GIVERNY CAPITAL
ASSET MANAGEMENT LLC

July 16, 2024

To our clients & friends,

For the second quarter and year ended June 30, 2024, the Giverny Capital Asset Management ("GCAM") model portfolio performed as follows:[1]

GCAM Performance	**Quarter ended**	**Year-to-date ended**	**One-year ended**	**Three-years ended**	***Annualized Since Inception**
	6/30/2024	**6/30/2024**	**6/30/2024**	**6/30/2024**	**6/30/2024**
Portfolio Return -Net	**-2.31%**	**12.31%**	**26.67%**	**7.68%**	**19.54%**
S&P 500 TR	**4.28%**	**15.29%**	**24.56%**	**10.01%**	**21.15%**
Excess Return -Net	**-6.60%**	**-2.98%**	**2.11%**	**-2.33%**	**-1.61%**

**** Inception Date 04/01/2020***

After an extended stretch of strong performance, our portfolio took a step back in the second quarter. While not fun to live through, I am not losing sleep over short-term results. We had a great first quarter and a poor second quarter, but throughout I liked what we owned. I believe our companies are faring well – as always with a few exceptions – and we are very much hurt by our low exposure to the so-called Magnificent Seven tech stocks. While we own chunky positions in Alphabet and Meta, our weight in those two on June 30th was 16.7% vs. the S&P 500's exposure to the Magnificent Seven of 32.2%.

That matters because the Seven truly are driving the Index's performance. For the first half of the year, chip maker Nvidia rose 149% to become the largest constituent in the Index at more than 7%. Nvidia alone contributed about four points of the Index's 15.3% return during the first half. The two-thirds of the Index by weight (made up of ~493 stocks) outside the Mag Seven rose by single digits.

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[1] GCAM's model portfolio is a Poppe family account ("portfolio"). The portfolio does not pay an advisory fee, but the returns presented herein assume the deduction of an annual advisory fee of 1% to show what a client account's performance would have been if it had been invested the same as the portfolio. The returns reflect reinvestment of dividends and other earnings. Past performance is not necessarily indicative of future results. ***Important disclosures appear at the end of this letter.***

The S&P 500 Index returns include the reinvestment of dividends and other earnings. The Index is an unmanaged, capitalization-weighted Index of common stocks of 500 major US companies. The Index does not incur expenses and is not available for investment.

For better or worse, we own only two of the top 10 tech stocks in terms of size, Alphabet and Meta. Those two generated sky-high returns for us in the first half, as did Arista Networks, which is a key supplier of networking equipment to artificial intelligence (AI) data centers. Thanks to these three, we're within spitting distance of the Index's return. But it would be close to impossible to beat the Index without a similar weight in the largest tech stocks.

I believe that owning a concentrated portfolio of high-quality companies (that have been intensively researched) makes sense for many investors. So, I am not going to complain about the supposedly diversified S&P 500 looking increasingly like a concentrated bet on large cap tech. The market is telling us loudly that these are the most competitively advantaged companies in the world. I have no reason to argue.

I continue to believe, however, that having heavier exposure to smaller, more entrepreneurially managed businesses with lots of room for growth should work out well for us. It strikes me as very difficult to compound value from a $2 or $3 trillion market cap when you already have a PE multiple of 40 times earnings, or higher. According to Sanford Bernstein Research, Nvidia trades for 50 times expected 2024 earnings per share. Microsoft trades for 34x, Apple 31x, Amazon 45x, Tesla 80x and Netflix 39x. Our two tech giants, Alphabet and Meta, are considerably cheaper (but not cheap) at 24x and 25x, respectively. The market overall trades for about 23 times this year's expected earnings, which is quite high relative to history.

As of June 30, we have 20% of the GCAM portfolio in stocks with market caps under $16 billion vs. the S&P 500's exposure of 2.2%. Midcaps have been a terribly underperforming part of the market: the S&P 400 mid-cap index, which has an average market cap of about $7.1 billion, was up 5.9% at mid-year.

We are achieving an acceptable result with a basket of securities that looks very different from the Index. Our companies are smaller on average than the median Index constituent and more likely to be managed by a founder or founding family. As I've written to you previously, if you rolled up our portfolio into one big conglomerate, it would have a higher free cash flow yield than the Index, use less debt as a portion of the capital structure, grow earnings faster and have a similar PE multiple. I am a bottoms-up investor, but I feel fine about that top-down math.

I'll also repeat last quarter's letter by reminding you that the last time the S&P 500 was this concentrated at the top was at the peak of the dot com bubble in 2000, when General Electric, Intel and Cisco Systems seemed invincible. We all know how that ended up for those three. I'd stipulate that Nvidia, Apple and Microsoft seem to be superior companies than GE, Intel or Cisco proved to be with benefit of hindsight. Nevertheless, the PE multiples cited above are quite demanding and will require exceptional earnings growth in years ahead – presumably powered by high returns from AI investments – to justify current multiples.

Enough about the difficulty competing with the Index. How are our companies doing? During the first half, our best performers – surprise! – were tech stocks with exposure to AI: Arista Networks +49%, Meta Platforms +43% and Alphabet +31%. Our car insurer Progressive Corp. was also up 31%. These were by no means the only good performers: Heico Corp., Installed Building Products, Analog Devices, Charles Schwab and Kinsale Capital all rose by more than 15% in the first half.

On the negative side of the ledger, Five Below lost 49% of its value in the first half of the year, with most of the drop happening in the second quarter. Five Below sells low-priced merchandise to a wide demographic swath, but about half of its customers have household income of less than $50,000 a year. These folks have pulled back on spending. In addition, Five Below is one of many retailers battling a shoplifting problem as some cities have stopped prosecuting petty crime. Store profit margins have shrunk as thefts have risen, but the double-whammy is that sales also decline when retailers take steps to make it harder to steal, such as putting more items behind lock and key.

I believe Five Below is having some success reducing theft, but that may be coming at the expense of lower sales. As I finished this letter, Five Below announced that it has parted ways with long-time CEO Joel Anderson amid continuing sluggish results. The stock took another leg down in valuation from already depressed levels.

Clearly, the company is struggling and I will be reexamining our thesis for owning it. Over the past five years, Five Below has grown sales by 18% annually and net earnings by 15%, as theft compressed profit margins. That's still a level of growth most businesses aspire to reach. The CEO job ought to be one of the more desirable ones in retail.

Our other significant detractor this year has been Eurofins Scientific, which was attacked in a short-seller report during the quarter and lost a quarter of its value. This after a shaky couple of years in which Eurofins saw pricing pressure on its core diagnostic testing business in France. The short-seller report made some justified criticisms: Eurofins for years has had too many transactions with its founder and CEO, Dr. Gilles Martin, who owns some laboratory facilities personally and leases them to the company. These are disclosed, including the levels of rent the company pays to Dr. Martin, and are not new. And for 25 years these relationships did not prevent Eurofins from being one of the best performing stocks in Europe.

I believe the report was riddled with dubious assertions. Among other things, the short sellers did not seem to understand that Eurofins is a laboratory testing business and not an inspection and certification business. So, their report made claims about the company's productivity metrics being suspiciously better than its peers – because it identified the wrong peer group. Eurofins won't announce second quarter results until late July, but we expect to hear about healthy testing volumes, stronger margins and a sizable stock buyback.

Our holding CarMax continues to scuffle along in what is a very challenging market for used cars, because of both high interest rates and a lack of supply of late model used cars after supply chain issues slowed production in the COVID-19 years. A typical monthly payment on a good used car is more than $100 per month higher today than pre-pandemic, with about two-thirds of that attributable to higher auto prices and one-third to higher interest rates on loans. The company noted in a recent meeting with investors that annual sales of used cars aged 0-6 years have fallen from about 15 million to 12.3 million, down 18%, over the past couple of years. Lately, it appears that sales of late model used cars have begun to improve. If the trend holds, CarMax ought to see much better results.

Most of the rest of our holdings are doing fine. We track Wall Street analysts' earnings forecasts and the current consensus of estimates on FactSet shows our portfolio growing EPS by about 16% annually over the three years 2024 to 2026 vs. 12.5% for the Index. If the market is telling us the only reliable earnings growers in the years ahead will be tech stocks with AI opportunity, my response is that our portfolio seems capable of disproving that thesis.

Looking ahead, one can believe wholeheartedly that AI-related technological advances are going to drive the US economy in the decade ahead *and* that the country's leading car insurer, construction rental equipment company, plumbing supplies distributor, insulation installer, airplane spare parts manufacturer and national bank are all likely to thrive.

Because I like the portfolio, we had very few transactions during the quarter. I exited Coherent as I came to believe the company has an exceptional collection of assets but a much less impressive management culture. The CEO and CFO of Coherent both left their jobs recently, and perhaps I should have given their replacements time to set a new course. I used the proceeds from the sale to add to Five Below and Kinsale Capital. In the short run, Coherent is up and Five Below is down, so the early returns on this swap are not encouraging.

My bias today is to tighten the portfolio up a bit more, perhaps selling a wayward position or two and adding to things we own and like. The tail of our portfolio since 2020 has underperformed our larger positions, and so the tail probably should be shorter. Conversely, our top 10 holdings continue to grow as a portion of our assets under management. That's as it should be – if we act as long-term owners over time the best stocks in the portfolio will become oversized. Our top 10 holdings are now 63% of the portfolio, the highest percentage since inception.

We will have our third GCAM client meeting in New York City on the morning of October 11th. Clients will receive invitations and further details separately, but please mark the date. This year we are not going to live stream the meeting – I think we'll have a better conversation if we record the meeting and issue a video for clients a few days later. So, if you would like to attend live, you will need to make your way to midtown Manhattan in the fall. If you can't attend but want to ask questions, feel free to send them to us in advance and my colleagues John Bleday and Francois Rochon will help me answer them. We will make sure to have a good-quality video of the meeting available shortly after the 11th.

With every good wish,

David M. Poppe

Disclosures

The performance returns presented herein are those of a Poppe family account (the "Portfolio") that serves as the model portfolio of Giverny Capital Asset Management LLC ("GCAM"). The Portfolio is managed in accordance with the investment strategy that GCAM employs for its client accounts; however, the performance of a client account may differ from that of the Portfolio due to account size, client-specific guidelines or restrictions, tax considerations, cash flows into and out of the account and timing of transactions and other factors. Performance returns of the Portfolio as of the most recent quarter end can be found at www.givernycam.com/performance.

Past performance is not necessarily indicative of future results.

Top 10 Holdings* – June 30, 2024	
Alphabet Inc. Class A & C	*9.6%*
Arista Networks	*9.2%*
Progressive Corp.	*8.0%*
Constellation Software	*7.5%*
Meta Platforms Class A	*7.1%*
Charles Schwab	*5.4%*
Heico Corp. Class A	*4.2%*
Installed Building Products	*4.1%*
Berkshire Hathaway Class B	*4.1%*
Ashtead Group, plc	*3.9%*
Total	***63.1%***

* *The holdings are those of the Portfolio as of the date indicated. Client account holdings may differ from those of the Portfolio due to account size, client-specific guidelines or restrictions, tax considerations and other factors. The Portfolio's holdings are subject to change and are not recommendations to buy or sell any security. The percentages are of total assets. Top 10 holdings of the Portfolio as of the most recent quarter end can be found at www.givernycam.com/performance.*

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All investments involve risk and may lose value. For a discussion of risks, see Item 8 of GCAM's Form ADV Brochure.

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