Q1 | 2022

Large Cap

THE LONDON COMPANY

Market Observations & Portfolio Commentary

Quarterly Market Update

US equities traded lower during Q1 reflecting concerns about higher inflation, a clear shift toward tighter monetary policy, and the war in Ukraine. Economic data released during Q1 were generally positive; however, there are increasing signs of decelerating growth as high inflation is limiting purchasing power. The Federal Reserve increased the fed funds rate and plans to begin tapering its balance sheet; moreover, it is expected to be more aggressive with monetary policy, given elevated inflation and low unemployment. All of the major indexes traded lower, but Large Cap held up the best. The Value indexes significantly outperformed the Growth across the market cap spectrum. In general, cyclical shares outperformed the more defensive. Turning to factors that drove performance, Value, Yield, and Momentum had a positive influence on relative returns. Growth and Quality had a mixed impact, and Volatility factors had a negative impact.

Key Performance Takeaways for the Quarter

- The London Company Large Cap portfolio declined -6.4% gross (-6.5% net) during the quarter vs. a -0.7% decrease in the Russell 1000 Value Index. Both stock selection and sector exposures were headwinds to relative performance.
- We are bottom-up stock pickers, but sector exposures influenced relative performance as follows:
  - *What Helped*: Overweight Materials (a better performing sector) & underweight Healthcare (a weaker performing sector)
  - *What Hurt*: Underweight Energy (the best performing sector) and overweight Cons. Discretionary (a weaker performing sector)
- The Large Cap portfolio lagged our expectations during Q1'22. No exposure to the Energy sector as well as limited exposure to deep value holdings were the largest headwinds to relative performance. Surprisingly, our tilt toward Quality also didn't help despite the market trading lower. If the downturn extends beyond a quarter, we believe investors will focus more on higher quality factors like return on capital, consistency of cash flow, and balance sheet flexibility.

Top 3 Contributors to Relative Performance

- **Berkshire Hathaway (BRK.B)** – BRK.B was strong during Q1 as investors were attracted to the stability of the underlying businesses. Quarterly results reflected the quality of the businesses owned, as most BRK.B companies were able to push through price hikes in light of the inflationary environment. We continue to believe BRK.B is attractively valued.
- **Altria (MO)** – MO outperformed in Q1, likely benefiting from the flight to safety. With consistent cash flows, a roughly 7% dividend yield, and active buyback program, we continue to view MO as undervalued.
- **Progressive (PGR)** – PGR was a top performer during Q1 due to better than expected loss ratios and successful rate increases. The mid-double-digit growth rate in policies in force will likely slow, but management is confident in its ability to deliver a combined ratio at or below 96%. All auto insurance companies are facing headwinds from higher frequencies and severities, but PGR's segmentation and virtuous cycle of risk selection should translate to a more profitable book coming out of this cycle.

Top 3 Detractors from Relative Performance

- **Meta Platforms (FB)** – FB was negatively impacted by a confluence of headwinds that led to lower-than-expected revenue guidance. These included the previously communicated privacy changes to Apple's iOS operating system, macroeconomic challenges weighing on advertiser budgets, as well as increased competition and the under-monetization of its newer Reels product. We believe many of these headwinds are short-term in nature and should benefit FB in the long-term. FB will begin to lap the iOS impacts later in 2022, while the engagement mix shift to Reels should help FB compete more effectively with TikTok moving forward. At the same time, FB is stepping up investments behind people, security, and artificial intelligence, all of which have proven to be high ROI investments in the past. Lastly, FB completed its largest quarterly buyback ever last quarter ($19B).
- **Home Depot (HD)** – HD underperformed during Q1 after reporting solid results driven by ticket size and strong demand coming from both do it yourself and Pro customers. The underperformance stems from concerns around a slowdown in retail given rapid inflation despite a healthy housing environment. While potentially conservative, guidance for 2022 includes a slightly positive comp but limited operating leverage (15% op margin) and low single-digit EPS growth due to ongoing productivity enhancements and cost headwinds. HD is a best-in-class operator with a strong management team, a great balance sheet, and has multiple economic tailwinds.
- **CarMax (KMX)** – After outperforming in 2021, KMX underperformed during Q1 due to concerns around the used car market, normalized average selling prices, and higher interest rates. KMX reported record sales, but experienced limited operating leverage as it passed savings to customers and focused on market share growth. The wholesale and financing businesses remain strong. KMX continues to disrupt the used car ecosystem and we maintain our conviction in the stock.

Trades During the Quarter

- There were no trades this quarter.

Looking Ahead

We expect greater volatility driven by higher than normal inflation, a more aggressive shift in monetary policy, and the war in Ukraine. Despite the many risks to the near term outlook, we believe there are reasons for optimism as well. Economic data is generally positive with solid corporate earnings, rising GDP, as well as low unemployment and higher wages for consumers. Separately, as the effects of COVID continue to fade, we could experience faster than expected global supply chain improvements, which could lead to lower inflation. Monetary policy will likely remain in focus. The big question is can the Fed get inflation expectations under control without causing a recession. We recognize the difficulty in navigating a soft landing, so the odds of a recession over the next couple of years have increased. That is the message we take from the recent inversion of the yield curve. In terms of the equity market, we note that multiple compression is likely, given rising interest rates and higher than normal inflation. We expect greater volatility and possibly more muted returns relative to the strong returns generated from 2009-2021. Longer term, we continue to believe that quality attributes and solid company fundamentals will lead to strong risk adjusted returns over time.

Q1 | 2022

Large Cap

THE LONDON COMPANY

Performance

As of March 31, 2022

	QTD	One Year	Three Years	Five Years	Ten Years	Inception to Date
Large Cap (Gross)	-6.4	9.1	14.0	12.7	12.5	11.8
Large Cap (Net)	-6.5	8.6	13.5	12.2	12.0	11.2
Russell 1000 Value	-0.7	11.7	13.0	10.3	11.7	10.0

Inception date: 06/30/1994

Contact information

The London Company
of Virginia, LLC
1800 Bayberry Court, Suite 301
Richmond, VA 23226

T 804.709.1244
F 804.649.9447
info@TLCAdvisory.com
www.TLCAdvisory.com

Disclosure notes

The London Company's performances are size weighted and annualized based on calculations for the period ending March 31, 2022. The characteristics discussed herein relate to a representative account, and not every client's account will have these exact characteristics. As London manages its client portfolios according to each client's specific investment needs and circumstances, London cannot affirm that the characteristics of the account shown are similar to all accounts participating in the strategy. This is due in part to the timing of trades by the Adviser, market conditions, cash availability, and the timing of client deposits and withdrawals. Therefore, prospective clients should not assume that similar performance results to those shown would have been achieved for their accounts had they been invested in the strategy during the period. None of the information contained herein should be construed as an offer to buy or sell securities, or as investment recommendations. An investment in a London Company strategy is subject to risks, including the loss of principal.

Definition of Firm: The London Company of Virginia is a registered investment advisor. Registration does not imply a certain level of skill or training. More information about the advisor, including full descriptions of its investment strategies, fees and objectives, can be found in the firm's Form ADV Part 2, which is available upon request by calling (804) 775-0317 or visiting www.TLCadvisory.com. The London Company claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Please visit www.TLCadvisory.com or contact us at 804.775.0317 to request a complete list and description of The London Company's composites and/or a presentation that adheres to the (GIPS®) standards.

Composite Creation/ Inception Date: June 30, 1994

Composite Definition: The Large Cap strategy invests mainly in conservative, low-beta, large cap equities with a focus on above-average downside protection. Primarily we seek profitable, financially stable, quality large cap companies which consistently generate free cash flow, high returns on unleveraged operating capital, trade at rational valuations, and are run by shareholder-oriented management. Positions are generally in the market capitalization range of the major domestic large cap indices. Accounts included in this product composite are fully discretionary taxable and tax-exempt portfolios with a minimum of $1 million in assets. The product is measured against the Russell 1000 Index and has a creation and inception date of June 30, 1994. There is no use of leverage, derivatives or short positions. All actual fee-paying discretionary portfolios are included in one or more composites that have been managed for a full calendar quarter with limited restrictions and similar objectives. Composite may include accounts under dual contract.

Benchmark Description: Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. The Russell 1000 is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. Benchmark returns are not covered by the report of independent verifiers. Large Cap product is typically compared to the Russell 1000 Index. Any comparison to the Russell 1000 Value, S&P 500, or their corresponding ETFs, is for illustrative purposes only.

Performance and Fees: Gross of fee returns are calculated gross of management and custodian fees and net of transaction costs. Net of fee returns are calculated net of actual management fees and transaction costs and gross of custodian and other fees. Returns may be net of miscellaneous fund expenses. The gross figures do not reflect the deduction of investment advisory fees. For example, an account that earned 15% per year for 10 years would have an accumulated return of 305% before fees and 270% after fees, assuming a 1% fee. Returns are calculated and stated in US dollars. Returns are calculated gross of withholding taxes on foreign dividends and interest. Dividends are reinvested. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

Past performance should not be taken as a guarantee of future results. The report is for informational purposes only. Data, while obtained from sources we believe to be reliable, cannot be guaranteed and all statistics are subject to change. The statements contained herein are solely based upon the opinions of The London Company and the data available at the time of publication of this report, and there is no assurance that any predicted results will actually occur. Information was obtained from third party sources which we believe to be reliable but are not guaranteed as to their accuracy or completeness. This report contains no recommendations to buy or sell any specific securities and should not be considered investment advice of any kind. In making an investment decision individuals should utilize other information sources and the advice of their investment advisor.