April 20, 2018

Separate Account Client Letter
First Quarter 2018

For the quarter, the Focus Equity Composite returned -2.2% net of fees[1] compared to -0.6% for the Russell 3000 Index. The results for your account will differ somewhat from the Composite due to variations in 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.

During the quarter our businesses continued to perform well amid a supportive economic backdrop. Stock price volatility returned to the market after a long hiatus, as the prospect of rising interest rates and increasing geopolitical tensions challenged Goldilocks economic forecasts. This environment provided the opportunity to add to two existing positions that we believe have compelling long-term prospects: American Woodmark, and Carmax.

American Woodmark (AMWD) – We wrote about American Woodmark last quarter to discuss the completion of its transformational acquisition of RSI Home Products, a leading cabinet manufacturer serving the value price point. Recall our view is that the RSI acquisition has great financial and strategic value to Woodmark. The deal provides significant near-term accretion as Woodmark deployed its excess cash and liquidity into a very good business at an attractive valuation. EBITDA should nearly double in 2018 and cash earnings per share should increase about 60% (40% excluding tax law changes). Longer term there is a big opportunity to gain market share by cross selling RSI product into Woodmark's customer base, particularly the large homebuilders.

Woodmark shares came under significant pressure during the first quarter, trading down from a high of $140 per share in January to $95 at the end of March. Normally, such an extreme price move has obvious origins, but in this case, it is hard to pinpoint a root cause of the stock's selloff. Woodmark reported lackluster quarterly results in February with organic sales growth of only 2% (roughly in-line with the consensus sell-side estimate) versus high single digit growth just a few quarters earlier. However, because of the nature of the business, the company has always had volatile quarter to quarter results, and there are a number of reasons to believe that organic growth will reaccelerate from here. Further, RSI has about one-half of its employee base in Mexico, so recent noise around renegotiation of NAFTA may have had an impact. Thankfully, this is not a high-profile industry with a large disaffected U.S. employment base, like auto parts, providing it some political cover from brash posturing in trade negotiations. Our belief is that any material change to NAFTA, while unlikely, would be largely offset by rebalancing of the dollar-peso exchange rate over time. Finally, we note that many other building products and large ticket consumer discretionary companies also faced selling pressure during the quarter, probably due to expectations of rising interest rates combined with recent slack consumer spending data. While Woodmark may face some incremental headwind from these macroeconomic factors, we think company specific growth drivers overwhelm their impact over our investment horizon.

We believe Woodmark is likely to produce about $13 in cash earnings per share in fiscal 2021, up from $4.50 in 2017 and $7 to $8 in 2018. We believe this growth is readily achievable based upon our assumptions of a continued cyclical recovery of the housing market, continued gradual share gains for

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

Woodmark's legacy business, modest operating leverage, aggressive debt paydown, and achieving the mid-point of deal synergy guidance. At a 14-15 multiple of 2021 cash earnings, this implies the company could be worth about $200 per share in three years, providing a compelling 25%-plus expected IRR.

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 high-quality, late-model used cars (5 to 10x the used vehicle inventory at a CarMax lot compared to the typical dealer lot) 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 187 stores across the country, CarMax has about 3-4% 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 will allow the company to nearly double its market share, which seems attainable considering it has demonstrated the ability to take more than 10% share in its oldest, most penetrated markets.

In addition, CarMax has embarked upon a new technology initiative to further transform the car buying experience. While CarMax has improved the traditional car buying experience, the overall process is still tedious, time consuming, and paper intensive. Over the last 24 months, the company has been upgrading its internal technology and client facing web capabilities. Various tech functions have already been rolled out, making the customer experience better, but the real breakthrough should come in about a year when all the pieces of the solution are in place. At that point, you will be able to complete as much, or as little of the car buying experience online as you would like. You will be able to select a vehicle, finance that vehicle, and arrange a trade in of your existing vehicle, all from the comfort of your living room sofa. You can pick up your new purchase at a Carmax store, or have it delivered to you at your convenience.

This innovation should not only enhance the customer experience, but also increase CarMax's operational efficiency as customers increasingly select a self-service purchasing pathway. CarMax, with a nationwide footprint, reputable brand, no-haggle pricing policy, proprietary vehicle transfer/logistics network, and over 50,000 vehicles in inventory, is uniquely positioned to deliver this "omnichannel" experience to car buyers. We believe this online capability is likely to further distinguish CarMax from its competition, enabling it to accelerate sales and market share gains, while increasing the asset turnover and capital efficiency of the business.

During the quarter, CarMax's stock declined as a result of weak same-store sales. Since last fall, the historical price difference between new cars and late-model used cars has compressed, making it relatively more attractive to buy new, and denting demand for used. There are a variety of reasons for this spread compression, most notably market disruption from the fall hurricanes and an excess of new car inventory.

We have seen situations like this several times in our 15 years following the industry (including as recently as fall 2015, which we wrote about in our fourth quarter 2015 client letter). It will take a few quarters, but we believe wholesale used-car pricing will decline to the point that the historical 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 believe CarMax is on the cusp of a big strategic advancement, so we were pleased to add to our position at a low-teens multiple of estimated 2018 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 high single digit new store openings, mid-single digit same-store sales, and share repurchases.

<u>In closing</u>

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	March 31, 2018
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, 2017. 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 (*03/31/18*)				
	2018 (thru 3/31)	2017	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 (%)	-1.98	21.43	8.83	4.40	11.76	37.18	18.27	5.13	26.40	8.64	13.40	8.58	13.29	14.19	15.86
Focus Equity Composite Net Return (%)	-2.23	20.24	7.76	3.37	10.66	35.85	17.11	4.08	25.16	8.29	12.29	7.51	12.18	13.07	14.72
Russell 3000 Return (%)	-0.64	21.13	12.74	0.48	12.56	33.55	16.24	1.03	16.93	10.34	13.81	10.22	13.03	12.39	14.12
Composite Standard Deviation [2]	10.14	10.31	12.06	11.30	9.44	12.52	16.80	- [3]	- [3]	- [3]	n.m. [4]	10.14	10.52	11.74	13.12
Russell 3000 Standard Deviation [2]	10.21	10.09	10.88	10.58	9.30	12.54	15.74	- [3]	- [3]	- [3]	n.m. [4]	10.21	9.91	11.29	12.35
Number of Portfolios	147	137	101	52	41	30	1	1	1	1					
Internal Dispersion [5]	n.m.	0.96	0.31	0.13	0.10	n.m.	n.m.	n.m.	n.m.	n.m.					
Composite Assets (USD millions)	3,182.6	3,309.6	2,671.8	2,266.5	1,618.5	1,454.0	781.2	672.2	772.8	812.5					
Firm Assets (USD millions)	3,184.5	3,311.2	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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