July 20, 2017

Separate Account Client Letter
Second Quarter 2017

For the quarter, the Focus Equity Composite returned 3.2% net of fees[1] compared to 3.0% for the Russell 3000 Index. Year to date, the Composite returned 8.1% net of fees compared to 8.9% for the Russell 3000 Index. The results for your account will differ somewhat from the Composite due to variations in account holdings and other client-specific circumstances. We remind you that we manage your account for long-term results, so we encourage you to evaluate its performance over a multi-year time frame. Long-term Composite performance is presented at the end of this letter.

We added one new position during the quarter, NVR, Inc., and saw a material price decline in another holding, O'Reilly Automotive. We share our thinking on both companies in this letter. Also, we usually limit the largest position size to about 10% of assets. In keeping with this guideline, we trimmed American Tower from about 10.8% of assets to about 9.9%.

New Position: NVR, Inc. (NVR)

During the quarter we established a position in NVR at a 2% initial weighting. NVR is a top ten homebuilder doing business under the NV Homes, Ryan Homes, and Heartland Homes brands. The company operates in fourteen East Coast states with a concentration in the Baltimore-Washington region (43% of 2016 revenue).

In general, homebuilding is not a business that we find appealing; it is cyclical and capital intensive, with limited competitive differentiation. However, NVR is an exception; it employs a unique business model that enables a much higher ROIC / ROE and more stable earnings / cash flow. This model should allow the company to gain share in a fragmented market for a long time to come.

We think NVR's unique business model and superior economics are built on three pillars.

- First, and most obvious, NVR outsources the ownership, entitlement, and development of land to third parties, making the company asset-light and flexible. To accomplish this, the company signs contracts with land developers giving NVR the exclusive option to acquire finished lots within certain communities. Land and lot development is a capital intensive, multi-year process, so this approach relieves NVR of these capital requirements while also enabling the renegotiation or abandonment of land commitments during difficult times. In exchange for this flexibility, NVR pays developers a premium price for finished lots. Further, for developers, the upfront cash deposit NVR pays covers a meaningful portion of project startup costs, and the contract (with NVR's size and reputation) helps facilitate attractive development financing from lenders.

- Second, with the operational and capital burden of land development outsourced, NVR has had the bandwidth to focus on becoming very efficient at constructing homes. It applies lean manufacturing to home construction, stripping out waste and expense from the process. For example, it offers fewer home designs than traditional builders (to reduce complexity) and

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

assembles many components in offsite facilities (to improve throughput and quality). This efficiency is illustrated by its best in class “cycle time”; it takes NVR about three months to deliver a completed home to a customer versus an industry average of about four months.

- Third, NVR has built leading market share in its oldest markets, and seeks to be the dominant builder in each market in which it competes. Scale and market share enable NVR to leverage its management and marketing expense, secure attractive terms with vendors, and get good access to quality land deal flow.

Compared to a traditional homebuilder, NVR has a lower gross margin, offset by lower SG&A expense, netting to a similar overall operating margin. However, with land development outsourced, and good cycle times on home construction, NVR has much less capital invested allowing it to earn about a 15-20% ROIC and 20-30% ROE versus about 8-10% and 12-14%, respectively, at the other well run public builders. Further, NVR was the only public homebuilder to maintain positive earnings (more than $100 million in its worst year) during the housing bust.

Despite this success, NVR does not have anyone of note emulating its business model. We believe this is because competitors would have to effectively employ all three pillars cited above. Small- and mid-sized builders do not have the scale, construction efficiencies, or know-how to achieve attractive economics with this model. And large builders already have huge land development teams and billions of dollars invested in land ownership. After the housing bust, several large builders spoke about taking a more asset-light approach, but with the passage of time, those builders have maintained their old ways of doing business. Structurally, and culturally, the vast majority of homebuilders hold land ownership and development in high regard, as illustrated by the industry saying, “we build homes to sell land”.

NVR actually began as a traditional homebuilder, and met with great success through the 1980s. However, the early 1990s recession pushed the company into bankruptcy, causing founder, Dwight Schar, to rethink the business model. Bankruptcy was the catalyst for change, but we believe it was NVR’s existing scale and local market share that enabled it to successfully pivot.

Since the early 1990s, NVR has fostered a cadre of developers receptive to its business model. The company has gradually grown from its core Washington, D.C. base into adjacent markets where it could leverage its existing infrastructure and relationships. Today, it has about 20% market share in Washington, D.C., and 30% share in both Baltimore and Richmond. Newer markets, such as Pittsburgh and Charlotte, have 5-10% share, but are gaining as NVR gradually wins over incumbent land developers with its ability and willingness to pay higher prices than others. With just 2% share of the U.S. single-family home construction market, we expect NVR to sustain market share gains for a very long time.

Of course, homebuilding is a cyclical industry, but we believe that the U.S. is only partway through the recovery from the housing bust, so there is more upside for the market. Based upon long-term demographic data and homeownership rates, we believe that the country needs about 1.5-1.6 million new housing units per year to accommodate population growth. About 0.4 million of these units typically come in the form of multi-family housing, leaving a need for about 1.1-1.2 million single-family units. Today the U.S. is producing single-family units at only a 0.8 million rate, requiring 35-50% unit growth just to get back to a normalized level. Further, if we look at the number of housing units overproduced during the housing boom, and net that against underproduction since the housing bust, the market appears to be about 5 million housing units short of where it should be. As millennials increasingly join the ranks of homeownership, there is the potential that unit production rates will exceed normalized levels for many years until the U.S. gets back into housing stock equilibrium.

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We also like NVR's management. Founder, Dwight Schar, is still Chairman of the Board, and CEO, Paul Saville, has been with the company since the 1980s. Each of these executives still owns more than $150 million of NVR stock. We give management credit for pivoting to an asset-light business model and fostering a culture and processes supportive of that strategy. They have been aggressive repurchasing their own stock, and opportunistic during the housing bust by renegotiating lot option contracts and moving into new geographies. They take a fairly conservative and long-term view in running the business, and spend little time on investor relations. Our primary criticism is that the equity compensation program is particularly generous to executives.

Finally, over a full housing cycle, we expect NVR to expand revenue about 7-12% per annum, composed of 5-10% organic unit growth and about 2% pricing growth. With a 20%-plus ROE, NVR should have significant free cash flow to direct toward share repurchases, pushing total earnings-per-share growth to about 13-16% per annum. We think that we have purchased shares with a good cyclical tailwind (though clearly not at the bottom!) as housing production returns to normalized levels, and that pricing in the D.C. market is poised to accelerate, providing potential upside to our numbers. We paid about 15 times our forward earnings estimate for NVR, a premium multiple to other homebuilders, but more than fully justified in our view, given the much better economics of the business model.

<u>Update: O'Reilly Automotive (ORLY)</u>

Shares of O'Reilly Automotive (about a 5.7% current weighting in most client portfolios) and its brick and mortar competitors have declined materially this year as disappointing same-store sales (up about 1.3% in the first half of the year for ORLY versus initial expectations of up 3-5%) stoked fears of market share loss to Amazon. We believe that Amazon's growth had a de minimus impact on same-store sales and that the sales weakness was instead a product of two consecutive warm winters and the lapping of significant increases in vehicle miles driven in 2015 and 2016. As weather normalizes and we anniversary these sales trends beginning in Q1'18, we expect the company to return to 3-5% same-store sales growth and mid-teens or better earnings-per-share growth.

We continue to believe the aftermarket auto parts distribution business is among the distribution/retail businesses most shielded from competition from Amazon. The commercial side (do-it-for-me, "DIFM") of the business (42% of O'Reilly's sales) requires "hot shot" delivery (mechanics generally expect to receive parts in 30-45 minutes) of more than a hundred thousand different SKUs. This is challenging without a significant store level, hub store level, and distribution center level inventory investment. It is difficult for Amazon to stock that much slow turning inventory close to the customer without a substantial brick and mortar investment and without a large base of commercial business. Much of the retail do-it-yourself ("DIY") side of O'Reilly's business (58% of sales) is immediate/same day need in nature, requires significant customer service (help with finding the right part, diagnosing the problem), has a large portion of customers that pay in cash, and involves frequent product returns.

Importantly, the availability of highly discounted auto parts online or from a catalog is not a new phenomenon. Rockauto has been around since 1999. Amazon entered the auto parts business in 2006. Before the existence of online competition, catalogs offered price discounts relative to brick and mortar stores. We acknowledge that the online/catalog channel presents a better value proposition for a small portion of DIYers that do not require assistance and do not need the part immediately. Amazon will continue to grow, expand its availability of next day and same day delivery, and compete aggressively for that sub segment of the market. Brick and mortar auto parts retailers will continue to face attrition of that customer segment going forward, as they have in the past.

Our calls/visits with regional auto part chain owners, store managers, vendors, and consultants over the last few weeks continue to confirm our view that recent same-store sales weakness was not a function of

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market share loss to Amazon or other internet retailers. We also note that Monro Muffler and NAPA have had weak comps even though they are DIFM focused, indicating the weakness is broad based and not connected to Amazon. The latest information we have (from May 2017) is that Amazon has $4-5B (90% DIY and 10% DIFM) of automotive parts sales growing at about a 20-25% rate, with $1.2-1.5B of sales of core aftermarket product that competes directly with O'Reilly. Relative to O'Reilly's $154 billion addressable market, Amazon's applicable $1.2-1.5 billion auto parts business is simply too small to explain the recent comp store sales slowdown.

The developments at O'Reilly over the last couple quarters have had only a modest negative impact on our earnings-per-share estimates five and seven years out (assuming we are correct and same-store sales do return to the 3-5% range in the not too distant future). We had modeled some multiple compression over our investment horizon, but expected it to layer in over a period of years, not months, and our scenarios did not include the stock trading as low as its current 14x forward multiple. While we believe that the Amazon fears are overblown, we acknowledge that once Amazon enters the daily conversation about a traditional retailer/distributor, the market values that company at a step function lower multiple. We suspect it will be difficult for O'Reilly ever fully shake this concern, so we have lowered future valuation multiple assumptions accordingly. That said, we believe the shares offer an attractive expected return profile.

In closing

We thank you for entrusting your capital to us. We will continue to do our best to protect and grow your investment over time.

Please let us know if there has been any change to your contact information, any change to your financial circumstances or investment objectives that might impact how we manage your account, or if you would like to add or modify any reasonable restrictions to our investment advisory services.

Sincerely,

Broad Run Investment Management, LLC

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Broad Run Investment Management, LLC
Focus Equity Composite Disclosure Presentation

Composite Name	Focus Equity Composite
Reference Index	Russell 3000 Index
Reporting Date	June 30, 2017
Composite Inception	September 1, 2009

GIPS Compliance and Verification Status. 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, 2016. 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.

Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. A list of composite descriptions is available upon request.

Firm Information. 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.

Composite Description. 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. The Focus Equity Composite was created in October 2012; its inception date is September 1, 2009. From 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. From 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.

Fee Schedule. 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.

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.

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.

Other. All returns presented in the table below (including the reference index) include the reinvestment of dividends, interest income, and capital gains. Valuations are computed and performance is reported in U.S. dollars.

	Calendar									Annualized (*6/30/17*)				
	2017 (thru 6/30)	2016	2015	2014	2013	2012	2011	2010	Sep-Dec 2009 [1]	1 YR	3 YR	5 YR	7 YR	Since Inception
Focus Equity Composite Gross Return (%)	8.63	8.83	4.40	11.76	37.18	18.27	5.13	26.40	8.64	15.71	10.25	16.10	17.63	16.14
Focus Equity Composite Net Return (%)	8.09	7.76	3.37	10.66	35.85	17.11	4.08	25.16	8.29	14.57	9.17	14.96	16.47	15.00
Russell 3000 Return (%)	8.93	12.74	0.48	12.56	33.55	16.24	1.03	16.93	10.34	18.51	9.10	14.58	15.34	14.12
Composite Standard Deviation [2]	11.41	12.06	11.30	9.44	12.52	16.80	- [3]	- [3]	- [3]	n.m. [4]	11.41	10.33	12.61	13.45
Russell 3000 Standard Deviation [2]	10.48	10.88	10.58	9.30	12.54	15.74	- [3]	- [3]	- [3]	n.m. [4]	10.48	9.73	12.06	12.64
Number of Portfolios	127	101	52	41	30	1	1	1	1					
Internal Dispersion [5]	n.m.	0.31	0.13	0.10	n.m.	n.m.	n.m.	n.m.	n.m.					
Composite Assets (USD millions)	3,068.6	2,671.8	2,266.5	1,618.5	1,454.0	781.2	672.2	772.8	812.5					
Firm Assets (USD millions)	3,077.2	2,794.1	2,268.6	1,619.5	1,459.8	781.2	N/A	N/A	N/A					

Past performance is not indicative of future results.

1: Annual Performance Results reflect partial period performance. The returns are calculated from September 1, 2009 to December 31, 2009 for the Focus Equity Composite. **2:** Standard deviation measures the variability of the gross returns of the composite and the reference index. All standard deviation figures are calculated using monthly gross performance numbers. Figures presented for calendar year and YTD periods are three-year annualized standard deviations. **3:** The three-year annualized standard deviation is not shown due to having less than 36 months of composite returns. **4:** n.m. - Not statistically meaningful for periods less than 3 years. **5:** 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; not statistically meaningful (n.m.) for periods less than one year, or when there are five or fewer accounts in the composite for the entire year.

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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.

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. Therefore, it should not be assumed that the future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by Broad Run Investment Management, LLC) made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. 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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