



July 11, 2025

To our clients & friends:

For the second quarter of the year ended June 30, 2025, 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	Five-years ended	*Annualized Since Inception
	<u>6/30/2025</u>	<u>6/30/2025</u>	<u>6/30/2025</u>	<u>6/30/2025</u>	<u>6/30/2025</u>	<u>6/30/2025</u>
Portfolio Return -Net	9.11%	5.41%	13.66%	19.45%	15.19%	18.38%
S&P 500 TR	10.94%	6.20%	15.16%	19.71%	16.64%	19.98%
Excess Return -Net	-1.83%	-0.79%	-1.51%	-0.26%	-1.45%	-1.60%

* Inception Date 04/01/2020

Returns longer than one year are annualized

Quick show of hands: who is enjoying all the drama? During the first six months of the year, the market rattled like an old wooden rollercoaster, swooning to a negative-13% return through April 8, then soaring after President Donald J. Trump tabled his plan to impose tariffs on our allies and trading partners. The S&P 500 closed on June 30th up 6.20%. Our portfolio fell less than the market in the first quarter and early April, then rose less after the April 9 tariff postponement. We generated a 5.41% return for the first six months of the year. As with a rickety coaster, the result was alright but I would prefer not to ride it again.

I suspect the rollercoaster may be about to toss us around the curves once more, as the Administration is ramping up talk about punitive tariffs kicking in soon. The stock and bond markets will also reckon with the consequences of the federal government passing a

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.

budget that will increase the nation's already gaping budget deficits. With time, we'll see impacts from the deportation of thousands of immigrants, many of them hardworking.

On the other hand ... the S&P 500 and the Nasdaq Composite hit all-time highs in early July. The United States appears to be the global leader in Artificial Intelligence, with hundreds of billions of dollars being invested in AI data centers over the next few years. The domestic inflation rate has been trending downward, as has the price of oil. The US Treasury held a successful bond auction in early July, with long-term interest rates falling. The consensus of Wall Street analysts on FactSet expects S&P 500 companies to report 9.4% earnings growth for the year – a respectable level of growth given all the uncertainty. The Index' PE multiple of 23.7x is high, but US growth continues to be solid. It could continue that way if massive AI investments generate reasonable returns for their backers. In sum, the US is blessed with a dynamic economy and stock market.

Our returns over time have lagged the Index but any disappointment is tempered by the fact that they are high in absolute terms: our 18.38% return since inception amounts to a lot of compounding. We've lagged the Index in part because we have had less exposure to the technology giants that have paced the market return for some time. That has been less meaningful recently, as some of the so-called Magnificent 7 companies have faltered in 2025. But it's still worth remembering that our portfolio composition is intentionally different than the Index. On June 30th, 86.4% of the dollar weight of the S&P 500 was in the largest 200 constituents, all with market caps above \$50 billion. We had 57.0% of our portfolio invested in companies with market caps above \$50 billion.

Meanwhile, the Index has 2.2% of its weight in the smallest 100 constituents, companies with market caps below \$17 billion. We had 24.1% of our portfolio invested in such companies. I remain committed to our practice of looking for great companies with the potential to grow for many years. Our portfolio has less mega-cap technology than the Index, but we have more than our share of high-return, market leading niche businesses that are generating fine results.

In a time of unusual volatility, I also feel good about the financial health of our holdings. As of this writing, nearly 40% of the portfolio by weight is in a net cash position, including Arista Networks, Meta Platforms, Alphabet, Berkshire Hathaway and Medpace Holdings. Some other positions, including Constellation Software, Progressive Corp., Mastercard and AAON have very little debt. By our calculations, our portfolio's level of debt as a percentage of total capitalization is 29% (meaning there is \$71 of equity for every \$29 of long-term debt), vs. 43% for the Index (meaning there is \$57 of equity for every \$43 of long-term debt). This may have no bearing on our future returns, but one thing I can do to reduce the risk of a permanent loss of capital in a potential recession is to own businesses that don't have much debt.

As I wrote in last quarter's letter, in boom times a conservative balance sheet can feel defensive, or even stodgy. When capital is scarce, companies with reserves of cash may be able to deploy them opportunistically. I don't know what is coming next, but I am comfortable with our portfolio construction.

As for performance, during the first half of the year our largest gainers were Heico Corp. (+39.1%); Ferguson Enterprises (+26.6%); Meta Platforms (+26.3%); Charles Schwab (+24.1%); and JP Morgan Chase (+22.2%). Heico makes spare parts for airplanes and continues to benefit from Boeing's struggle to produce enough new jets, as older planes consume more parts than newer ones. Ferguson is a distributor of plumbing supplies. Meta operates leading social networking sites and is a huge investor in AI capabilities. Schwab and JP Morgan are powerhouse financial businesses.

Our biggest detractors from performance were Builders FirstSource (-18.4%); CarMax (-17.8%); Fiserv (-16.7%); Align Technology (-9.2%) and Alphabet (-6.7%). Builders FirstSource is a supplier of labor and materials to homebuilders while CarMax retails used cars. Both are hurt by persistently high interest rates that discourage consumers from buying homes or cars. Fiserv was hurt by an earnings miss that I will describe below. Align sells clear aligners for straightening teeth as an alternative to braces. High interest rates may also suppress consumer demand for this big-ticket purchase. Alphabet is down as investors increasingly worry that ChatGPT and other AI models will overtake its core internet search engine. We think Alphabet's Gemini AI model is very promising (and by no means inferior to others) and will complement the Google search engine. We also believe Alphabet has a variety of other businesses and investments such as YouTube and Waymo that have enormous value.

We had a handful of transactions during the quarter. We exited M&T Bank, a Buffalo-based regional bank with a strong balance sheet and a conservative management team, trading at a modest price. This is not the kind of business I like to sell, but the longer I owned M&T, the more concerned I grew about its growth prospects.

M&T competes in mostly slower growing US markets, including Northeastern cities like Buffalo, Rochester, Hartford and Baltimore. With bank deposit market share as high as 60% in Buffalo, it is unlikely that another bank would try to open branches to compete with M&T. In turn, this means M&T has deep relationships with many of the best clients in town.

The fact is, however, that these markets barely grow. M&T's organic loan growth over the past decade was about 1%. Worse, the rise of non-bank lenders (also known as private credit) means customers have more options for loans than they used to. A growing business in Buffalo no longer needs a local bank relationship to get a loan. Parallel to this, digital banks like Capital One now pay up to double the interest on deposits as branch-based banks, and brokers like Charles Schwab offer banking services, including loans, as part of a brokerage account relationship.

I viewed sluggish growth as acceptable given the less competitive nature of M&T's core markets. However, during the first quarter earnings call and in a subsequent meeting with management, M&T called out increasing competition from private credit. M&T grew earnings at a modest 7% clip over the past decade, one in which all banks benefited from massive stimulus that inflated bank deposits and made it easier for consumers and small businesses to pay back loans. The decade ahead seems like it could be more competitive, both in terms of adding deposits as well as making and collecting loans.

The bank's PE multiple is low, and it is so well-capitalized that it could generate a decent return for owners by making whatever sensible loans it could and using excess capital to buy back stock. M&T could also be a very attractive candidate for purchase by a faster-growing bank that could better deploy its excess capital. There are paths to success, but ultimately, I felt we could find better growth elsewhere. M&T stock has risen since our sale.

We trimmed our large holding in Progressive Corp. during the quarter at roughly \$282. We also sold some shares in the first quarter, such that through June 30th we sold 29% of the holding in the model portfolio. Clients who have been with us for any length of time will have significant capital gains, as Progressive stock doubled in the past two years.

Selling winners because they've exceeded your price target generally does not work. The best companies tend to outperform expectations over time and when you own a business that does this, the smarter strategy is to rethink your expectations rather than take profits. We still own a substantial weight in Progressive, and I continue to believe it is among the best managed companies in our portfolio. But auto insurance has a cycle, and right now we appear to be at the top of the cycle: rates are at historically high levels, industry profitability is rising rapidly (which could catch the eyes of regulators and create downward future pricing pressure), and rivals are ramping up their advertising to try to grow faster. Meanwhile, Progressive is earning record earnings and trading at high multiples of those earnings, while also growing far faster than the industry.

Barring a major surprise over the next six months, Progressive will double its revenue over the five years ending December 2025 and nearly double its net income. Competitor Allstate, by comparison, will grow revenue about half as fast as Progressive over the five-year period, and likely will earn less money in 2025 than it did five years ago. Progressive has managed through this strange post-pandemic period far better than its leading rivals and is well-positioned for the future.

I suspect, however, that we are entering a period in which rate competition will lead to weaker profitability for all players. I feel Progressive's future return is likely to be lower than the past five years. So, I'm comfortable holding it at a smaller size. As car insurance has cyclical characteristics, I remain open to increasing the position in the future.

In terms of additions, we purchased more shares of our insurer Kinsale Corp. during the quarter. Mr. Market is a volatile fellow and periodically he does weird things, such as sell great companies because they miss short-term growth targets. He did this in April when Kinsale reported slightly disappointing revenue growth and losses related to Southern California wildfires. We added to our position in late April at \$419. Kinsale continues to have the lowest expense structure of its peer group, and among the highest growth rates and profit margins. Insurance is a commodity business, so players like Progressive in car insurance and Kinsale in commercial property and casualty are going to win over time by being efficient. Kinsale stock finished the quarter at \$480.

We added to Fiserv during the quarter. In May, Fiserv reported slower growth for its Clover payment processing business – Clover is one of several portable terminals that you may have seen restaurants use to process credit card payments. When Clover grew 8% during the first quarter rather than the expected 10%, the stock dropped by 30%. Again, Mr. Market gets hyper sometimes.

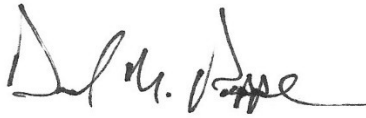
Fiserv is one of the most durable growth stories of the past four decades, having grown earnings by at least 10% for 39 straight years. It acts as the primary technology provider to several thousand regional banks. In turn, the banks actively sell Fiserv products like Clover to their customers, allowing them to transmit credit card payments directly to their bank accounts with a full accounting of the day's receipts. Clover itself is only about 15% of Fiserv's total business – the company has a menu of other products that its bank partners sell to their own customers – but it has great potential.

Even with temporarily slower growth from Clover, Fiserv should grow earnings about 15% this year, to roughly \$10 per share. Wall Street analyst consensus calls for EPS of nearly \$12 in 2026. We added to the position at about \$169 in May and it closed the quarter a bit higher than that. The current price is just over 14x next year's earnings estimate in a market that trades for more than 20x forward estimates. There are certainly competing payment terminals that restaurants and small retailers can buy, but none have a massive installed base of regional banks that actively sell and support the product.

We finished the second quarter with 5.4% of the portfolio in cash. In early July, we bought a new position to a 3.5% weight. We'll talk more about this decision in the third quarter letter but for now, suffice to say we believe this business is critical to the buildout of AI and cloud computing data centers over the next five years, yet it trades for a far lower PE multiple than widely appreciated leaders like Nvidia, Broadcom or our holding Arista Networks. This new holding plus existing positions Arista, Alphabet, Meta and AAON mean that close to one-third of our portfolio has considerable exposure to AI. These five also have important exposures to markets other than AI, but this latest purchase increases our exposure to the global AI buildout.

Finally, we will hold our annual client meeting in New York City on the morning of October 3rd. John Bleday and I, along with our partner Francois Rochon, will talk about the portfolio and take questions. We're not going to livestream the event but we will record the session and have a video available for clients after the meeting. We will provide more information over the summer, but for now, please save the date. We hope to see many of you there.

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, 2025

Arista Networks	9.2%
Meta Platforms	9.0%
Constellation Software	8.3%
Alphabet Class A	8.1%
Charles Schwab Corp.	5.8%
Heico Corp. Class A	5.4%
Progressive Corp.	5.3%
Kinsale Capital Group	4.2%
Medpace Holdings	3.5%
Installed Building Products	3.5%

Total	62.4 %
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** 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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