



MAY 2026

When we look back . . . the nature of the forces currently in train will have presumably become clearer. We may conceivably conclude from that vantage point that . . . the American economy was experiencing a once-in-a-century acceleration of innovation, which propelled forward productivity, output, corporate profits, and stock prices at a pace not seen in generations, if ever.¹

The Broyhill Equity Composite declined 6.0% in the first quarter, net of all fees and expenses, lagging global equity markets as the MSCI All Country World Index declined 3.1%.² Individual performance may vary depending on individual account allocations, legacy positions, and capital flows. Detailed quarterly reports, including account and benchmark performance, portfolio holdings, and transaction history, have been posted to our investor portal.

After a strong start to the year for the portfolio, global stocks fell sharply following the strikes on Iran. Despite our defensive positioning, with nearly half the portfolio invested in noncyclical sectors, our stocks did not provide the protection we expected or that we've historically provided. While we don't invest on a one-month horizon, nor do we place undue emphasis on short-term results, we do remain relentless in our work to protect your capital from significant market losses. So, I want to explain what drove the gap versus our expectations, because the context matters - and because we believe the setup from here is unusually compelling.

Three structural portfolio tilts moved against us simultaneously.

- We own no energy - the only sector with positive returns in March.
- Nearly half the portfolio is invested in businesses outside the U.S., and European markets declined sharply given their higher sensitivity to energy prices (while this is broadly true of continental Europe, our companies have minimal exposure to the Middle East or the rising price of oil).
- Our large non-cyclical exposure - consumer staples and healthcare - underperformed in a down market, which is not supposed to happen and historically has not lasted.

What didn't happen is as important as what did. Across the portfolio, businesses are performing well and meeting or exceeding our expectations. Consensus estimates continued rising even as our stock prices declined in March. That disconnect - improving fundamentals and falling prices - suggests this move was a positioning-driven sell-off, not a fundamental one. It's also why we believe our stocks are poised to catch back up to fundamentals.

¹ [Remarks by Chairman Alan Greenspan Before the Economic Club of New York, January 2000](#)

² For standardized performance data, including 1-year, 3-year, and since-inception net returns with benchmark comparisons, please refer to the [Broyhill Equity Fact Sheet](#). Past performance is not indicative of future results.

PERFORMANCE REVIEW

It's hard not to be uber bullish when stocks are enjoying a once-in-a-century acceleration in innovation, resulting in a surge in productivity and corporate profits. But as it turns out, we are actually witnessing a twice-in-a-century acceleration in innovation, as the opening quote of this letter was first delivered by Former Fed Chairman Alan Greenspan in January 2000. As they say, history doesn't repeat, but . . .

TOP CONTRIBUTORS

Valvoline was our largest contributor in the quarter. While the market spent its days hallucinating about the terminal value of artificial intelligence, Valvoline went on quietly changing oil, opening new stores, while moving more cars through its bays than any other competitor in the industry. Since we've owned it, shares have exhibited significantly more volatility than the business itself, but what matters is that the underlying unit economics are intact, while unit growth, service mix, and price continue moving in the same direction.

Honeywell was our second-largest contributor in the quarter. Management accelerated the aerospace spin-off, moving the separation up to the end of June and leaving behind a pure-play automation business. We continue to believe the pieces, including the recently announced Quantinuum IPO, are worth meaningfully more than the whole. Upcoming Investor Days are the next chance for the market to do the math.

Ball Corporation rounded out our top three contributors during the quarter. When we initially acquired the position, our thesis centered around the company's post-aerospace-divestiture status, which left it a pure-play packaging company well positioned to return significant capital to investors. As the thesis played out, we sold into the re-rating and redeployed proceeds into more attractive opportunities.

TOP DETRACTORS

IQVIA was our largest detractor despite fundamentals being far better than price action suggested. The stock has sold off because investors have convinced themselves that AI will compress economics faster than it drives demand. At the current price, we are more than willing to take the other side of that trade. Large pharma is structurally reliant on IQVIA's clinical trial architecture and proprietary data assets, and we think it is highly unlikely that Claude can automate away the FDA approval process. While the burden of proof remains on the company, we believe we are being paid well to wait at the stock's current valuation.

Louis Vuitton was our second-largest detractor, posting its worst quarterly performance on record, driven by the Middle East conflict and fears of a broader slowdown in luxury demand. Beneath the headlines, Wines & Spirits delivered its biggest beat in years as the Hennessy destocking cycle ends, Watches & Jewelry beat as Tiffany continues to gain share, and Fashion & Leather continues its slow sequential improvement. The stock now trades at the bottom of its valuation range, which we find compelling for a business of this quality.

Avantor made our list of detractors for the last time in the first quarter. The destocking cycle has run far longer than we initially modeled, but the bigger issue was self-inflicted. Successive management teams failed to defend the share against Thermo Fisher. After swapping half of our position for Thermo last year, we took our

remaining lumps and redeployed the capital into Sotera Health, where litigation fears have created an opportunity to own a mission-critical sterilization duopoly at a meaningful discount to intrinsic value.

KEY TRANSACTIONS

We run a concentrated portfolio and aim to invest over a three- to five-year horizon. With roughly 20 positions, that translates into a handful of new ideas in a normal year. But like our returns, our ideas come in lumps, as volatility creates opportunity.

The extreme dispersion we saw in the first quarter handed us an opportunity to populate the book with at least a year's worth of new ideas. Running towards controversy after big dislocations is our bread and butter. I suspect that's a gene inherited from my father, who still fills his car to the ceiling with random items he doesn't need from close-outs (most recently, Livingston Mall in NJ) or even relics of the past left on the roadside. In markets, such a strategy rarely guarantees short-term success, but over the long term, it has consistently been our most reliable generator of alpha.

During the quarter, we booked a portion of our gains on Phillip Morris and fully liquidated several positions. In addition to Ball, noted previously, we liquidated profitable investments in Kenedy Wilson and Fresenius Medical Care, as the former agreed to a higher bid from CEO Bill McMorrow and Fairfax Financial, and proceeds from the latter were redeployed into more attractive opportunities. We also fully liquidated two positions – Evolution and Avantor - after reducing exposure to each, to reinvest in higher conviction ideas.

We initiated several new positions during the quarter. We bought Microsoft as the stock's valuation declined to levels in line with the broader market. We initiated a new position in Smurfit WestRock with proceeds from Ball, as we suspect continued capacity tightening and additional pricing will drive mid-term results well above guidance and current consensus. We bought Sotera Health, a sterilization-franchise medical device business whose customers cannot easily replace it, where an ongoing tort overhang has created a price we believe materially underestimates the underlying business. And we established two new positions in the depressed housing industry – Masco and Floor and Décor, as we believe the normalized earnings power of both companies has increased significantly through market share gains and expense efficiencies captured during this extended downturn. We also began accumulating shares of Leggett & Platt, anticipating a higher bid from Somnigroup International, and fully exited when that bid emerged.

A FEW WORDS ON HEALTHCARE

While investors have focused on the trillions of dollars in market capitalization that have evaporated from the software sector in recent months, the Medical Device and Life Sciences & Tools industries have not been far behind in terms of creative destruction. In the wake of this latest leg down, we significantly increased our investments in the sectors, bringing both IQVIA and Sotera Health into our top holdings.

Clinical research is one of the most regulated industries on the planet - and for good reasons. It's literally a matter of life and death. And while Claude has dramatically increased our own productivity, we surmise that government agencies, including the FDA, will be somewhat slower to embrace these magical tools. When you consider that

AI adoption within at least one large, highly regulated US bank consists of mandates from management that employees use Copilot at least x times each week, the thought of the FDA entertaining a material shift in trial paradigms over the next several years seems exceedingly unlikely. To put the agency's pace of change in perspective, regulators began accepting digital data submissions in PDF format less than a decade ago.

CROs, or Clinical Research Organizations like IQVIA, sit squarely in the crosshairs of investors' concerns, given AI's potential to completely reimagine how research is conducted. In fact, we'd even suggest that drug discovery may represent the single most significant benefit of AI as the quantity of new molecules tested and drugs coming to market accelerates at a pace beyond even the wildest imaginations of Watson and Crick. But despite our impressive leaps in understanding the human genome since its initial discovery, our understanding of human biology remains incomplete at best. And where we lack a deep understanding, we will still need experiments to test hypotheses and to observe how these drugs actually work amid the mystery of human biology, regardless of what AI models might promise.

While it may take time for the market to separate the wheat from the chaff, we expect that the Life Sciences Tools and broader research ecosystem will ultimately benefit from accelerating AI-driven demand for the data that fuels these models. And as AI compresses drug pipelines and increases the likelihood of clinical success, the growing number of drugs reaching the market will require more research, development, and tools. A recent analysis found that AI-designed molecules clear Phase I at 80-90%, compared with a historical average of 40-50% for conventional discoveries.³ None of these candidates have been commercialized yet, but dozens have entered human trials, and several are now in Phase II. As Big Pharma's return on investment improves, the rational response is to spend more on R&D, not less. Some functions will inevitably move back in-house, but we do not see the longer-term outsourcing trend reversing, as pharma simply doesn't have the infrastructure or the data outside its own narrow indications. Bottom line: we think the data and scaled infrastructure that IQVIA provides will become meaningfully more effective, and a great deal safer, than a workflow vibe-coded by a pharmacist. We also think this makes the company more valuable, not less.

Recent channel checks support this view, framing AI more often as an opportunity than a threat. RFP flow and awards are improving as funding loosens and risk appetite returns; decision-making timelines are shortening, and pricing is firming. The bear case is that the majority of AI efficiencies gained by CROs will be captured by sponsors. But this ignores the fact that CROs have always been under pressure from Big Pharma to pass along savings. AI-generated efficiencies will certainly create additional opportunities to do so. This isn't new. These companies have thrived for decades by finding ways to execute trials more efficiently, leveraging cost reductions into operating leverage to offset pricing pressures. That playbook hasn't changed. But the price has shifted materially, with shares of IQVIA, for example, trading at half the broader market's multiple, down from the 40% premium reached before COVID.

³ [How Successful Are AI-Discovered Drugs in Clinical Trials](#), *Drug Discovery Today* (2024).

BOTTOM LINE

We are keenly aware that our current positioning has weighed heavily on our relative performance of late. And we recognize that this has likely tested the patience of even our longest-duration investors. Simply owning a collection of good businesses does little to change that when their shares fail to deliver meaningful gains, while broader indices march steadily higher, and everyone around you is boasting about their biggest winners. While others are doing better at the moment, we think many are taking risks far greater than they appreciate. That is why we have stayed in our lane, rather than underwriting risks we don't believe are properly priced.

Our job is to protect your capital while taking calculated risks to grow it over time. Periods like this test conviction. They also plant the seeds of future outperformance. This view may continue to cost us in the near term if momentum remains dominant over fundamentals. But with oil sitting in triple digits, geopolitics still in flux, and recorded crowding in US benchmarks trading at record valuations, we are willing to accept the risk of short-term underperformance because the reward for being correctly positioned when the market does turn has rarely looked more asymmetric than it does today.

While we cannot predict when that will arrive, what it will look like, or how quickly it will unfold, what we can tell you is that the portfolio is meaningfully cheaper today than it was at the start of the year. Importantly, our view of the underlying businesses we own has not changed: we believe they are worth considerably more than the market is giving them credit for. Rising tensions in the Middle East, regardless of how they unfold, would not change that assessment.

We have been here before. Our relative results have always been cyclical. But a decade of data tells a consistent story. We have seen the pattern clearly: periods where relative performance compresses (as we saw during the speculative rally immediately following COVID) have consistently been followed by sharp recoveries (many of which included short-term drawdowns as we experienced in March). The current dip looks a lot like previous ones, which have historically been followed by our best relative performance.

ONE MORE THING

There is nothing to writing. All you do is sit down at a typewriter and bleed. - Ernest Hemingway

A few years after joining Broyhill in 2005, a friend suggested that I start a blog to share our insights, which had, until then, been distributed only internally. That site, The View from the Blue Ridge, was eventually folded into the firm's website. Writing has always been a valuable tool for me, both personally and professionally. It has never been a particularly easy or enjoyable process, but the result usually justifies the effort. Through writing, I am able to flesh out my thinking, find holes in my logic, and distinguish highly confident ideas from those held more loosely. But as the business has grown, I've had less time to share our work publicly beyond these letters. Coming into this year, I decided it was time to change that.

We are excited to announce the launch of [Vitruvian Value](#), where I will share our thinking, our ideas, our frameworks, and the lessons from running a concentrated portfolio through decades of market cycles, along with the occasional commentary on markets and human behavior.

We are grateful for your continued trust and partnership. We come into the office each day striving to earn it, and we realize just how fortunate we are to have such a wonderful group of like-minded, long-term investors who place their confidence in us. You enrich our network, strengthen our competitive advantage, and just make our work all the more enjoyable. As always, please feel free to reach out anytime with questions. We enjoy hearing from you.

Sincerely,



Christopher R. Pavese, CFA

ABOUT BROYHILL

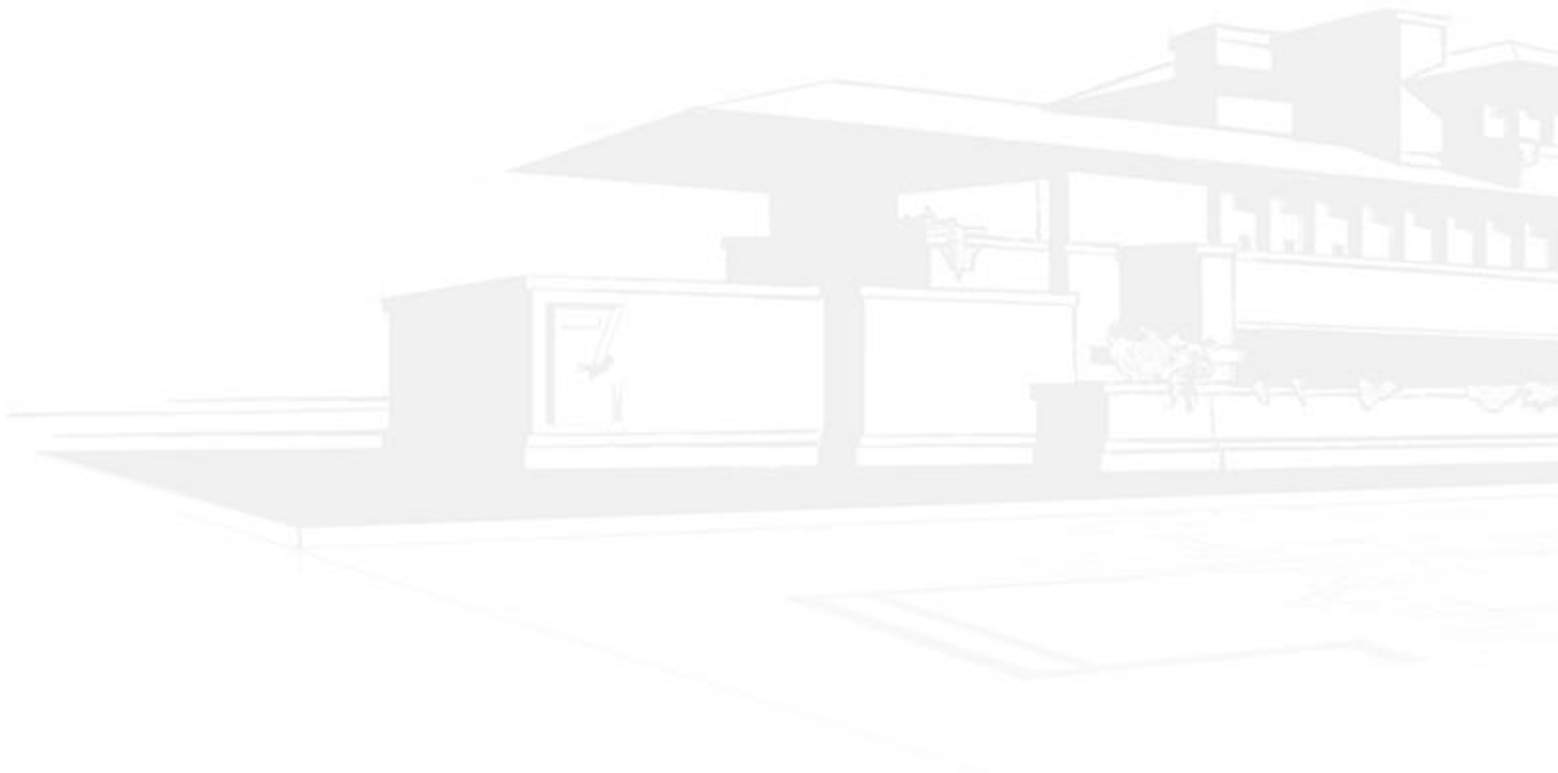
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The performance of the Broyhill Equity strategy is representative of a composite of numerous separately managed accounts and is considered to be a “carve out” or “extracted performance.” The calculation methodology for this composite for the period from 9/1/15 through 12/31/23 has been verified by a third-party performance verification firm and reflects the equity returns of actual Broyhill client portfolios. The calculation methodology for the periods after 12/31/23 is the same as the methodology that was verified. The Broyhill Equity strategy performance results are based on the weighted average performance of the portion of individual managed accounts invested in the Broyhill Equity strategy, but may not represent the performance of the entire client portfolio. Since many of BAM’s managed accounts are invested per a “balanced” investment model, we believe that this extracted performance composite, which includes only fully discretionary equity holdings of all BAM discretionary accounts, is the most accurate representation of BAM’s long-term equity performance. Additionally, since this performance represents a pure equity allocation, it does not include the impact of any cash allocation. Performance figures for the total portfolio composite are available upon request. This data may be useful for an investor evaluating Broyhill, although individual results may differ based on each account’s investment objectives, the date of initial funding, the opportunity set available at the time, specific investment vehicles available to the accounts, and individual fee schedules.

Performance of the Broyhill Equity strategy composite is calculated using time-weighted rates of return, net of all fees and expenses, and reflects the reinvestment of dividends and other earnings. Since the composite returns are calculated gross of fees, in order to report net returns, the highest annual management fee we charge (1.5% per annum) has been subtracted from gross reported returns to arrive at the net returns shown.

BROYHILL VITRUVIAN VALUE, LP

The performance of the Broyhill Vitruvian Value (“BVV”) strategy presented herein is hypothetical and does not reflect the performance of any actual investment portfolio. The results are provided for illustrative purposes only and do not represent actual trading or investment results. Hypothetical returns have inherent limitations and do not account for all factors that may affect actual performance, including market conditions, liquidity constraints, fees, and other expenses. Past or hypothetical performance is not indicative of future results, and no representation is being made that any investment will or is likely to achieve returns similar to those shown.

The performance of the BVV strategy is representative of a composite considered to be a “carve out” or “extracted performance.” The calculations performance of this composite from 9/1/15 through 12/31/23 has been verified by a third-party performance verification firm and reflects the equity returns of actual client portfolios invested in the BVV strategy. The performance calculation from 1/1/24 through 6/30/25 uses the same methodology as the verified period and also reflects the equity returns of actual client portfolios invested in the BVV strategy. For the period from 7/1/25 onward, the returns shown use the actual monthly returns for Broyhill Vitruvian Value, LP (“BVV LP”). These results are based on the weighted-average performance of the portion of individual accounts invested in the BVV strategy and may not reflect each account’s

entire portfolio performance. Since some of BAM's accounts are invested per a "balanced" investment model, we believe that this extracted performance composite, which includes only discretionary equity holdings of all BAM discretionary accounts deploying the BVV strategy, is the most accurate representation of the BVV strategy's long-term equity performance. Additionally, since this performance represents a pure equity allocation, it does not include the impact of any cash allocation. Performance figures for the total portfolio composite are available upon request. This data may be useful for an investor evaluating an investment in BVV LP.

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