



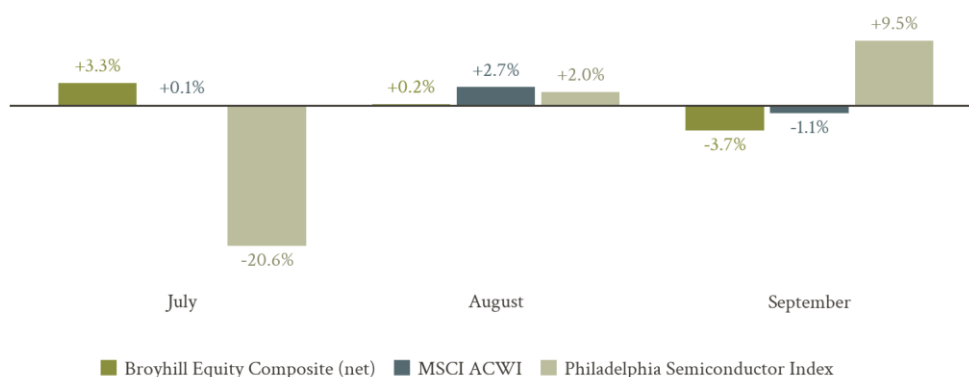
OCTOBER 2026

The Broyhill Equity Composite declined 0.3% in the third quarter, net of all fees and expenses. The MSCI All Country World Index returned 1.7%. For the nine months ended September 30, the Composite returned 1.9% against 13.4% for the Index. 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.¹

The quarter was split in two. In July, when the semiconductor index fell 21% and the Index was flat, the Composite gained 3.3%. Then technology took the lead again. Technology stocks in the Index rose 10% over August and September, and in September every other sector declined, including consumer staples, consumer discretionary and industrials. Those three sectors account for more than half of our portfolio and technology for less than a tenth, so we gave back July's gain and a little more.

When Semiconductors Fell, We Held Up

Third-quarter monthly returns



Source: Broyhill Asset Management, Bloomberg

The pattern held in October. The Philadelphia Semiconductor Index fell for eight straight sessions from October 7 through October 16, its longest losing streak since 2008, as rate-hike fears, doubts about the return on AI spending, and competition from China weighed on the group. The Semiconductor Index lost 15.7% over those eight sessions, while the Composite gained 3.4%, and the MSCI ACWI Index declined 2.2%.² We will provide further updates in our year-end letter.

¹For standardized performance data, including 1-year, 5-year, 10-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.

²October figures are preliminary, unaudited, and subject to revision when the month closes. Composite returns are estimated from daily Orion performance data for the accounts included in the composite for September 2026, net of a pro-rated 1.5% annual model management fee. Index returns are from Bloomberg (MSCI ACWI net total return; PHLX Semiconductor Sector Index price return). Past performance is not indicative of future results.

MARKET UPDATE

In the broader market, the quarter opened with the unwinding of the trade that had carried the market for the better part of two years. The Philadelphia Semiconductor Index fell 21% in July, its worst month since October 2008, erasing \$2.2 trillion of market value as investors looked harder at big-tech capital spending plans and at open-source models that can require less infrastructure. Situational Awareness, the hedge fund run by Leopold Aschenbrenner, was the poster child for the sell-off as it was forced to sell billions of dollars of technology shares to meet margin calls. South Korea was at the center of it all. Samsung and SK Hynix grew to roughly half of the Kospi's weight, up from about a quarter at the end of last year, and the fund's leveraged bet on Korean memory-chip stocks collapsed. The Kospi fell 19% in the quarter, the worst result of any equity market in the world.

Another development that impacts the AI trade came afterward. Inflation concerns flared again following renewed disruption in the Middle East and constrained shipping through the Strait of Hormuz. Crude oil rose 29% in the quarter to about \$91 a barrel. Much of this rise can be attributed to the Hormuz disruption and rising insurance costs. The Federal Reserve also raised its target range by 25 basis points to 3.75% to 4.00%, its first increase in three years. Long-term rates surged. The 10-year Treasury yield rose from 4.44% at June 30 to 5.29% at September 30, the highest close in the twenty years charted below, and the five-year yield moved above 5% for the first time since 2007.

The 10-Year Yield Reaches a 20-Year High

10-year U.S. Treasury yield, daily close



Source: Board of Governors of the Federal Reserve System

Inflation was not the only force at work here. Government borrowing has become harder for the market to look past, with the federal deficit on track to reach \$2 trillion this fiscal year and debt service alone costing about \$1 trillion a year. At the same time the technology build-out is competing with the government for capital. U.S. investment-grade corporate issuance reached about \$1.7 trillion through July, roughly 27% above last year's pace. Federal Reserve Chair Kevin Warsh said as much in September: "The so-called hyperscalers are out in the market raising funding. And so the competition for capital is real. And I think it partly explains the increase in yields."

The last time yields were this high was 2007. We aren't suggesting history will repeat, but the consequences of being wrong are significant enough that we think caution is warranted at this stage of the cycle. That view shapes how we are managing the portfolio.

PERFORMANCE REVIEW

We define top contributors and top detractors as companies impacting 100 basis points or more on the portfolio's return for the period. The third quarter produced three top contributors: IQVIA, Thermo Fisher, and Microsoft. Three positions detracted 100 basis points or more: Rentokil, Valvoline and Masco.

TOP CONTRIBUTORS

IQVIA was our largest contributor, adding about 320 basis points, most of it in July. Second-quarter results beat expectations on revenue, earnings and bookings, and management raised its full-year earnings guidance. The shares jumped 12% on the report to a new 52-week high. We trimmed the position in August as part of our portfolio construction discipline.

Thermo Fisher added about 210 basis points, more than half of it in July. Second-quarter results beat expectations, and management raised full-year guidance. Management said the improvement was broad-based across end markets, that biopharma demand is now showing up in the numbers and not only in the pipeline, and that academic and government spending, previously the largest drag, has returned to growth. We view the broad-based growth in Thermo as a barometer that the sector is returning to normal demand after the disruption from over-ordering following COVID and political uncertainty. Healthcare remains our largest sector exposure.

Microsoft added about 110 basis points, most of it in July, the month we added to the position. Results for its fiscal fourth quarter were ahead of expectations, led by faster growth in Azure, its cloud platform, with guidance for further acceleration. Demand continues to exceed capacity, and adoption of its Copilot AI assistant keeps widening. What mattered most for this quarter's theme was cash: capital spending came in below expectations, free cash flow was strong, and management expects to be free cash flow positive next year at a time when the market worried about hyperscalers competing for capital. The shares rose 16% the next day.

TOP DETRACTORS

Rentokil Initial was our largest detractor, costing about 270 basis points, most of it in July and again in September. The first-half report on July 30 was a case of fine financials and a broken story. Growth and margins improved, and leverage fell into the target range for the first time since the Terminix acquisition. But North American growth slowed, lead flow weakened into July, door-to-door, a pillar of our thesis, went undisclosed, and management retired its 2027 North American margin target. The shares fell about 21% on the report. We trimmed the position in September and exited the position after quarter-end. Rentokil has historically lagged its closest peer Rollins on operational metrics. We expected this gap to close over time and, with that, valuation to re-rate higher. This could still happen, but in the meantime, we have decided to exit to focus on higher conviction ideas and revisit the story at a later date.

Valvoline cost the equity portfolio about 120 basis points, spread across all three months, even as the business kept executing. Fiscal third-quarter same-store sales and earnings beat expectations, and management raised its full-year sales outlook. The pressure is on margin. Gross margin declined for a second straight quarter, and management's outlook implies meaningful compression again in the fourth quarter on higher base oil costs. To offset the pressure from oil costs stemming from the Iran war, management announced an increase to its prices.

This not only reflects its pricing power, but we believe is likely to stay in place if base oil reverts to a lower level. We added to the position in September.

Masco cost just over 100 basis points, most of it in July. Second-quarter sales fell and missed expectations. Earnings beat, but the beat came from a one-time tariff refund, and the increase in full-year guidance was essentially all refund. Management raised the buyback, but demand remains choppy and commodity inflation guidance worsened. Moreover, Masco is exposed to the housing cycle, and rising rates serve to pressure shares for that reason. Part of our thesis is that, as homebuyers become accustomed to higher rates, activity will improve. The recent rise has delayed this timing.

KEY TRANSACTIONS

We initiated one position during the quarter in Alphabet and exited four: Intuit, Honeywell, Midera Food Processing, and CACI International. The common thread is that they focus our attention on our highest conviction holdings. Two of these exits, Honeywell and Midera, were positions involved in spin-offs. We also resized several positions as part of ongoing portfolio management, not all of which are discussed here.

We initiated a starter position in Alphabet following a post-earnings sell-off in the shares. Alphabet's second quarter put higher capital spending and negative free cash flow, a first for the company, in the spotlight: capital expenditures were \$45 billion against operating cash flow of \$39 billion. Against that, demand continues to exceed supply, and direct sales of its TPU chips to customers offer a back door to chip exposure without owning a semiconductor company. We are comfortable layering in small positions of this kind and will look to size it up if valuations compress further.

We sized up Honeywell Aerospace (HONA) and at the same time sold the automation business left behind in the parent company. Once the two companies traded separately, the market paid up for the latter and discounted the former. Part of our thesis on the conglomerate was a sum-of-the-parts discount. We exited the parent, now a pure-play automation company, when that discount to its peers closed.

Aerospace has long been considered the crown jewel of Honeywell, and we think the case for owning more of it is straightforward. HONA's parts are designed into aircraft platforms for 30 to 50 years, allowing it an entrenched position in the supply chain, a high return on invested capital, and over \$2 billion of free cash flow expected next year. The sell-off in shares followed analyst reports arguing its content on newer aircraft is lower, indicating lower growth ahead. This selling pressure was exacerbated by spin-off dynamics, but going forward the spin will allow the company to invest where it sees fit. For HONA that means making sure it has the supply chain it needs in place. Further, if shares continue to languish, we think a potential acquirer would put a floor under the price.

We sold Midera Food Processing following its spin out from Middleby. We never underwrote Midera as a stand-alone investment. It arrived as a distribution, and our thesis is on the Middleby we kept, a pure-play commercial foodservice company. The shares had re-rated roughly 19% in their first weeks of trading, while second-quarter organic growth was just 1.3%, so we took the gain and put the capital behind higher conviction holdings.

Intuit was a small position established as part of a software basket, which we have since rotated into higher quality holdings, namely Microsoft, which also sold off in the first half of the year. We believe the shares of both were

caught in the market's concern that AI will pressure software economics. This is true for some, but for many companies, we believe this concern is overblown or entirely unfounded. We have not given up on software as a theme but have shifted how we are expressing it in the portfolio.

Finally, we sold CACI in September after the shares rallied on its fiscal fourth-quarter report. Headline results for the full fiscal year were strong, with revenue up 10.9% and a book-to-bill of 1.1x, but the pillars of our thesis that we could verify had broken: the buyback driver is gone as cash goes to paying down debt after the ARKA acquisition, the technology-mix metric has gone undisclosed for three quarters, and management is downplaying book-to-bill as a measure. The shares had also returned to a valuation above their multi-year average, with no insider buying.

BOTTOM LINE

The biggest knock on Broyhill in recent years is that we looked different from the market, while the market was going straight up. However, we believe we are positioned such that our portfolio can weather and perform in a range of environments and economic outcomes. The quarter was a reminder of how quickly a crowded theme can reverse, and how little room that leaves for anyone who owns it at any price.

Ten-year yields above 5% change the arithmetic for equity investors, and for every business with debt to refinance or growth to fund. That group now includes the megacap technology companies that make up the largest share of the stock market. Our response is to keep our focus on the drivers of the businesses we own alongside the valuation of their stock, while continuing to research attractive opportunities.

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,



Patrick Wells, CFA



Matt McLean

ABOUT BROYHILL

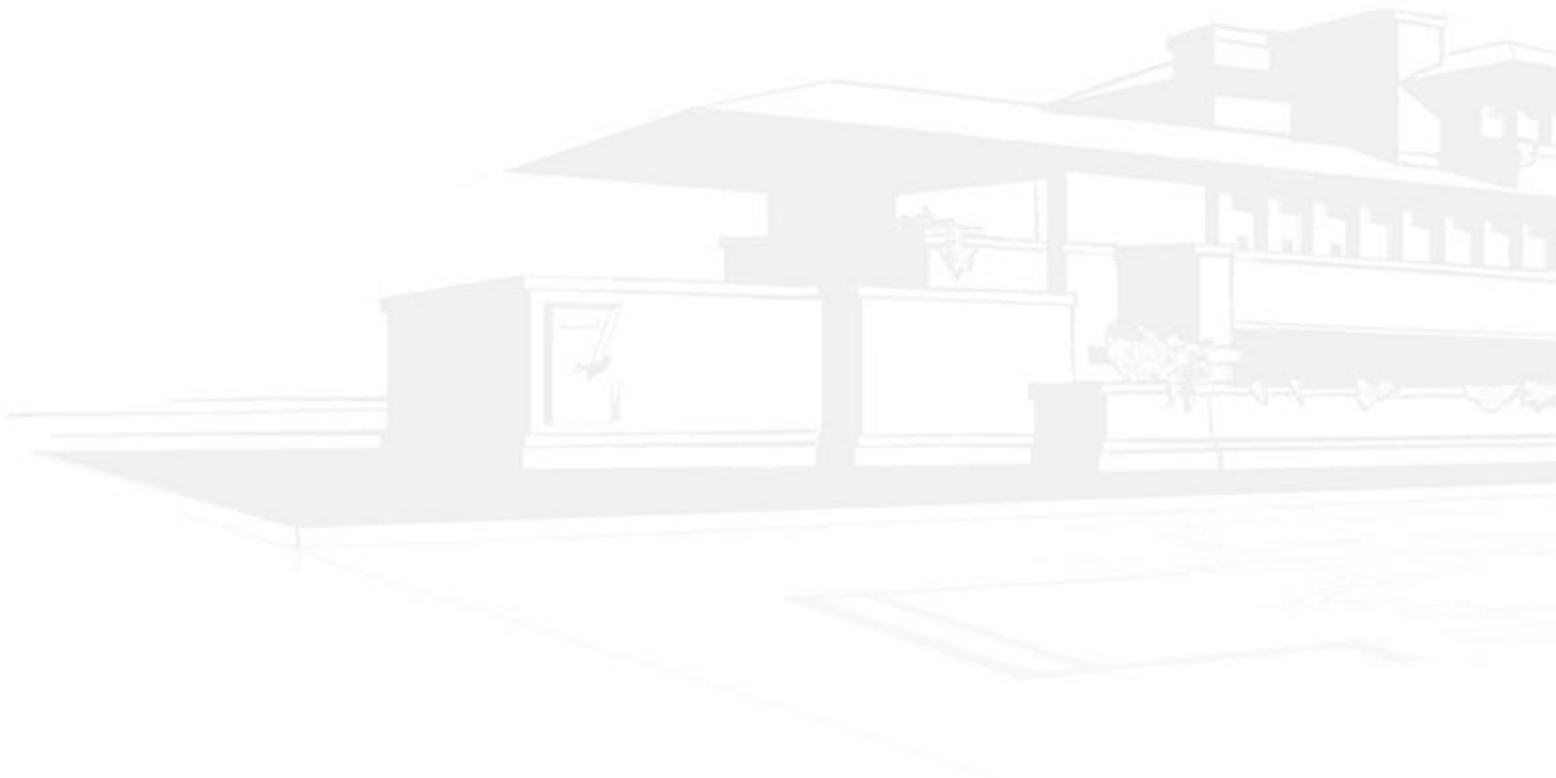
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