October 14, 2022

Focus Equity Client Letter
Q3 - 2022

For the quarter ended September 30, 2022, Broad Run's Focus Equity Separate Accounts[1] returned -9.0% net of fees[2] compared to -4.6% for the S&P Total Market Index[3]. Year to date, the Focus Equity Separate Accounts returned -32.4% net of fees compared to -24.9% for the S&P Total Market Index. The performance for your account will differ somewhat from these reported results 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 performance is presented at the end of this letter.

Commentary

The macroeconomic environment continues to be challenging. Persistent high inflation, rising interest rates, hawkish comments from the Fed, a rapidly strengthening dollar, and growing signs of economic slowdown contributed to another quarter of negative market performance.

Earnings growth for the S&P Total Market Index is still forecast to be a positive mid-single digit rate in 2022 and 2023, but this is down from a high single digit rate forecast at the beginning of this year.

In our portfolio, we also forecast a mid-single digit annualized earnings growth rate over 2022 and 2023, but this is down from our original expectation of a low teens growth rate. Against this backdrop we have seen a significant (32.4%) decline in portfolio price. Our portfolio now trades at 13.8x our 2023 earnings estimates (versus 15.1x for the S&P Total Market Index), the lowest multiple since 2011.

Looking below the portfolio's surface, most businesses we own continue to experience good business trends with growing revenue and profits. It is the businesses we own with more cyclical exposure (most notably, 17% of assets are in housing and big-ticket consumer discretionary markets) that have had their stocks hit the hardest and that account for our relative underperformance. Many of these businesses are now down 40-50%-plus, and are trading at high single digit and low double-digit multiples of earnings compared to more normal high teens multiples. At these prices we think the market has already discounted a recession – and corresponding negative earnings revisions – into these stocks.

Recession or not, we do not think it will matter much to our portfolio in the fullness of time. Near-term earnings results are but a small part of the long-term stream of future cash flows that dictate what a company should be worth. And, as we have seen in past recessions, the types of companies that we typically own – industry leaders with strong balance sheets and excellent management teams – can sometimes use a

[1] See the end of this letter for historical performance and important disclosures.
[2] Net of highest applicable fee of 1.0% per annum as described in our Form ADV, Part 2A.
[3] S&P Total Market Index is a broad market index that includes 4,223 large, mid, and small cap U.S. equities (@12/31/21).

recession to create a step function increase in long term value by taking advantage of consolidation and expansion opportunities that would not otherwise exist.

The economy and spending patterns have been highly unusual since the emergence of COVID-19 with demand fluctuating wildly across time and industry. This begs the question, how reliable are current earnings as an indicator of value? Are recent earnings reflective of enduring earnings power, or are our companies over-earning?

Overall, we do not think our businesses are overearning. We own long-established companies with observable revenue and profit patterns often across a decade or more. We can rewind the clock to before the pandemic to get an understanding of baseline earnings, and extrapolate from there to estimate what profitability might have been today if the pandemic had not occurred. Current estimates do not depart significantly from our "COVID normalized" analysis, giving us confidence in the underlying earnings power of these businesses and their eventual stock price recovery.

We contrast this profile with those of the many speculative high growth technology and "story" stocks that are valued based upon projections of huge margin expansion and revenue growth far in the future. While some of these businesses will achieve their promise, we suspect that most will not, and equity holders will suffer a permanent impairment of capital.

To illustrate the point about our holdings, let's review CarMax, one of the hardest hit cyclical growth stocks in our portfolio, down about 50% year-to-date, and down about 60% from a year ago.

In the fiscal year ended February 2020 (just before the impact of the pandemic), CarMax earned $5.33 in GAAP EPS, which climbed nicely over the preceding five years at a 15% CAGR.

	F'15	*F'16*	*F'17*	*F'18*	*F'19*	*F'20*	*CAGR*
EPS	$2.65	$3.03	$3.31	$3.60	$4.79	$5.33	15%

Key drivers to this EPS growth were new stores, market share gains at existing stores (comparable store sales), and repurchasing stock to reduce shares outstanding (plus a modest boost from the 2018 reduction in corporate tax rates).

	F'15	*F'16*	*F'17*	*F'18*	*F'19*	*F'20*	*CAGR*
Stores	144	158	173	188	203	216	8.4%
Comps	7%	3%	3%	3%	2%	10%	3.4%
Shares	219	206	192	186	176	167	-5.3%

Importantly, during this period CarMax's growth in EPS was not driven by a rapidly growing end market nor sharp improvement in profitability. Used car industry turnover approximated 40 million units, as it does almost every year, and CarMax's profit margins were in a range of 6.1% to 6.8%, where they had held steady for a decade prior to the pandemic.

If we fast forward to today, we see that two of CarMax's key value drivers – store count, and share count – are still marching forward (comparable store sales have been highly volatile due to the pandemic). The

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company has grown store count by more than 8% since February 2020, and reduced its share count by more than 4%.

	F'20		*Aug'22*	*Change*
Stores	216	→	234	8.3%
Shares	167	→	160	-4.2%

If we isolate these two value drivers it translates into about a 13% increase (8% more stores over 96% as many shares) in EPS from the $5.33 in Fiscal 2020, to $6.00 of earnings power today. This compares to recently reduced consensus EPS estimates for calendar 2023 of about $4.50 per share (down from actual results of $6.97 reported in calendar 2021). CarMax, at $61, is trading 13.5x this consensus $4.50 estimate, or just 10x our normalized earnings power estimate. Applying CarMax's 10-year average 17x multiple to $6.00 in earning power implies a fair value of $102 per share, about 65% above the current price.

Of course, reality is more complicated than the simple $6.00 key value driver analysis we present above, but we believe this analysis is roughly correct and illustrates our broader point about observable earnings power providing a reliable underpinning for our intrinsic value estimates. One such complication: SG&A expenses at CarMax are elevated (as a % of gross profit) relative to history due to significant investment in digital initiatives, wage inflation, and the recent decline in unit sales (-8% retail unit comps in the just reported quarter). We believe that the step-up in digital spending over the last several years has plateaued and there will be significant expense leverage from here as volume grows on this relatively fixed cost base.

CarMax is now trading at a similar stock price to March 2020 when nearly all stores were closed and corporate survival was in doubt. There is no such existential threat facing CarMax today. CarMax is the leader in used car retail and has an investment grade balance sheet. It has survived three recessions since its founding and has emerged stronger each time. While industry sales are down for macroeconomic reasons, CarMax continues to gain market share – as it has nearly every year since its founding. In fact, we would argue that CarMax is now in its best competitive position in a long time. It is making breakthrough progress on its unique omnichannel retailing capabilities at the same time that Carvana, its most formidable challenger, is facing capital constraints and the very real possibility of bankruptcy (the business is encumbered with massive debt and negative free cash flow; the stock is down 95% from a year ago).

We believe that CarMax offers a compelling value for the long-term investor; the best risk-adjusted return profile we have seen in the stock since the depths of the GFC.

During turbulent times we gain confidence from owning a portfolio of high quality, well run, cash generative businesses - such as CarMax - at reasonable valuations that we believe are going to grow their earnings significantly over the next five and ten years. At the beginning of 2022, you had to pay roughly 20x earnings for our portfolio of businesses, now you pay roughly 14x. While our expectations for near term earnings growth have diminished, our long-term outlook is largely unchanged. We view this as a very attractive investment setup.

During the quarter we sold our entire 1.4% position in Meta Platforms, Inc. (formerly Facebook, Inc.), which we discuss next. We will redeploy these funds shortly in a market where opportunities are plentiful.

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Exited Position: Meta Platforms, Inc.

We established our Meta position about four years ago amidst the fallout from its Cambridge Analytica scandal. We liked that Meta was a big beneficiary of the secular shift of advertising from offline to online, and thought we bought a durable business opportunistically. Social networks can be very good businesses, but are not as durable as a utility service such as Google search. Nonetheless, we thought Meta could maintain a firm grasp on its social media leadership by acquiring or fast-following new threats as it had done in the past with Instagram (acquired) and Snapchat (fast-followed).

As is now quite obvious, Meta was caught flat footed by the rapid rise of TikTok. While not a direct substitute to Meta's social media services, TikTok provides a highly engaging short form video platform that competes for user time and online advertising dollars. Meta is attempting to fast follow, but TikTok is probably too large and well established to defeat. Acquiring TikTok is not a viable strategy as it is Chinese owned, and regulators have largely closed the door on future Meta acquisitions.

In addition, earlier this year Apple implemented privacy changes via its ATT policies that have proven more disruptive to Meta and many other online advertisers than initially expected. Meta should be able to offset some of the negative impact over time through increased reliance on AI, but this may result in permanently higher operating expenses and capital expenditures. This episode further highlights for us the vulnerabilities in Meta's business model.

Alphabet, at about 10% of assets, has always been our favored way to participate in the secular growth of online advertising. Meta, at about 2% of assets (at cost), has always been a much smaller position for us. With Meta stock down significantly and trading optically cheap on a sum-of-the-parts basis, we evaluated adding to our position, but ultimately could not get comfortable with the durability of the business. In addition, in order to conclude that Meta is cheap, one must believe that the massive amounts of capital it is deploying on Facebook Reality Labs are NPV positive. While the metaverse is interesting in concept, it remains a highly speculative investment – one that we are not willing to ascribe much value to. For these reasons, we concluded that there are better uses for the capital and exited the Meta position.

Conclusion

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 have been any changes to your financial circumstances or investment objectives that might impact how we manage your account, let us know if your contact information changes, and let us know 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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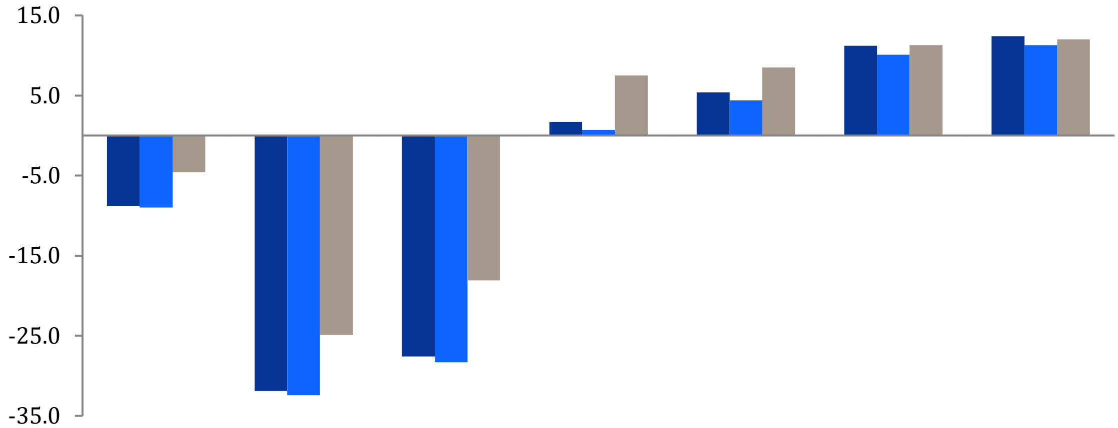
Focus Equity Separate Accounts (FE-SA) Historical Performance and Disclosure



	3Q'22	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION (09.01.09)
FE-SA (*Gross*)	-8.8	-31.9	-27.6	1.7	5.4	11.2	12.4
FE-SA (*Net of 1% fee*)	-9.0	-32.4	-28.3	0.7	4.4	10.1	11.3
S&P Total Market Index	-4.6	-24.9	-18.1	7.5	8.5	11.3	12.0

FE-SA Disclosures: *Broad Run presents these investment results (a subset of the Focus Equity Composite results) because it believes they are most relevant to institutional separate account investors in the Focus Equity Strategy; this information is supplemental to the GIPS® compliant presentation provided on the following page of this document. Returns presented consist of representative portfolios from the Focus Equity Composite. The representative portfolios are: (i) for the period September 1, 2009 to February 28, 2013 the sole portfolio in the composite, which is a single equity mutual fund; and (ii) for the period after February 28, 2013 (Broad Run accepted its first separate account in February of 2013) all of the separate account portfolios, which excludes any equity mutual fund(s), UCITS fund(s), and private fund(s). Broad Run believes this supplemental presentation approximates the return stream an investor in a Focus Equity separate account would have achieved for the period presented (data supporting this assertion is available upon request). 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 gross returns. Other Disclosures: Returns for time periods greater than one year are annualized. All results presented above (including the S&P Total Market Index) include the reinvestment of dividends, interest income, and capital gains. All other statistics referenced in this document for Focus Equity Separate Accounts or FE-SA were compiled using the same representative portfolios described above.* ***Past performance is not indicative of future results.***

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Broad Run Investment Management, LLC
Focus Equity Composite GIPS Report

Reporting Date September 30, 2022
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, 2021. 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. The strategy holds a portfolio of approximately 20 securities. 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 S&P Total Market Index (TMI) is designed to track the broad U.S. equity market, including large-, mid-, small-, and micro-cap stocks. 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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. ***Past performance is not indicative of future results.***

	Focus Equity Composite			S&P Total Market Index (TMI)					
	Gross Return (%)	Net Return (%)	Standard Deviation [2]	Return (%)	Standard Deviation [2]	Number of Portfolios	Internal Dispersion [5]	Composite Assets (USD millions)	Firm Assets (USD millions)
Calendar Year									
2022 (thru 9/30)	-30.16	-30.70	26.63	-24.92	20.71	185	n.m.	987.4	993.0
2021	33.37	32.07	22.68	25.66	17.95	190	0.64	1,678.2	1,757.2
2020	7.91	6.83	23.25	20.79	19.44	175	0.92	1,569.7	1,574.5
2019	36.22	34.89	11.35	30.90	12.22	170	1.16	2,576.9	2,579.0
2018	-9.09	-10.01	11.25	-5.30	11.21	155	0.64	2,326.8	2,330.3
2017	21.43	20.24	10.31	21.16	10.09	137	0.96	3,309.6	3,311.2
2016	8.83	7.76	12.06	12.65	10.89	101	0.31	2,671.8	2,794.1
2015	4.40	3.37	11.30	0.47	10.57	52	0.13	2,266.5	2,268.6
2014	11.76	10.66	9.44	12.46	9.32	41	0.10	1,618.5	1,619.5
2013	37.18	35.85	12.52	33.40	12.58	30	n.m.	1,454.0	1,459.8
2012	18.27	17.11	16.80	16.44	15.75	1	n.m.	781.2	781.2
2011	5.13	4.08	- [3]	0.92	- [3]	1	n.m.	672.2	N/A
2010	26.40	25.16	- [3]	17.30	- [3]	1	n.m.	772.8	N/A
Sep – Dec 2009 [1]	8.64	8.29	- [3]	10.22	- [3]	1	n.m.	812.5	N/A

Annualized (09/30/22)	Gross Return (%)	Net Return (%)	Standard Deviation [2]	Return (%)	Standard Deviation [2]
1 Year	-25.00	-25.77	n.m. [4]	-18.05	n.m. [4]
3 Years	2.07	1.06	26.63	7.51	20.71
5 Years	5.75	4.70	22.31	8.48	18.50
10 Years	10.89	9.79	17.42	11.29	14.79
Since Inception	12.17	11.06	17.33	12.01	15.07

1: Annual Performance Results reflect partial period performance. The returns presented are calculated from September 1, 2009 to December 31, 2009. **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.

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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