January 31, 2016

Separate Account Client Letter

Fourth Quarter 2015

For the year ended December 31, 2015, the Focus Equity Composite returned 3.4% net of fees[1] compared to 0.5% for the Russell 3000 Index. For the fourth quarter, the Composite returned 3.6% net of fees compared to 6.3% for the Russell 3000 Index. The returns for your individual account will differ somewhat from the Composite due to variations in account holdings and other client-specific circumstances. Your account's actual performance is presented in an attachment. We remind you that your portfolio's composition is significantly different from the broad market indices, so your performance will inevitably deviate from these indices, especially over shorter time periods. We manage your portfolio for long-term results, and we encourage you to evaluate its performance over a multi-year time frame. Long-term Composite returns are presented at the end of this letter.

Our Defensive Playbook

We are long-term investors in publicly traded businesses. We expect to own many of these businesses five, and even ten years from now. We believe that given a reasonable starting valuation our investment returns in these businesses will track their long-term growth in earnings per share. But, as recent market volatility reminds us, stocks, and for that matter businesses, face bumps in the road even if on a pathway to long-term value creation.

Our approach to navigating volatile markets is unchanged, which means we don't tweak and reposition the portfolio in an attempt to side-step short-term stock price volatility. Trying to time the market is largely ineffective and a distraction from what we consider the most important risk to the long-term investor: the potential for a "permanent capital loss."

A permanent capital loss is a sustained setback in investment value for long-term fundamental reasons. For us, a reasonable measure of permanent capital loss would be if an investment were worth less five years from now than it is worth today. We believe (1) negative business developments – new competition, adverse technological change, liquidity shortages, bad capital allocation, etc. – and (2) excessive valuation are the key sources of permanent capital loss, so our research process and portfolio construction methodologies are designed to help us to identify and mitigate these threats.

At the company level, our five investment criteria, in-depth business-focused research, and collaborative team-based approach provide a first line of defense. Typically, when we talk about the five criteria (high-quality business, large growth opportunity, excellent management, low "tail risk," and discount valuation) it is in the context of trying to identify long-term compounders, but the criteria also serve a loss avoidance purpose. Consider, for example:

- High-quality business - We seek to invest in businesses that have sustainable competitive advantages. Possessing such advantages should translate into higher-than-average-returns on equity, allowing for higher sustainable growth rates. In addition, we believe that those higher

[1] Net of highest applicable fee of 1.0% per annum, as described in our Form ADV, Part 2A

returns should be less subject to disruption by competition; market share, pricing, margins, and cash flow all tend to be more defensible for a business with high customer switching costs or barriers to entry.

- Large growth opportunity - We seek to invest in businesses that have large growth potential due to competitive market share gains or industry-wide secular growth trends. These businesses tend to have more control over their own destiny so that value creation can continue – albeit at a reduced pace – during challenging economic times.

- Excellent management - We seek to invest in businesses run by management teams that have a track record of value creation and personal economic incentives aligned with shareholders. Not only do we believe these executives are more likely to achieve continued success, but we also believe they are less likely to make short-sighted decisions that destroy value and jeopardize the sustainability of the business franchise.

- Low tail risk - We try to be ever watchful for businesses with rising competitive threats, excess financial leverage, unsustainable levels of demand, fad or obsolescence risk, etc. Additionally, we try to 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. If we can be confident our portfolio companies are relatively well insulated from catastrophic events, we are more likely to view short-term volatility as an opportunity.

- Discount valuation - We seek to invest in businesses trading at a discount to intrinsic value, and at modest multiples of earnings and cash flow. We believe this approach provides additional upside potential if we are right about the long-term business performance, and helps reduce the downside if we are wrong in our assessment.

In evaluating an investment prospect against our criteria, we conduct in-depth fundamental research seeking a thorough knowledge of the business, its competition, and its industry. Our investment team conducts all research activities and makes all portfolio decisions. This team-based approach provides a combination of different experiences and perspectives we believe can lead to unique insights and more robust vetting of ideas. In our experience, an individual analyst – no matter how diligent – can miss an important business risk that will often be identified by the broader team.

Our second line of defense is at the portfolio level. Despite our best efforts, we have had and will continue to have individual investments go wrong. So we spread positions across a variety of industries and try to limit aggregate exposure to any single business factor so that a setback is contained and can be absorbed by progress in the rest of the portfolio. A new position to the Focus Equity Strategy will typically be sized between 1% and 4% of assets. Allocations to that position will change over time as our experience with the business grows and the strength of our conviction in the investment opportunity evolves. Large positions are reserved for businesses in which we have a very high level of confidence. Regardless of our enthusiasm for an investment, we typically limit the weight of our top position to about 10% of assets.

Notable Portfolio Changes

Purchases

During the quarter, we added to several separate account positions on stock price weakness. We increased Ashtead Group from about 2.5% to about 3.0% of assets, Hexcel Corporation from about 1.8% to about 4.0% of assets, and CarMax from about 5.5% to about 6.4% of assets. We discuss CarMax in detail

below. For your reference, we discussed why we believe Ashtead and Hexcel have the opportunity to be long-term compounders in the second quarter 2015 letter.

CarMax (KMX) – CarMax is the largest used-car retailer in the U.S. It has grown into its leadership position by offering a consumer friendly car buying experience, in contrast to the adversarial experience at traditional auto dealers. CarMax stores offer a wide selection of late-model used cars (5 to 10x the typical dealer inventory) meeting high quality standards, with no-haggle pricing, and a generous return policy. The company provides a transparent vehicle financing process, attractive extended warranty options, and will buy your car from you even if they do not sell you a car.

Today, with 155 stores across the country, CarMax has about 3% share of the late-model used car market. We believe CarMax will eventually have at least 275 stores as it opens in new geographies and infills existing markets. We think an expanded store base would allow the company to more than double its market share, which seems attainable considering its has demonstrated the ability to take more than 10% share in its oldest, most penetrated markets. In addition, as consumers conduct more and more of their vehicle research online, we think CarMax is positioned to leverage its store footprint, strong brand, and technology capabilities to become the leading "omni-channel" auto retailer, which would enable further growth without the need for significant additional capital investment.

Over time, some traditional dealers have gradually adopted an element or two of the CarMax consumer value proposition, but these incremental changes have been insufficient to overcome the overall negative experience they deliver. We have also witnessed repeated attempts by startups (many sponsored by industry incumbents) to wholesale replicate the CarMax business model. None of these attempts, so far, has delivered meaningful success. We believe this is because it is deceptively difficult to manage a nationwide inventory of used vehicles that depreciate in value every day they are on the lot. CarMax has had decades to refine its information technology systems and pricing models to manage this challenge. In addition, the CarMax value proposition only gets stronger with scale. More than 30% of CarMax sales involve a vehicle transfers from one store to another. So the more stores and overall inventory in the CarMax network, the more likely CarMax is to match the shopper with his desired vehicle. The company has a multi-decade head start building this scale/network advantage. We remain watchful of some Silicon Valley startup concepts that offer peer-to-peer, and real estate light used-car sales models, but remain skeptical in their ability to deliver in the real world.

CarMax stock declined in the third and fourth quarters of 2015 on concerns about industry-wide sales and margin trends. During this period, new-car dealers found themselves with too much inventory. In response, they increased new-car promotions, which made them more attractive to consumers relative to late-model used cars. This pressured sales and margins in the used-car market.

We have seen situations like this several times in our 13 years following the industry. It will take a few quarters, but we believe wholesale used-car pricing will decline to the point that the value proposition of buying used versus new is reestablished. Once this equilibrium is reached, we think CarMax will regain its same-store sales momentum.

We view this as a short-term, transitional blip that is part of the ordinary fluctuations in this industry. We were pleased to add to our CarMax position at a low-teens multiple of estimated 2016 earnings per share (EPS). We view this as an attractive price for a company we think can compound EPS at a mid-teens rate for much of the next decade through a combination of double digit new store openings, mid-single digit same-store sales, and share repurchases.

<u>Sales</u>

During the quarter, we reduced allocations to several separate account positions, and sold out of one position entirely. As highlighted earlier in this letter, we typically limit the largest position size to about 10% of assets. In keeping with this guideline, we trimmed O'Reilly Automotive from about 10.9% of assets to about 9.8%. We reduced Diamond Hill from about 4.1% of assets to about 2.0% of assets as its rising valuation reduced our long-term expected returns relative to other portfolio companies. Additionally, we reduced Twenty-First Century Fox from about 5.0% of assets to about 4.0% of assets. We continue to like Fox's business and its prospects, but acknowledge that the pace of industry change has accelerated adding incremental uncertainty to our long-term view. Lastly, we exited Dick's Sporting Goods, roughly a 3.0% position, after concluding that the original assumptions underpinning our investment thesis were flawed. We discuss Dick's in detail below.

Dick's Sporting Goods (DKS) – We first established a position in Dick's in the Focus Equity Strategy in the second quarter of 2012. We were attracted to the company because of its leading position as a sporting goods retailer with attractive store economics, buying power, plenty of room for geographic expansion, and a proven owner-operator at the helm.

As we described in our second quarter 2013 letter, we expended considerable effort investigating two risks we thought had the greatest potential to disrupt the business: 1) key vendors selling direct to consumers (DTC) through the Internet and their own retail stores, and 2) competition from Amazon and other Internet retailers. We originally concluded that Dick's was well insulated from the threat of rising ecommerce sales because of minimum advertised price (MAP) – vendor policies that reduced price-based competition – the need for consumers to physically inspect certain products for fit and function, and its exclusive access to select products. We also concluded that domestic DTC initiatives of key vendors were for "showcasing" their brands rather than cannibalizing traditional wholesale distribution.

In the summer of 2014, we became concerned that third-party sellers on Amazon were increasingly breaking with MAP. When we spoke with Dick's management about this issue, they appeared unaware and dismissive of the threat. Unsatisfied with the initial response, we wrote a letter to CEO Ed Stack outlining our concerns and suggesting actions to remedy the problem. Dick's management assured us that our concerns would be raised with their vendors, but the MAP violations persisted.

At the Dick's 2015 Analyst Meeting held in April, CEO Ed Stack announced a slowing in the pace of new store openings and shared a view that 20% or slightly greater than 20% of sporting goods would eventually be sold through the Internet. He explained, "it's time to be a bit prudent about where we're putting stores and how much we're going to cannibalize, because this really is an evolving marketplace from an e-commerce standpoint." The company's forecast for total sporting goods industry online sales penetration exceeded our expectation and suggested the business might not be as well insulated from the threat of ecommerce as we thought.

Perhaps most notable, at its 2015 Investors Meeting in mid-October, Nike revealed that it plans to meaningfully accelerate the growth of its DTC business, with online sales projected to reach $7 billion in five years, up from about $1 billion today, and total DTC sales projected to reach $16 billion, up from about $7 billion today. This implies a meaningful change to Nike's domestic distribution strategy, deemphasizing growth through traditional wholesale partners such as Dick's in favor of its DTC channels. Nike is Dick's largest vendor at about 20% of merchandise purchases – up from 12% of merchandise purchases a decade ago – and an even greater percentage of profits. This announcement crystalized for us that Dick's, and all sporting goods retailers, are of diminished importance in the industry value chain. There is a strong economic incentive for Nike, Under Armour and others vendors with substantial brand equity to disintermediate their wholesale customers on the ecommerce portion of their business.

Recognizing these negative developments to two lynchpin assumptions in our investment thesis, we sold Dick's from separate accounts in late October and early November before the company's third quarter 2015 earnings release.

Conclusion

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

Please let us know if there is any change to your financial circumstances that might impact the manner in which we manage your account. In addition, please let us know if there are any updates we should make to our records to keep your account information current.

Sincerely,

Broad Run Investment Management, LLC

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Broad Run Investment Management, LLC
Focus Equity Composite
September 1, 2009 through December 31, 2015

Year	Focus Equity Composite			Russell 3000*		Number of Portfolios	Internal Dispersion (%)[1]	Composite Assets ($ millions)	Firm Assets ($ millions)
	Gross Return (%)	Net Return (%)	3-Yr St Dev (%)	Return (%)	3-Yr St Dev (%)				
2015	4.40	3.37	11.30	0.48	10.58	52	0.13	2,266.5	2,268.6
2014	11.76	10.66	9.44	12.56	9.30	41	0.10	1,618.5	1,619.5
2013	37.18	35.85	12.52	33.55	12.54	30	n.m.	1,454.0	1,459.8
2012	18.27	17.11	16.80	16.42	15.74	1	n.m.	781.2	781.2
2011	5.13	4.08	-[3]	1.03	-[3]	1	n.m.	672.2	N/A
2010	26.40	25.16	-[3]	16.93	-[3]	1	n.m.	772.8	N/A
Sep - Dec 2009[2]	8.64	8.29	-[3]	10.34	-[3]	1	n.m.	812.5	N/A

Period Ending 12/31/15	Focus Equity Composite					Russell 3000*		
	Gross Cumulative Return (%)	Gross Annualized Return (%)	Net Cumulative Return (%)	Net Annualized Return (%)	St Dev (%)[4]	Cumulative Return (%)	Annualized Return (%)	St Dev (%)[4]
1 Year	4.40	4.40	3.37	3.37	n.m.	0.48	0.48	n.m.
3 Years	60.06	16.98	55.56	15.83	11.30	51.04	14.74	10.58
5 Years	99.01	14.76	89.40	13.63	12.59	77.64	12.18	11.98
Since Inception	173.27	17.19	156.69	16.04	14.23	129.18	13.98	14.23

Past performance is not indicative of future results.

* Supplemental information; this is not intended to be a benchmark for the composite, and is only shown for reference purposes.

Broad Run Investment Management, LLC (Broad Run) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Broad Run has been independently verified for the periods October 27, 2012 through December 31, 2015. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Notes:

A. Broad Run is an investment advisor registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended. Broad Run is defined as an independent investment advisor that is not affiliated with any parent organization. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. A list of composite descriptions is available upon request.

B. The Focus Equity Composite contains all fee-paying, discretionary accounts that are managed according to Broad Run's Focus Equity Strategy. The Focus Equity Strategy invests primarily in U.S equity securities—regardless of capitalization—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 what the firm believes are high-quality growth-oriented companies trading at discounts to Broad Run's assessment of their intrinsic value. Broad Run has determined that no appropriate benchmark for the composite exists because the Focus Equity Strategy has minimal exposure to a number of sectors and invests across the market capitalization spectrum.

C. Valuations are computed and performance is reported in U.S. dollars.

D. The Focus Equity Composite was created in October 2012; its inception date is September 1, 2009. For the time period September 1, 2009 to October 26, 2012, 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 October 27, 2012 to February 28, 2013, the composite is composed solely of the successor equity mutual fund to the aforementioned equity mutual fund. Broad Run is engaged as the sole sub-advisor of the successor equity mutual fund (managing 100% of its assets) by its new advisor, and the firm's managing members serve as portfolio managers for the successor equity mutual fund. Broad Run has met the GIPS portability requirements to link the returns of the equity mutual fund and the successor equity mutual fund. For the time period after February 28, 2013, the composite is composed of the successor equity mutual fund and separate accounts. Currently, the assets in the mutual fund comprise a significant majority of the composite's assets.

E. Gross of fees returns are calculated gross of management and custodial fees and net of transaction costs. Net of fees returns are calculated by deducting the monthly-equivalent amount of Broad Run's highest applicable annual management fee of 1.00% ("Model Net Fee"), as described in the firm's Form ADV, Part 2A (without the benefit of breakpoints) from the monthly composite gross return. All returns presented in the above tables (including the reference index) include the reinvestment of dividends, interest income, and capital gains.

F. The annual composite dispersion presented is a dollar-weighted standard deviation of the gross returns for all accounts in the composite for the entire year, using beginning of period values.

G. The three-year annualized standard deviation measures the variability of the gross returns of the composite and the reference index over the preceding 36-month period.

H. Broad Run's standard annual asset-based management fee schedule is 1% of the account's total assets on the first $5 million and 0.85% thereafter. Gross performance results do not reflect the deduction of Broad Run's investment advisory fee, which will affect a client's total return.

[1] n.m. - Not statistically meaningful for periods less than one year, or when five or less accounts in composite for the entire year.
[2] Annual Performance Results reflect partial period performance. The returns are calculated from September 1, 2009 to December 31, 2009 for the Focus Equity Strategy Composite.
[3] The 3-year annualized standard deviation is not shown due to having less than 36 months of composite returns.
[4] n.m. - This statistical analysis is based on monthly gross performance numbers and is not statistically meaningful for periods less than 3 years.

Other Disclosures

Additional Composite Details. The Focus Equity Composite includes a mutual fund for which we charge a sub-advisory fee that is lower than the model net fee. However, the mutual fund's total operating expenses, which are not applicable to you, are in excess of the model net fee. Therefore, the actual performance of the mutual fund in the composite on a net-fee basis will be different, and will normally be lower, than the model net fee performance. However, the model net fee performance is intended to provide the most appropriate example of the impact management fees would have by applying management fees relevant to you to the gross performance of the composite. Actual fees and expenses in client accounts may differ from those reflected in this composite presentation and would cause actual performance to differ. The performance figures do not reflect the deduction of any taxes an investor might pay on distributions or redemptions.

Reference Index Disclosure. The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The index is market-value weighted. 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's performance returns are included to illustrate the general trend of the U.S. equity market and are 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 client accounts may not achieve the Focus Equity Strategy's investment objective. There may be market, economic, or other conditions that affect client account performance, or the performance of the referenced 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, such as a portfolio based on an index. Consequently a client account and/or the composite performance may diverge significantly from the referenced market index, positively or negatively.

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