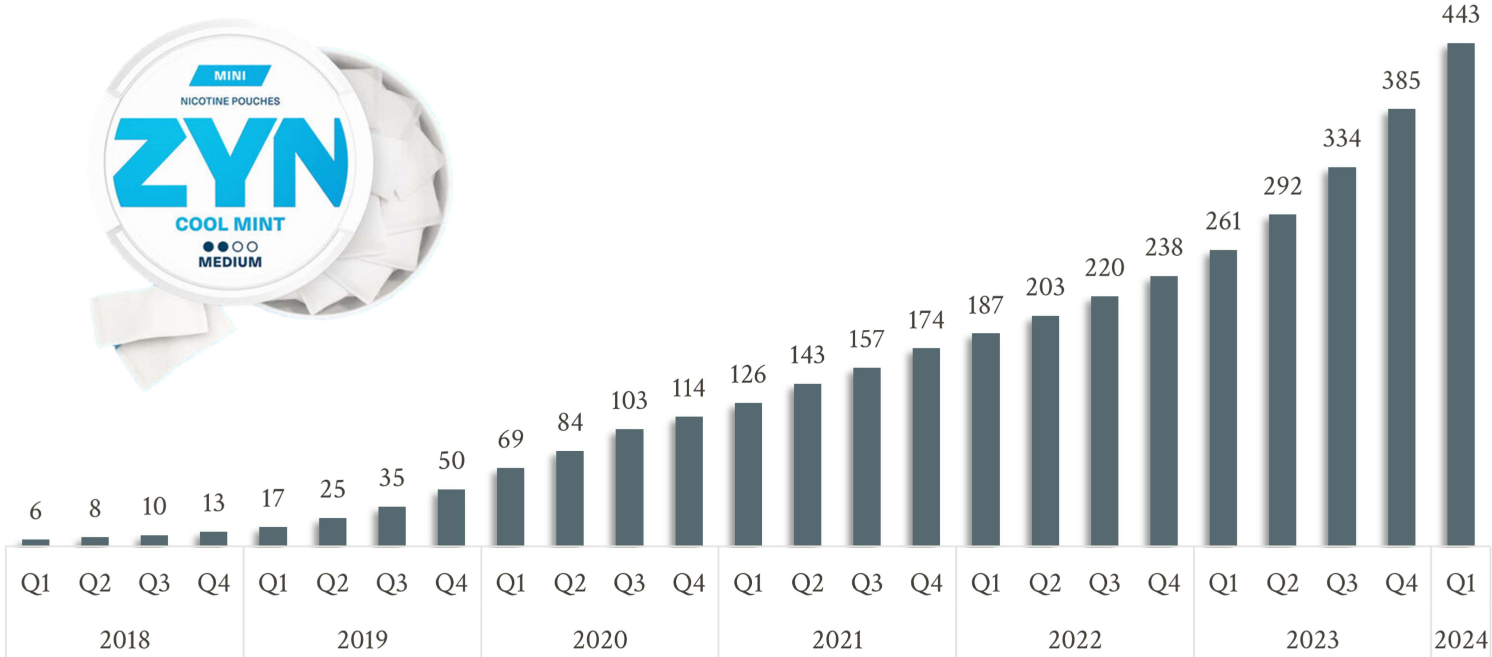


Over half of the portfolio is invested in staples and healthcare, more than three times the global market's exposure to these cheap, defensive, high-quality sectors. And a slight underweight to US mega-cap tech stocks.

Before wrapping up, let's take a minute to highlight three of our investments: Philip Morris, Reckitt Benckiser, and Rentokil.

Leading the Shift to Reduced Risk Products

Zyn Can Shipments

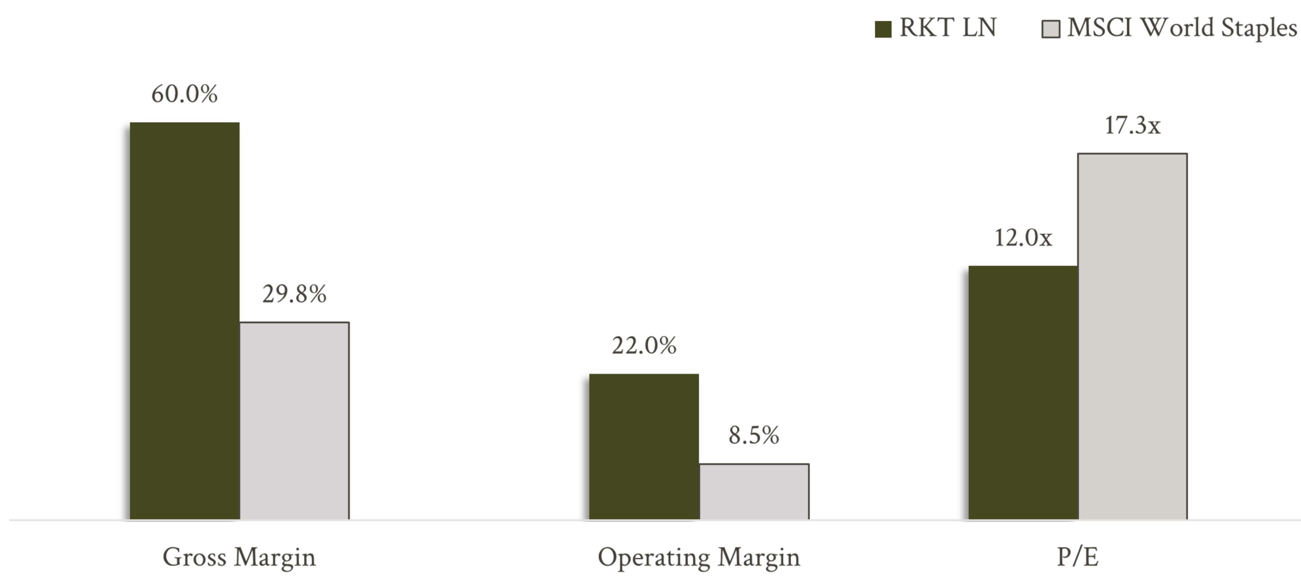


PM is a global nicotine company with operational headquarters in Switzerland. Up until it's acquisition of Swedish Match - which came with this beautiful product - 100% of its sales were outside of the US. Shares trade on the NYSE with a market cap of ~ $185 billion. PM is included in the S&P. But it makes up less than half of a percent of the index.

The company is leading the shift to smoke free products. It generates more revenue selling it's heated tobacco brand IQOS than it does selling Marlboros. Smoke free products make up almost 40% of sales today. And they'll be the majority of the company's revenues in a few years.

The business has near zero economic cyclicality and smoke free products like Zyn are growing like AI chips. Yet, the stock still trades for ~ 16x near year's estimates, a ~ 20% discount to the S&P, and it yields north of 4%. And for what it's worth, they've also outperformed QQQ for the past three years.

Bending it Like Reckitt



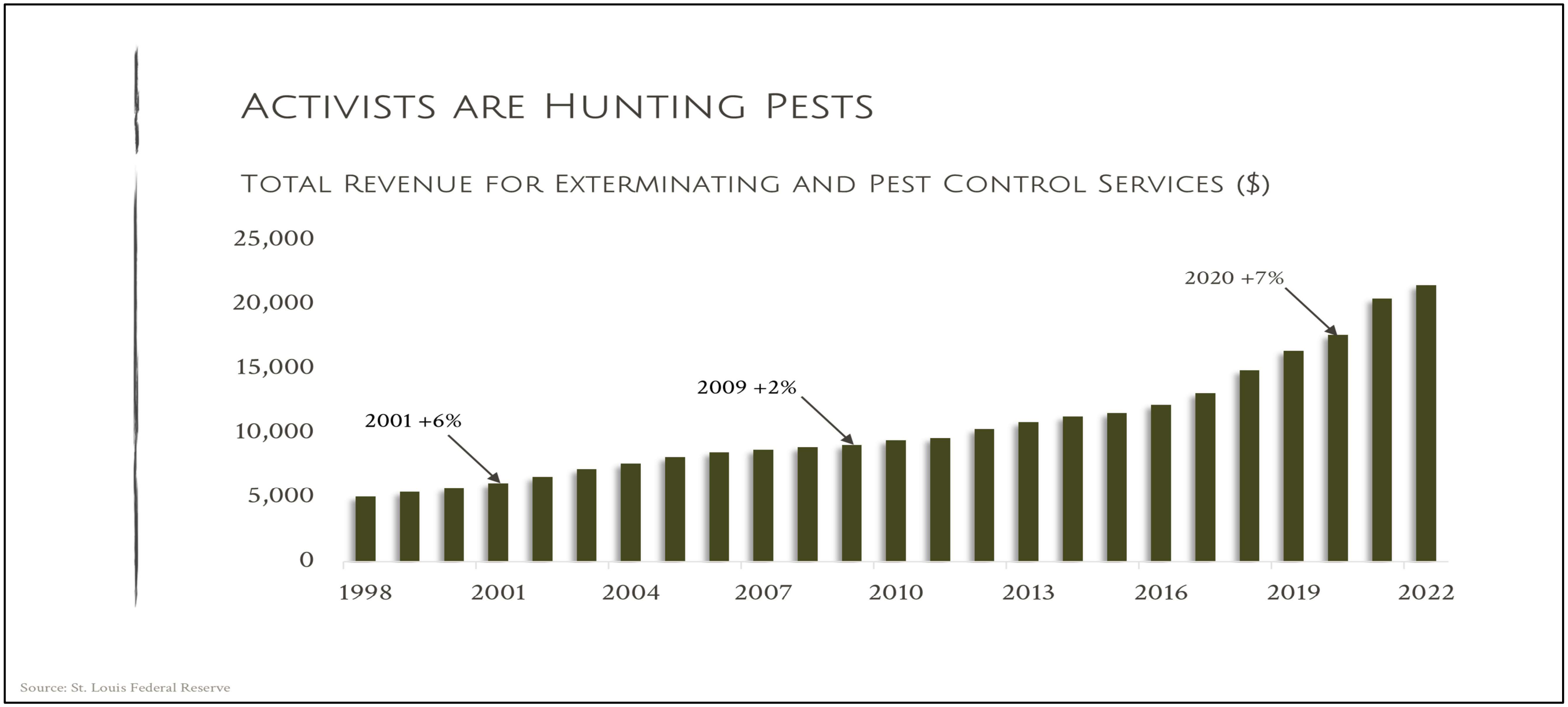
Source: Bloomberg, Broyhill Asset Management

The investment above has been selected to provide an example of the type of investment made by Broyhill Asset Management. It should not be assumed that this investment was or will be profitable or that investments made in the future will be comparable in quality or performance to the investment described above. There is no guarantee that an investment will be successful or that it will not experience losses.

Reckitt Benckiser is a £30 billion consumer goods company based in the UK. It's best known for cold staples like Mucinex and disinfectants like Lysol. They own the number one or two brand in nearly 15 product categories globally but after several years of underperformance, sentiment went from bad to worse, after the company found itself caught in a legal dispute. Investors hate uncertainty and right now, they are struggling to handicap the potential litigation price tag. But uncertainty is not risk. More often, uncertainty is opportunity.

Shares tanked 30% - shaving over £10 billion from the company's market cap in a few weeks. We think the reaction is overdone.

With Reckitt trading at a valuation not seen since the financial crisis, we see substantial upside as litigation fears and the cloud of uncertainty fade away. What we are showing here is RKT's profitability and valuation relative to global consumer peers. But this is also a great example of just how extreme US valuations have become relative to the ROW. We own RKT at ~ 12x earnings. US peers, like PG and CL - which compete with RKT in the same product categories, selling to the same end markets - trade at 25x to 30x earnings, or more than double RKT's valuation.

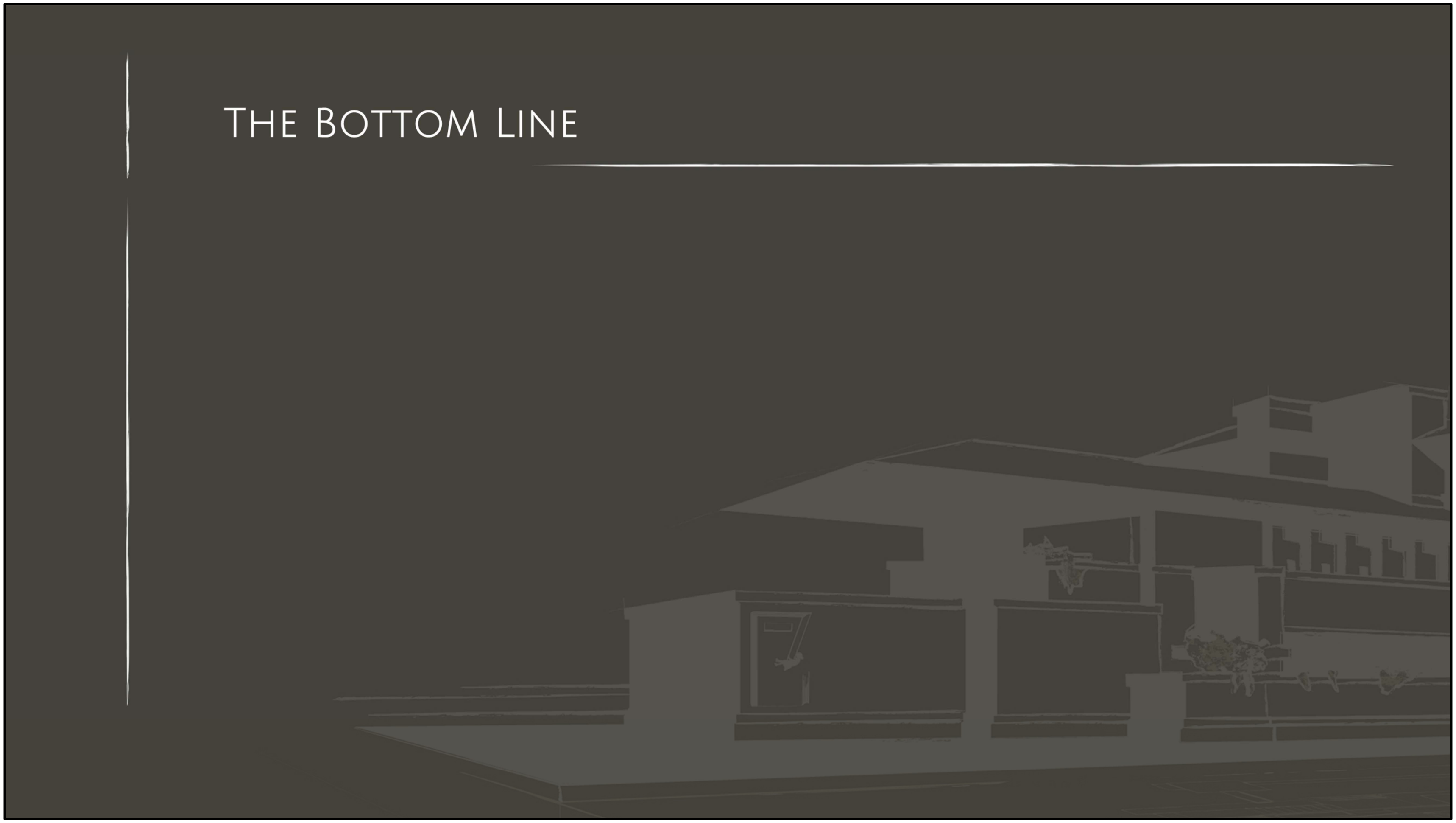


Rentokil is a £12 billion pest control company headquartered in the UK. Its acquisition of Terminix vaulted a few years ago made it the number one player in the US. This is a highly fragmented industry. Outside of Rentokil, and number two Rollins, the next largest players hold just a single point of the market. You might be surprised to learn that it's also a highly recession-resilient industry. As shown here, pest control has grown through the past three recessions.

Our diligence uncovered a lot to like here which explains why private equity has been so active in the industry of late. I moved to NC from NYC ~ twenty years ago. Since then, the rest of NY seems to have figured it out, and the migration south – with both warmer weather and more bugs – has accelerated.

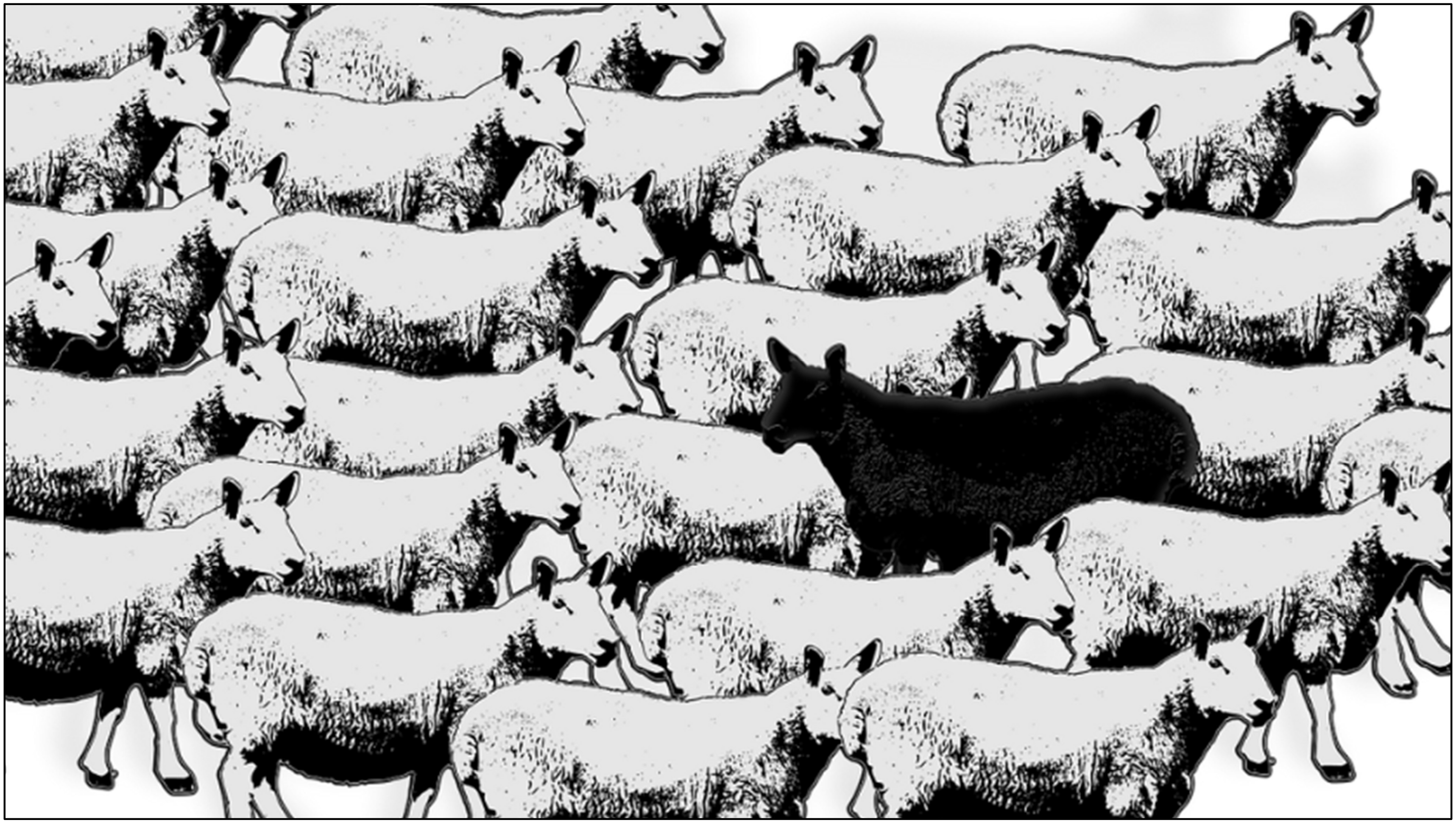
- Climate change is causing shifts in pest populations and behaviors.
- It's also extending the "pest season" by a month or two on both ends.
- The industry enjoys sticky recurring revenues with consistent price increases.
- While increased health standards and stricter regulations are motivating commercial customers.

Activist investor, Nelson Peltz, recently purchased a "significant stake" in the company. The FT also reported that former British Telecom CEO Philip Jansen is interested in taking it private. This is another example of the extreme divergence b/t the US and ROW. We own RTO - the biggest player in the US, but based in London - at about 18x earnings. The number two player in the US, Rollins, trades north of 45x earnings. If Peltz does nothing else but push for a US listing, shares would have material upside. We see even more upside once the company accelerates organic growth at Terminix and brings margins closer to the corporate average.



So before we wrap up and take questions, I want to reinforce one thing.

If you remember nothing else, hang onto this.



Some folks may conclude that it is too risky to own stocks today, given the record concentration in mega-cap equities and the extreme crowding amongst the institutional herd shown here. 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 and the strategies that closely follow them.

The best way to manage the risk now embedded in crowded, momentum-driven benchmarks is to rebalance away from what's working and towards what's not.

Because "what's not" is VERY attractively priced today.

There has rarely been a better time to trim momentum-driven mega-cap winners in favor of ignored, undervalued, and lagging defensive sectors of the market.

There has rarely been a better time to trim momentum-driven winners in favor of ignored, undervalued, defensive sectors of the market.

Appendix

Key Terms

Contact Pam at ir@broyhillasset.com for terms by vehicle.

Broyhill Family Office Inception Date	1981
Strategy Inception Date	2015
Firm AUM	260MM
Vehicles	Separately managed accounts Turnkey Asset Management Platforms (TAMPs) Additional vehicles available to qualified purchasers

AUM as of August 2024 includes assets managed through TAMPs.

Broyhill Equity Performance Since Inception

	Inception	5 Year	3 Year	1 Year	YTD
Broyhill Equity	13.1	14.4	14.4	18.9	9.5
MSCI ACWI	11.2	12.7	6.3	24.0	16.3
MSCI ACWI Value	8.9	10.2	7.4	21.9	14.4

Inception: September 1st, 2015.
Past performance is not indicative of future results. Reported returns (net of 1.5% management fees) are displayed through August 31, 2024. Additional information regarding the composite is available in the Disclosures section.

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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.

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