



October 21, 2024

To our clients & friends,

For the third quarter and year ended September 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
	<u>9/30/2024</u>	<u>9/30/2024</u>	<u>9/30/2024</u>	<u>9/30/2024</u>	<u>9/30/2024</u>
Portfolio Return -Net	6.99%	20.16%	39.71%	9.94%	20.15%
<i>S&P 500 TR</i>	5.89%	22.08%	36.35%	11.91%	21.40%
Excess Return -Net	1.10%	-1.92%	3.36%	-1.97%	-1.25%

* Inception Date
4/01/2020

We had a fine quarter and continue to benefit from a remarkably strong US stock market. For the trailing 12 months ended September 30th, we were up nearly 40%. This feels good but clearly is not sustainable. I encourage clients to temper expectations on future returns. That said, stock prices over the long term are driven by earnings growth, and US corporate earnings are growing at healthy rates. Over the five years from 2019 through 2024, FactSet Research expects the S&P 500 constituents to grow earnings just over 50%, or about 8.7% annually. The outlook for earnings growth in 2025 and 2026 is even better, anticipating more than 10% annual growth, although Wall Street consensus has a long history of being too optimistic.

Further, the return on equity for the Index today is around 20% while pretax operating margins exceed 16%. I think sometimes investors, or maybe just this investor, forget just how exceptional these figures are. A generation ago, an ROE of 14% and profit margins of 10% were considered good.

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.

Corporate America has been on a relentless and sustained journey to improve financial returns. As a result, the US stock market has generated excellent returns and, in fact, has become quite a bit more expensive than the rest of the world. But the basic math of strong earnings growth, high margins and ever-improving returns on capital would seem to justify the gap.

Not to pick on other countries but, using FactSet figures, the German DAX Index trades for a PE multiple of 13x the consensus forward earnings estimate, earns a 12% return on equity and should grow earnings about 7% next year. The UK FTSE Index figures: forward PE multiple of 11.7x, ROE of 15%, earnings growth of about 5%. The stock market and the economy are not the same thing, but *The Economist* magazine describes the US economy in a recent cover story as the envy of the world.

In saying this, I am not cheerleading for the bull market or the US economy. Rather, the point is that stocks in the long run reflect fundamentals and the fundamentals in the US are better than elsewhere. Are US returns on capital so high because over the past 30 years we moved capital intensive manufacturing industries to lower-cost countries? Or perhaps we innovate better and have embraced technology and automation to a greater extent than other economies? It may help that US corporations pay relatively low tax rates and so have more money to reinvest or return to shareholders. Does it boost returns that many industries are being consolidated to the point of oligopoly? In fact, there are about 30% fewer public companies in the US today than in the mid-1990s. Perhaps all these factors are in play?

Whatever the cause (or culprit), in my opinion the US stock market is expensive for a reason: this is an extraordinary environment for capitalists. I can remember well a conversation with a former boss, the great investor Bill Ruane, around the turn of the century in which Bill said rising corporate profit margins then around 10% would not be sustainable, as the continuous push and pull between labor and owners would inevitably swing back to labor. Two decades later, the corporate profit margin is not 10%, but 16%.

Could it really be sustainable that US companies could invest a dollar of equity and expect to earn about 20 cents of profit in perpetuity? That US companies could sell their goods and services at a 16% profit margin forever? And could it be rational that the seven US technology giants known as the Magnificent Seven – Nvidia, Apple, Microsoft, Alphabet, Amazon, Meta Platforms and Tesla – could be valued the same as the entire MSCI European stock market, about \$14 trillion?

I share these musings with you because they have been on my mind a lot recently. Two things seem clear to me: first, strong US corporate performance has led to strong stock market performance, which results in a flywheel effect in which our country attracts capital from around the world, further driving up returns for shareholders and attracting more investment to the US. A recent report by Mario Draghi, longtime head of the European Central Bank, said US companies spent about \$270 billion more on Research & Development in 2021 than European companies. The US receives about four times more venture capital investment than Europe.

Second, many Americans believe the country is on the wrong track and they would like to see change. When people express a desire to vote for tariffs and trade protectionism, I'm pretty sure they are not thinking about the stock market math I described above, but they're feeling it. Corporations and their shareholders are thriving. But while unemployment is quite low, people who don't own shares (or homes) feel they are not sharing in our extraordinary national prosperity.

That national mood ought to be better: the Federal Reserve says household net worth is up by 40% since 2019 – driven by rising home prices and the stock market – while household debt as a percentage of GDP is at the lowest level in 23 years, at 71%. Yet we do not have a shared sense of prosperity.

All of this is not intended as a political statement, but as a comment that even as the US stock market has created enormous wealth for shareholders in the free trade era, polls consistently show a large number of Americans believe the country is on the wrong track. My sense is that this era may be ending. Survey after survey indicates the average worker does not see their personal financial health improving at nearly the same rate as the average shareholder. Bill Ruane thought 20 years ago that our ascendant corporate profit model was not sustainable because of the toll it took on labor. He may have been right, just two decades too early.

My partner Francois Rochon likes to say that you'll make more money being agnostic than you will by being dogmatic. I believe that. People who are prescriptive about how the world should work often become disillusioned and, in my experience, struggle as investors. The world is messy, people are flawed, pretty much every human system works imperfectly. Investors make money by being optimistic about the potential for future innovation, efficiency and excellence. Many people roll their eyes at optimists.

Investors also survive by being clear-eyed. The version of capitalism we have in the US generates far better returns for investors (and judging by household net worth figures, most citizens) than other economies and markets elsewhere, but it is unpopular. As always, I think the best way to cope with the possibility of an uncertain future is to own a portfolio of the highest-quality businesses one can find, helmed by owner-managers with a deeply rooted interest in the success of the enterprise. Over many decades, stocks have delivered higher returns than other asset classes. I have no reason to believe that won't continue to be true. But I suspect the returns won't resemble what we've enjoyed recently.

We had a quiet quarter. We sold the last of our shares in Floor & Décor in July and trimmed Progressive and Berkshire Hathaway. I am a fan of Floor & Décor, which is a big box retailer specializing in hard surface flooring, but most people install new flooring upon purchasing a house. With housing turnover weak and Floor & Décor stock priced for a strong housing recovery, I felt we had better opportunities elsewhere.

With Progressive and Berkshire, we trimmed both stocks into strength. Progressive is up about 55% this year and had become a 9.5% weight. The company remains a top holding, and I have not lost any confidence in its superior underwriting capability versus auto insurance rivals. But an 8% weight feels comfortable for a company that has both a large market share and an elevated profit margin.

With Berkshire, the company has had a remarkable run, up about 30% through September, quite impressive given Berkshire's enormous size. Berkshire has a quality collection of mostly mature assets that throw off a lot of cash but don't grow especially fast. It has an enormous pile of cash that Mr. Buffett could invest in a time of crisis – but importantly, he has not really done much investing in recent years. I feel Berkshire is a fine company to hold, especially for those with very low-cost basis, but it is unlikely to generate outsized future returns. Thus, I trimmed the position.

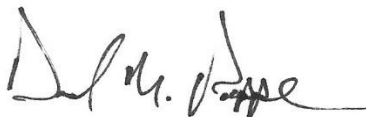
We used the proceeds of these sales to establish a new 2.5% position in Medpace Holdings, a clinical research organization, or CRO, based in Cincinnati. Medpace conducts clinical drug trials for early stage biopharma companies. When young companies develop promising drug compounds, they need to conduct multiple stages of clinical trials over several years to prove the efficacy of the new drug before the Food & Drug Administration will approve it for use in people. Start-up companies do not have the expertise to conduct these trials, which are expensive and often go on for years.

Medpace was founded in 1992 by August Troendle, a former medical review officer for the Food & Drug Administration. He owns 17% of the company. The company has distinguished itself both for the quality of its scientific work and its ability to identify start-ups with the most promising compounds *and* the financial backing to complete years of trials before their drug gets to market. The company's focus on good relationships with promising biotech companies has led to high returns on capital, profit margins and free cash flow margin. Biotech funding is, essentially, a speculative venture as many new compounds fail in trials. But biotech funding has been healthy in recent years and rate cuts could be a further positive, making it easier to finance trials.

Medpace is respected by the market and never trades for a cheap price. Our partners at Giverny Capital Inc. in Montreal bought some in 2023 for about 25 times the forward earnings estimate. I felt at the time that I did not understand the business well enough to buy it for us. We've spent a fair amount of time since then learning about the company and when the stock once again dropped to 25 times earnings, we began buying.

We had our annual client meeting in New York City on October 11th. With this letter, clients will receive a link to the video of the meeting, which featured an excellent Q&A session with a lot of conversation on our individual holdings. I hope clients find the dialogue helpful. Thanks to my partner Francois Rochon and research analyst John Bleday for adding their insights to the morning. I'm proud to be part of such a good team.

With every good wish,

A handwritten signature in black ink, appearing to read "D. M. Poppe". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

Arista Networks	9.4%
Alphabet Class A & C	8.1%
Constellation Software	7.9%
Progressive Corp.	7.7%
Meta Platforms Class A	7.5%
Installed Building Products	4.6%
Heico Corp. Class A	4.5%
Charles Schwab Corp.	4.4%
Ashtead Group Ltd.	4.2%
CarMax	3.7%
Total	62.1%

** 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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