July 19, 2013

Client Letter

Second Quarter 2013

For the quarter, the Focus Equity Composite returned 4.4% net of fees compared to 2.9% for the S&P 500 Index. Year to date, the Composite returned 15.6% net of fees compared to 13.8% for the S&P 500 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 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.

Your portfolio is predominantly a collection of what we believe to be secular growth businesses trading at conservative valuations. Our expectation is to own these businesses for five or even ten year periods. Over this long time horizon, we expect that your investment returns will be determined primarily by the growth in earnings power of these businesses.

Accordingly, we believe it is important to use these quarterly letters to give you a better understanding of the businesses that you own, and why you own them, rather than sharing our latest musings about the economy, markets, or politics. Our hope is that over time, your knowledge and appreciation of these businesses will grow, and you will come to understand why we think they will create long-term wealth for you. As we discuss your portfolio companies, we encourage you to view them through the lens of our five key investment criteria:

- We look for high quality companies that have a sustainable competitive advantage that enables them to earn outsized economic profits.
- We look for secular growth businesses that can become three to five times larger over the next decade.
- We look for excellent management that runs the business for the long-term and makes prudent decisions investing the company's profits.
- We look for discount valuations that provide us a margin of safety.
- We look to avoid companies with catastrophic risks like excessive financial leverage or unsustainable demand.

<u>Notable Portfolio Changes</u>

Lamar Advertising (LAMR) - During the quarter, we sold Lamar Advertising, which was about a 3.5% position. We had a long ownership history with Lamar, and at times it was a relatively large position. Ultimately, we achieved an adequate investment return in Lamar, but the business and stock never quite performed up to our expectations.

Lamar is among the largest billboard owners in the U.S. with about 140,000 "facings". Tight zoning rules restrict the construction of new billboards, so owning a large collection of existing billboards can be an

excellent business. For the past several decades this tight supply has allowed billboard operators to increase pricing about 5 or 6% per year, on a relatively fixed cost base, driving very good earnings growth and cash generation. In addition, the introduction of digital billboard technology in the mid 2000s provided opportunities to selectively upgrade billboards to large LED screens that generate much more revenue than traditional analog boards.

Like most advertising companies, Lamar's revenue suffered during the 2008-2009 recession. We expected a strong revenue rebound coming out of the recession, and a resumption of historical pricing power beyond the cyclical rebound. Unfortunately, the rebound was not nearly as robust as we expected, and now more than three years later, Lamar has yet to regain meaningful pricing power. In addition, the rapid evolution of smart phone technology over the last few years - particularly mapping/navigation functions, and voice search via Google and Apple's Siri – has made us increasingly concerned that Lamar's important franchise in directional advertising (i.e. McDonald's at Exit 42, 5 miles ahead!) could face formidable new competition.

In August of 2012, Lamar announced that it was exploring a change in its legal structure from a corporation to a real estate investment trust (REIT). This announcement was met with enthusiasm by the stock market because a REIT structure provides tax savings and typically a high dividend payout that is attractive to certain investors. By the second quarter of 2013, continued enthusiasm for a potential REIT conversion, combined with a generally rising market, pushed Lamar stock to a relatively high valuation level. We did not think that the price properly reflected the soft revenue environment and emerging mobile competitive threat, so we exited the position in all accounts where feasible, and redeployed the proceeds into two other businesses (Dick's Sporting Goods and Micros Systems) that we believe offer better investment opportunity.

Dick's Sporting Goods (DKS) – Dick's is the largest sporting goods retailer in the U.S. with 520 Dick's and 81 Golf Galaxy stores spread across more than 40 states. The company has a knack for blending the best attributes of a large format store with the service levels of a specialty store through its "store-within-a-store" format. Dick's is advantaged by this unique store concept, buying power, and access to exclusive branded merchandise.

With industry leadership and clear competitive advantages - but just 9% market share - we believe that Dick's can sustain excellent growth for many years to come. We think that Dick's can more than double its store count and drive sales gains in existing stores by rolling out its branded in-store vendor shops and by improving footwear service. Operating margins should continue to improve over time through increased buying scale, improved private label penetration, and more effective footwear and apparel merchandising. With intelligent use of free cash flow, we believe that Dick's earnings per share can grow at a high-teens annualized rate over the next five years.

While many other growth retailers were trading at peak valuation multiples during the second quarter, Dick's was available at a discount to its historical valuation multiple and at an attractive absolute level of about 15x earnings. We believe that concern about a temporary sales slowdown due to unfavorable weather created this opportunity. We increased the Dick's allocation from about 1% of assets to about 2.5% of assets.

Instead of focusing on ephemeral issues like weather patterns or a single quarter's results, we concentrate our research efforts on building an understanding of a company's long-term value drivers: the company's business model, its competitive position, its growth prospects and capital reinvestment opportunities, and the quality of its management team. In the case of Dick's, we spent considerable time and effort

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investigating the two risks that we initially thought had the greatest potential to disrupt the company's future prospects: vendors selling direct to consumers through the Internet and through their own retail stores, and competition from Amazon.com and other Internet retailers. After conducting a pricing survey and speaking with Internet retailers, we concluded that Dick's is well insulated from the Internet threat because of minimum advertised price vendor policies, exclusive access to products, and product fit / trial. We also concluded that the direct to consumer efforts by Dick's vendors are for brand showcasing rather than the beginning of a new competitive channel. The rapid growth of Dick's premium vendor shops, offered in partnership with Nike, Under Armour, and The North Face, provide confirming evidence that key vendors remain committed to the wholesale channel.

Micros Systems (MCRS) – Micros is a provider of proprietary software and technology solutions to restaurants, hotels, and retailers. Their solutions are sold and serviced in over 180 countries, and they have leading market share in most of their addressable markets. Leading share enables Micros to invest more than its competitors in product R&D and its service network, while still maintaining lucrative profit margins. Micros solutions are mission critical to customers, and once installed, they are very difficult to displace. We believe the company has an excellent opportunity to grow as they innovate new products and solutions, and follow their anchor clients into emerging markets.

We have admired Micros for many years, but did not find an attractive entry point until recently. We established a small position (about 1% of assets) in the fourth quarter of 2012, and meaningfully increased the position in the second quarter of 2013 (now about 3% of assets). Micros stock has been under pressure the last year as sales growth has slowed due to a weak European hotel market and slow U.S. restaurant capital spending. In addition, the company has a new CEO, adding to the uncertainty. We believe that sales weakness will abate as the European economy stabilizes and enthusiasm builds for new versions of Micros products. We also believe that the new CEO's impressive track record and strong technology and sales background will ultimately benefit Micros. We purchased shares at about 14x our estimate of forward cash earnings, and we believe that - after this transition period - the business should be able to compound cash earnings per share at a mid-teens rate for many years to come.

Company Update

While we do not typically comment on short-term stock price volatility, given the origin of the recent price movement in American Tower (AMT), we thought it might be instructive to explain our thinking.

American Tower operates more than 56,000 cell towers in the U.S. and abroad, and leases space on its towers to wireless carriers such as AT&T and Verizon. Like the billboard industry, zoning restrictions make existing cell towers very good assets to own. Growth prospects are excellent as rising smartphone adoption increases demand for the company's towers in the U.S. and around the world. The company is superbly managed, and tends to trade at a reasonable valuation considering its compelling profile.

The stock opened the quarter at $77, ran to a high of $85 in May, and closed June at about $73, down about 14% from the high. American Tower is a REIT, and REIT prices tend to fluctuate with changes in U.S. Treasury yields. During this May-June period, Treasury yields rose fairly dramatically from 1.6% to 2.5%, driving American Tower stock lower.

With our long-term oriented investment strategy, and historically low interest rates, we had anticipated that rising rates would impact the stock during our holding period. We had factored rate increases into our long-term model, and still expected an excellent five-year rate of return in the shares. While rate increases may create occasional setbacks in the stock, we are willing to accept such short-term price

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setbacks in order to participate in the long-term wealth creation potential of the business. We have a high level of confidence that cash earnings per share growth will average more than 15% per year over the next five years, and we will likely own the shares for many years to come.

Conclusion

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 is any change to your financial circumstances that might impact the manner in which we manage your account.

Sincerely,

Broad Run Investment Management, LLC

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Performance For period ending 6/30/13	Q2 2013	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	4.8%	16.4%	29.8%	24.2%	19.1%	96.1%
Focus Equity Composite, Net	4.4%	15.6%	28.0%	22.5%	17.4%	85.6%
S&P 500 Index	2.9%	13.8%	20.6%	18.5%	14.7%	69.8%

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, 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 the 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 accounts.

Composite Performance Calculation Methodology. The Composite performance figures reflect the deduction of brokerage or other commissions and the reinvestment of dividends, interest income 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 accounts 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, interest income and advisory fees. Advent AXYS calculates the separate account composite return by rolling together and asset-weighting applicable separate accounts to calculate a daily composite return adjusted for inflows and outflows. These daily composite returns are then geometrically linked to create a monthly separate account composite return. The monthly equity mutual fund return and monthly separate account composite 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 time-weighted rates of return for periods greater than one month and geometrically averaged to calculate average annual total returns. All returns are calculated in US dollars.

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 accounts 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 our 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.

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