April 19, 2013

Client Letter

First Quarter 2013

We are delighted to be writing this first client letter to you in our roles as Portfolio Managers and Managing Members of Broad Run Investment Management, LLC "Broad Run". Through these quarterly letters, we will share with you information that we would want to know if our roles as investment manager and client were reversed. We will be candid in our reporting to you, highlighting both good and bad news. In this inaugural letter, we begin by providing a short history of our firm. We will then discuss our investment philosophy, research process, and Focus Equity Composite performance.

While our firm was founded in 2012, our investment team has worked together since 2004. Our first stop together was at Akre Capital Management "ACM" where we were the analyst team from 2004 through our departure in August 2009 (David had joined ACM in 1998, Brian in 2003, and Ira in 2004). In August 2009, we were hired by FBR Fund Advisers to serve as the portfolio managers of the FBR Focus Fund, a mutual fund that had previously been sub-advised by ACM. In October 2012, FBR sold its mutual fund business, and we founded Broad Run to sub-advise the mutual fund for its new owner and to offer our investment strategy in a separate account format.

Understanding our firm's name, "Broad Run", requires a brief geography lesson. Broad Run is a bucolic stream, or "run", in the Virginia Piedmont about 40 miles west of our firm's office. It is an important tributary to the Potomac River that flows from the Virginia Piedmont to Arlington, VA and Washington, DC, and eventually to the Chesapeake Bay. We think that Broad Run represents our journey and growth as investors – both metaphorically and literally – from our shared professional beginning at ACM in the foothills of the Blue Ridge Mountains, to our professional growth as portfolio managers at FBR in Arlington, Virginia, to our present position today as portfolio mangers and founders of our own firm.

We are proud of the results produced for clients during our time at ACM and at FBR, and we hope to continue this record of success at Broad Run. Throughout our journey, we have practiced a consistent investment approach. At Broad Run, we will continue to apply that same investment approach: a common sense investing discipline emphasizing risk control and capital appreciation – defense first, then offense – that has worked so well in the past.

Defense First

Charlie Ellis, in his 1985 classic investment book, *Winning the Loser's Game*, famously observed that investing was like amateur tennis, where the victor prevails because he makes fewer unforced errors than his rival does. Players are too eager to serve aces and instead double fault, or aim for the corner and miss, when all they have to do to win is consistently hit the ball back over the net.

In investing, the power of compound interest is the investor's best friend. With enough time the power of compounding can carry the investor to an easy "win". So our first consideration in investing is always to try to avoid mistakes that could interrupt the power of compounding…to avoid unforced errors. This means that we are ever watchful for businesses with rising competitive threats, excess financial leverage, unsustainable levels of demand, fad or obsolescence risk, excessive valuation, etc. We avoid businesses where rapid change or complexity make it too difficult for us to have a confident opinion about what the company, and its profitability, will look like in ten years.

Then Offense

If we can narrow our investment universe to only those companies that have a reasonable level of predictability and trade at modest valuations, we think that we will finish well ahead of most of our investing peers. From there, we try to select the best long-term performers. We focus our efforts on finding companies with excellent business franchises, large growth prospects, and skilled management.

- We look for businesses that have a sustainable competitive advantage that enables them to earn outsized economic profits. Some examples include high customer switching costs, high barriers to entry, a low cost position, proprietary know-how, patents and licenses.
- We look for businesses that can grow to be three or five times their current size over the next decade. We like to say "we hunt for elephants, not rabbits." The longer the growth runway, the longer we can compound capital at high rates in a relatively tax efficient manner.
- We look for management that runs the business for the long-term, makes prudent decisions investing the company's profits, and acts with integrity.

When we find the rare business possessing each of these characteristics, we are disciplined about the price we pay to help protect our downside risk, as well as to help ensure that our investment experience in the stock meets or exceeds the growth in value of the underlying business.

Research Process

We typically hold an investment for many years, so we conduct our research with an eye toward understanding the opportunity for a business over the next decade. Most of our research is focused on evaluating those things that can make a difference in the long term, i.e. the competitive structure of the industry, management quality, and the sustainability of pricing and margins.

To build this knowledge, we begin by conducting industry standard research by reading annual reports, SEC filings, financial statements, attending presentations, and meeting with senior management. But to really understand a business we find it is important to dig much deeper. So we often visit company facilities, meet with field level employees, talk to customers, interview former employees, attend industry trade shows, and speak with public and private competitors.

While this is hard and time consuming work, we believe it gives us an edge over the more shallow practices common in the investment industry. It gives us an understanding of a company and its industry that often leads to important investment insights.

There is no computer screen or formula that can identify companies that fit our mold, so we employ an eclectic search process. Some ideas are the result of continuous reading of annual reports and periodicals, some spring from our travel to meet with companies in the field, and others are a product of one investment being tangential to the next.

In most cases, when we find a high quality growth company it is not available at an attractive price. So we monitor the business and wait – sometimes for years – for the market to present an attractive entry point.

Results

For the quarter, the Focus Equity Composite returned 10.7% net of fees compared to 10.6% for the S&P 500. The returns for your individual account will differ somewhat from the Composite due to variations in account holdings. Your account's actual performance is presented in an attachment. We remind you that we manage your portfolio for long-term results, and we encourage you to evaluate its performance over a multi-year time frame. Longer-term Composite returns are presented on the next page.

While performance results are important, we think that it is equally important for you to understand the process behind the results. In this letter we have tried to provide some background on our investment philosophy and research process. In future letters, we will discuss individual companies in your account to provide you a better understanding of what you own, and why we think those investments will create value for you over time.

We thank you for entrusting your capital to us. We take this responsibility seriously, and we will do our best to protect and grow your investment.

Finally, please let us know if there has been any change to your financial circumstances that might impact the manner in which we manage your account.

Sincerely,

Broad Run Investment Management, LLC

Annual Disclosure Updates: Each year at about this time Broad Run will notify you that its annual regulatory updates are available on our website at the following address: www.broadrunllc.com/documents/. These annual updates will include our Form ADV 1A, 2A & 2B as well as our Privacy Policy Notice, Business Continuity Plan Notice and Proxy Voting Policy Notice. Each of these documents is in PDF format and may be found under the Legal & Regulatory heading on the Documents page. Please review these and contact us with any questions.

Performance For period ending 3/31/13	YTD 2013	AVERAGE ANNUAL TOTAL RETURNS			CUMULATIVE SINCE INCEPTION (8/22/098)
		1 YEAR	3 YEAR	SINCE INCEPTION (8/22/09)	
Focus Equity Composite, Gross	11.1%	20.6%	17.9%	19.0%	87.1%
Focus Equity Composite, Net	10.7%	19.0%	16.2%	17.3%	77.7%
S&P 500 Index	10.6%	14.0%	12.7%	14.9%	65.0%

Composite Definition. The performance presented is for the Focus Equity Strategy Composite. The Focus Equity Strategy invests primarily in U.S equity securities and seeks long-term capital appreciation while incurring a low risk of permanent capital loss. The Strategy uses a concentrated and low turnover investment approach, and generally seeks to invest in high quality growth oriented companies trading at discounts to intrinsic value. The inception date of the Focus Equity Strategy Composite is August 22, 2009.

Composite Construction. The Composite is comprised of all fully discretionary fee paying accounts that are managed according to Broad Run's Focus Equity Strategy. New accounts that are managed according to the Focus Equity Strategy are added at the beginning of the first full calendar month for which the account is under management. Closed account data is included in the Composite in order to eliminate survivorship bias. For the time period 8/22/09 to 10/26/12, the Composite is composed solely of an equity mutual fund. Broad Run's Managing Members served as Portfolio Managers for this equity mutual fund while employed at the fund's Advisor. For the time period 10/27/12 to 2/28/13, the Composite is composed solely of the successor equity mutual fund to the aforementioned equity mutual fund. Broad Run is engaged as Sub-advisor of this successor equity mutual fund by its new Advisor, and Broad Run's Managing Members serve as Portfolio Managers for this successor equity mutual fund. For the time period after 2/28/13 the Composite is composed of this successor equity mutual fund and separate account(s).

Composite Performance Calculation Methodology. The Composite performance figures reflect the deduction of brokerage or other commissions and the reinvestment of dividends and capital gains. Percentage returns for the equity mutual fund and its successor are calculated monthly based upon beginning of month and end of month Investor-class NAVs per share, adjusted for distributions. Percentage returns for the separate account(s) are calculated in Advent AXYS using the Modified Dietz Method with trade date accounting, daily time weighted rates of return, and cash accounting for dividends and advisory fees. The monthly percentage returns of the separate account(s) within Advent AXYS are then asset-weighted based upon beginning of period account values to compute the monthly aggregated separate account return. The monthly equity mutual fund return and monthly aggregated separate account return are then asset-weighted based upon beginning of period values to compute the monthly Composite return. Monthly Composite returns are geometrically linked to calculate a time-weighted rate of return for periods greater than one month. All returns are calculated in US dollars.

Composite Fees. We have presented Composite returns gross of fees and net of fees. Gross of fees returns are calculated gross of management and custodial fees and net of transaction costs. Net of fees returns are calculated net of advisory fees for separate account(s) and net of the Investor-class expense ratio for the equity mutual fund. For the included equity mutual fund, gross monthly returns are derived from the Investor-class net monthly returns by adding back the applicable SEC reported equity mutual fund expense ratio (which includes advisory fees and other fees) on a monthly equivalent basis. For separate account(s), gross and net monthly returns are calculated in Advent AXYS. The performance figures do not reflect the deduction of any taxes an investor might pay on distributions or redemptions. Our standard separate account fees are presented in Form ADV Part 2A.

Other Disclosures

Index Disclosure. The S&P 500 Index is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index. Index figures reflect the reinvestment of dividends and capital gains. Index figures do not reflect deductions for any fees, expenses, or taxes. Investors cannot invest directly in an index. The index is included to illustrate the general trend of the equity market and is not intended as a benchmark for the Composite.

Investing Involves Risk. Investing involves risk, including the possible loss of principal. Past performance is no guarantee of future results and we may not achieve the Focus Equity Strategy's objective. There may be market, economic, or other conditions which affect our performance, or the performance of the included market index. The Strategy invests in small and medium size companies. Investments in these companies, especially smaller companies, carry greater risk than is customarily associated with larger companies for various reasons such as increased volatility of earnings and business prospects, narrower markets, limited financial resources and less liquid stock. A client account invested in the Focus Equity Strategy will hold fewer securities and have less diversification across industries and sectors than a diversified portfolio. Consequently a client account and/or the Composite performance may diverge from the included market index, positively or negatively.

Jurisdiction. This publication is only intended for clients and interested investors residing in jurisdictions in which Broad Run Investment Management, LLC is notice-filed or exempted by statute to provide investment advisory services. Please contact Broad Run Investment Management, LLC at 703-260-1260 to find out if the firm is notice-filed or exempted to provide investment advisory services in jurisdictions where you reside or are domiciled. Broad Run Investment Management, LLC does not attempt to furnish personalized investment advice or services through this publication. Consult an investment professional before acting on any information contained herein. To the maximum extent permitted by law, Broad Run Investment Management, LLC disclaims any and all liability in the event any information, analysis, opinions and/or recommendations in this brochure prove to be inaccurate, incomplete or unreliable, or result in any investment or other losses.

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