January 24, 2025

To our clients & friends:

For the fourth quarter and year ended December 31, 2024, the Giverny Capital Asset Management ("GCAM") model portfolio performed as follows:[1]

GCAM Performance	Quarter ended 12/31/2024	One-year ended 12/31/2024	Three-years ended 12/31/2024	*Annualized Since Inception 12/31/2024
Portfolio Return -Net	0.78%	21.09%	6.54%	19.19%
S&P 500 TR	**2.41%**	**25.02%**	**8.94%**	**20.77%**
Excess Return -Net	-1.63%	-3.93%	-2.40%	-1.58%

**** Inception Date 4/01/2020***

To channel the FM radio kings of my youth, Led Zeppelin, the song remains the same. We continue to generate strong performance, but not as strong as the S&P 500, which has been led by a narrow band of giant tech companies for a few years now and, if anything, is becoming ever more driven by them. The so-called Magnificent Seven tech stocks now constitute fully one-third (33.7%) of the total capitalization of the Index, and they're far outpacing the overall market. According to S&P, the "Mag 7" generated a weighted 48% return in 2024, contributing more than half of the Index's 25% gain. The other 493 components generated a 15.3% return – still very good, but not 48%.

[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.

Our issue continues to be our underweight in the Mag 7. At year end we had 16.8% of our capital in two Mag 7 members, Alphabet and Meta Platforms. Those two generated outsized returns for us in 2024: Alphabet rose 36% and Meta, 66%. On a weighted basis, our "Mag 2" return was 49%, but because we have half as much exposure to the giants as the Index, the contribution to our total return was "only" 6.3 percentage points, including the deduction of management fees.

The other 83.2% of our capital at year-end did better than the Index's non-Mag 7 return of 15.3%. This portion of the portfolio, which included a low-yielding average cash balance of about 4% during the year – rose 18.5%, net of our management fees.[2] But that was not enough to allow us to keep pace with the Index.

I really like our portfolio. We enjoyed market-beating returns in 2024 from an eclectic group of businesses including financial technology provider Fiserv (+54%); auto insurer Progressive Corp. (+51%); banks JP Morgan (+44%) and M&T (+42%); commercial insurer Kinsale Capital Group (+39%); airplane parts manufacturer Heico Class A (+31%); and conglomerate Berkshire Hathaway (+27%). Plus, our vertical market software provider Constellation Software and Mastercard approximated the market return. Our largest and best-performing position, Arista Networks, rose 87% for the year as enthusiasm over the prospects of a massive build out of Artificial Intelligence data centers fueled the stock.

We had some poor performers that hurt us, including value retailer Five Below (-51%); orthodontia innovator Align Technology (-24%); subprime lender Credit Acceptance Corp. (-12%); and equipment rental store Ashtead (-11%). As it happens, fully one-third of the Index constituents (169) were down in 2024 – despite the market being up 25% overall – so our portfolio was not unusual in generating a wide dispersion of results.

It would be fair to say that we get paid to construct all-weather portfolios that can beat the S&P 500 in any environment. Clients hire us to own the highest quality businesses we can find, trading at fair prices, and Mr. Market has determined that a few tech giants constitute the best investments in the world. Who are we to argue otherwise? I can only say that I remain confident that history rhymes: that is, when the S&P has become this heavily concentrated at the top, whether during the Nifty 50 era of the early 1970s, the dot com era of the late 1990s or, not to put too fine a point on it, the summer of 1929, the giants eventually faltered. The current level of concentration, where the top 10 S&P constituents are about 40% of the Index's valuation, is a 100-year high.

The Magnificent Seven are extremely profitable and powerful. I don't expect they will suffer shocking reversals. But it is harder to compound value from a $3 trillion valuation base than from a base of $30 billion. We happen to have 29% of our portfolio invested in businesses with market capitalizations below $30 billion vs. 7% for the Index. I want to explain in this letter why I feel this is the right mix for us.

To start, we own Meta Platforms and Alphabet, as well as S&P 500 giants JP Morgan and Berkshire Hathaway. All four of these were in the portfolio at our inception in April 2020 and have helped us a great deal. So, we are not reflexively opposed to owning huge companies. For better or worse, however, we seem to be spending decreasing amounts of time researching the largest companies

[2] These are approximations based on Factset Portfolio Analytics.

in America, and more time looking for younger franchises – proven businesses with good economics and great growth opportunity.

I think a good question for a client or prospective investor to ask us would be the following: if the market is zigging toward global technology oligopolies, why are you zagging to … anywhere else? How is the team spending its time and what kind of stocks are you buying?

The answer is first, we're spending a lot of time on midcap stocks knowing that over long periods of time, midcap stocks have outperformed large cap stocks. We fish in this pond because historically it is where the best fish are.

Second, I believe that proven-but-not-yet-mature companies should have longer runways for future growth than established leaders. We want to be long-term owners of compounding machines and to repeat, it is easier to compound earnings for years from a smaller base than from a larger one. To boot, many of these growing businesses trade below the S&P Index PE multiple of 22 times expected 2025 earnings. They're not cheap, but they're affordable relative to the alternatives.

My research colleague, John Bleday, and I have spent a lot of our time since he joined us in 2023 looking for companies that have proven business models, the ability to invest capital to drive future growth and relatively small market shares in large industries. We are not speculative investors. We like management teams that care a lot about profit, treat shareholder capital as their own, have great products or services and can take market share for a long time.

I think it might be helpful to see how that analytical bent has translated into new investments over the past few years.

M&T Bank, purchased in 2021. In general, banking is a difficult business that commands low valuations from Wall Street. I believe M&T is the best regional bank in the country and thus, worth more than a typical bank. It tends to have high market shares in less competitive markets, such as Buffalo and Rochester, NY, Hartford, CT and Baltimore. This allows it to have deep relationships with many of the best customers in these markets, which in turn has led to lower loan losses and better returns for shareholders than other regional banks have generated over time. One might criticize the bank for being too conservative: it is substantially over-capitalized, meaning it has plenty of capacity to make more loans, buy back stock or acquire smaller institutions. There are worse problems than owning a bank with too much capital and M&T has committed to accelerating its capital deployment into either stock buybacks or loan growth in 2025. Doing either one should lead to stronger earnings growth. The bank trades for about 12x earnings estimates for 2025. Market cap: $33 billion.

Ashtead Group, purchased in 2022. Ashtead is a UK-based equipment rental company that generates roughly 85% of its business in the U.S., doing business as Sunbelt Rentals. The US has a long-term problem with a shortage of skilled labor, including mechanics who can repair heavy machinery. Ashtead CEO Brendan Horgan says that for every young person entering the skilled trades, seven are retiring. There is also a lot of pressure on US companies to use less capital in their operations. One way to address both issues is to rent machinery rather than own it. The customer only pays for fleet on days it is in use and does not need garage space or mechanics to care for machines when they're not in operation. Sunbelt and its leading competitor, United Rentals, are by far the two largest players in rentals, yet between them have only about 25% market share. Ashtead is sensitive to US construction spending, which has been weak recently. But for many years, Ashtead's Sunbelt unit has grown at close to 2x the rate of US construction spending as customers rent rather than buy. That trend should continue, meaning that when construction spending recovers, Sunbelt's growth should accelerate rapidly. The PE multiple is about 17x on what I believe are cyclically weak earnings. Market cap: $28 billion.

Installed Building Products, purchased in 2022. IBP is a prosaic business, installing fiberglass insulation into new homes, apartment buildings and commercial structures. The key to its success is that fiberglass is manufactured in super-heated furnaces that cannot be turned on and off efficiently. When a manufacturer opens a plant, it produces fiberglass 24 hours a day, 365 days a year. The producers need large customers to absorb those volumes, and they grant those buyers significant discounts. We believe IBP buys fiberglass for about 20% less than smaller customers do. Not even giant homebuilders like DR Horton or Pulte can command the discounts IBP receives, as IBP installs insulation in about 30% of all newly built US homes.

As a result, IBP says it can install insulation in a new home, including labor, for less than a homebuilder can buy the fiberglass. Further, most big homebuilders are trying to reduce their permanent workforce, moving more work to subcontractors. To complement its insulation offering, IBP has been acquiring other types of installers, including gutters, garage doors and shelving. These additional offerings allow homebuilders to consolidate their subcontractors, simplifying their operations. We believe CEO Jeff Edwards, whose family owns 16% of the stock, is building a terrific company that thrives by offering great value to homebuilder customers and by using scale benefits of procurement to reward shareholders. US home starts are low right now, and IBP trades for about 17x earnings, a modest multiple of mildly depressed earnings. Market cap: $5.5 billion.

Fiserv, purchased in 2022. Fiserv has two complimentary businesses, the first providing technology infrastructure to regional banks and the second offering payment processing solutions to restaurants, retailers and other businesses. These two products reinforce each other because many small businesses buy payment solutions from their banks, the idea being to connect the point-of-sale terminal directly to a bank account. Thus, bank customers often act as a sales channel for Fiserv, which gives it an advantage over competitors who sell payment terminals to stores that may not be supported by their bank.

Fiserv has compounded earnings in double digits for decades and shows little sign of slowing down. Its Clover-brand payment processing product is growing rapidly. Fiserv's PE multiple is about 20x estimates for 2025 earnings. Market cap: $118 billion.

Ferguson, purchased in 2023. Ferguson is the largest plumbing-supplies distributor in the United States. The company enjoys an enviable position as its suppliers are mostly unbranded purveyors of pipes, valves, toilets and the like, with only faucets having the strong brand names that command pricing power. Its customers are plumbing contractors who are mostly local and regional businesses. Ferguson is larger and financially stronger than either its suppliers or its customers, giving it considerable market power. The stock has been a so-so performer for us as US new housing construction has been weak in a high-interest rate environment. But Ferguson generates healthy levels of profit and free cash flow even in a weak construction economy and earns high returns on capital. There are many small plumbing distributors that Ferguson could acquire over time, increasing its scale advantages. Like IBP, the company should fare better should housing starts ever pick up. The PE multiple is 19x. Market Cap: $35 billion.

Kinsale Capital Group, purchased in 2023. Kinsale is an insurance company specializing in less regulated commercial liability and property coverage. It sells policies that often offer limited coverage for low prices to small businesses that may be price sensitive. As such, it has invested in state-of-the art technology that lets it assess risk and quote prices efficiently on the kinds of low-cost policies that larger insurers avoid.

Its expense structure is far lower than most peers, allowing it to grow rapidly while remaining highly profitable. We greatly respect the founder and CEO, Mike Kehoe, who owns 3.8% of the company. We believe Kinsale has a chance to grow well beyond its current market share of about 1.5%. It is rare for a small company to have the leanest expense structure in its industry. This stock has been a fine performer for us so far and we're hopeful our holding period will be quite long. Kinsale trades for about 25x earnings estimates, but it also doubled EPS from 2022 to 2024. Market Cap: $10 billion.

Align Technologies, purchased in 2023. Align sells clear aligners for straightening teeth and aims to eventually displace wires and brackets (braces) as the standard in orthodontia. The company has excellent products and huge manufacturing scale advantages over rivals. It spends more on research & development than all its competitors combined and has invested heavily in its Invisalign brand, such that patients often ask for Invisalign by name. Most orthodontists are comfortable using wires and brackets, but a large majority of adult patients prefer clear aligners and, increasingly, teens (and their parents) are demanding them as well. Orthodontia is a huge market globally, with more than 20 million new cases annually. Align has by far the largest share in clear aligners, but only an 11% market share overall in braces. The PE multiple is 22x. Market Cap: $16 billion.

Medpace Holdings, purchased in 2024. We discussed Medpace in our third-quarter letter, but to repeat: it conducts clinical drug trials for early-stage biopharma companies. When young companies develop promising drug compounds, they must 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 lack the expertise to conduct these trials, which are lengthy and expensive. Medpace was founded in 1992 by August Troendle, a former medical review officer for the US Food & Drug Administration. He owns 17% of the company. The company has distinguished itself both for the quality of its scientific work and for its ability to identify biopharma start-ups that combine promising science with sufficient financial backing to complete years of trials. Medpace has doubled its profit over the past three years. Investors have been rattled by the nomination of Robert F. Kennedy Jr. to lead the Department of Health & Human Services, as he seems hostile to the pharmaceutical industry and skeptical of vaccines. The PE multiple is 27x, below the historical norm. Market Cap: $11 billion.

Alert clients may recognize that we established a very small new position at the end of 2024. We're considering buying more and so will comment on this business after we've sized the position properly, but I'll note here that it is less than a $2 billion market cap, run by its founder (who is also the largest shareholder) and has a real opportunity to consolidate a fragmented industry. This does not signal a further move to small cap stocks, but this is a unique situation in an industry that I feel I understand well.

In addition to the businesses highlighted, we've initiated and sold a few other stocks over the past few years. Among them: Floor & Décor, Coherent (and predecessor II-VI); and Ciena. These are all quality companies and while I sold them upon finding better opportunities elsewhere, they fit the same pattern as having both good economics today and significant growth prospects.

As I don't make that many decisions in a year, I think it's possible to get a clear picture of how GCAM is evolving. The legacy portfolio – the positions that we started with in April 2020 – consists mostly of larger businesses. Happily, a number of these used to be midcaps and got much larger via compounding.

There is absolutely a role for dominant large cap "stalwarts" in a concentrated portfolio like ours. We are long-term owners of JP Morgan, Mastercard, Progressive, Charles Schwab and Berkshire, to name five. Fiserv probably belongs in this group. These are some of the best businesses in the country, run by outstanding managers and generally with good growth prospects even at their size. When a new account opens, we're happy to buy this group of companies.

But the scorecard shows that incremental purchases have mostly been of medium-sized businesses. When I look at the half-dozen or so top candidates for purchase that John and I follow closely, most are midcap growers. By focusing on medium-sized companies, I think we give ourselves a chance occasionally to be *really* right. That is, the best of this group could grow for a long time.

The last thing I want to do is be rigid. I am not reflexively opposed to owning Apple or Microsoft or any number of other world-class giant companies, so long as the price is right. This fall, with our Giverny Capital Inc. partners in Montreal, we spent a fair amount of time discussing one of the best-known brand names in the world. It's a household name company with a very large market valuation that has slipped recently and trades at a discount to its usual premium price. We may still buy it, and if we do, I would happily put it into our collection of stalwarts. But as I look at our allocation of research time, we are spending most of our time looking for younger franchises.

Still on the subject of the giants, I would note that Apple's earnings per share in fiscal 2024 were fractionally lower than in 2022, yet the stock rose 92% over two years and is now 7% of the S&P Index. Tesla is 3% of the value of the Index after rising 62% in 2024. It also has declining earnings. We can't compete with that. If the market continues to be driven by the largest technology companies in the world without regard to their earnings growth, we will do well to stay within striking distance of the benchmark, as we've done for 19 quarters now.

As for the fourth quarter, we were busy. We exited two positions, Analog Devices and Eurofins Scientific. Analog's stock price seemed a bit elevated given lackluster earnings progress. We thought we could earn higher future returns elsewhere. Eurofins was a tough decision as I've owned the stock a long time, like their laboratory testing business and feel it trades at an undemanding price. But Eurofins faces increasing pricing pressure in France, where the government is reacting to budget shortfalls, and I wanted to set aside some cash to purchase other stocks we've been following.

I trimmed Arista Networks as it grew beyond 10% weight in the portfolio thanks to its continued outperformance. Arista has been on a tear in January and if our clients are lucky I will leave Arista alone for a while! The market appears to see that Artificial Intelligence data centers are going to require robust investment in networking equipment, and Arista is the leader in that sector.

We used sales proceeds to add to Medpace, IBP and Align during the quarter, and began buying a new position in late December. We finished the year with 6% cash, giving us some dry powder for targets we'd like to buy.

Turning to the elephant in the room, we could say a lot about politics, but ultimately clients count on us to carefully select the highest quality businesses we can find, while paying reasonable prices. I read daily about how low taxes and deregulation are going to unleash animal spirits and fuel higher market returns. May it be so! What is less remarked upon is that free markets rely on trust and the even-handed application of the rule of law to function properly. Over time, capital flows to the trustworthy, the diligent and the capable. Our capital – yours and mine – will continue to flow in this direction.

We are approaching the fifth anniversary of our firm. It has been an extraordinary journey. We launched with a handful of outside investors in the first weeks of the pandemic. I personally knew all the clients for the first couple of years. We finished 2024 managing more than 260 client accounts, and I no longer know everyone. So, perhaps it is worth repeating that I have the vast majority of family's net worth invested in this portfolio. We are invested side by side.

As the business grows, I continue to invest in additional resources to help us analyze stocks better and maintain (and improve) high levels of client service. Al Munro joined shortly after our founding and continues to manage our operations diligently. John Bleday has been an enormous contributor in research since joining in 2023. JoAnn Chiarelli has been an asset in client service and in supporting me since joining part-time last spring. Our partners at Giverny Capital Inc. in Montreal continue to provide us with outstanding research and back-office support, plus friendship. We benefit greatly from that relationship.

As we approach our fifth anniversary, I want to thank all of you who have entrusted us to invest on your behalf. I'm very proud of what we've built together and am as focused as ever on compounding our capital by investing in top-tier businesses and people.

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* – December 31, 2024	
Arista Networks	*10.0%*
Alphabet Class A & C	*9.2%*
Meta Platforms Class A	*7.6%*
Constellation Software	*7.4%*
Progressive Corp.	*7.2%*
Charles Schwab	*5.0%*
Heico Corp. Class A	*4.1%*
CarMax Inc.	*3.9%*
Installed Building Products	*3.6%*
Ametek Inc.	*3.5%*
Total	***61.6%***

* *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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