Q3 | 2021

Mid Cap

THE LONDON COMPANY

Market Observations & Portfolio Commentary

Quarterly Market Update

US stocks posted roughly flat returns during Q3. Despite the spread of the COVID-19 Delta variant, the market rallied for the first two months of the quarter, following solid economic data. However, September was a difficult month for stocks reflecting concerns around potential changes in monetary policy, persistent supply chain issues resulting in higher inflation, and some political drama. The weak September resulted in slightly negative returns for much of the market for Q3. Large Cap indexes held up better than Small Cap. Growth modestly outperformed Value in the Large and Mid Cap space, while Value outperformed in the Small Cap arena. Defensive stocks outperformed the more cyclical shares across the board. Turning to factors, Growth, Quality, and Momentum factors had the most positive impact on relative performance, while Value and Volatility factors had a negative impact.

Key Performance Takeaways for the Quarter

- The London Company Mid Cap portfolio declined -2.1% gross (-2.2% net) during the quarter vs. a -0.9% decrease in the Russell Midcap Index. Both sector exposure and stock selection were headwinds to relative performance.
- We are bottom-up stock pickers, but sector exposures influenced relative performance as follows:
  - *What Helped*: Underweight Comm. Services & Cons. Discretionary (two weaker performing sectors)
  - *What Hurt*: Overweight Cons. Staples & Industrials (two weaker performing sectors)
- A rebound of quality factors aided relative performance during September. However, it wasn't enough to make up for the underperformance in July and August. The Mid Cap portfolio has trailed the benchmark this year after a very strong run of outperformance in recent years. Some of the underperformance reflects the rally in higher beta, value oriented stocks early in the year. Separately, having zero exposure to Energy (the best performing sector YTD) was a headwind. Moreover, some of the larger individual holdings that drove the 2016-2020 outperformance have stalled a bit in 2021. We remain very confident in the portfolio holdings and the overall characteristics.

Top 3 Contributors to Relative Performance

- **Old Dominion Freight Line (ODFL)** – ODFL performed very well in Q3. Industry capacity is currently tight while demand is very strong for freight services, which is producing extraordinary pricing and yields. As a premium and reliable industry carrier, ODFL has been posting both record results and taking market share. ODFL has also been expanding its network to accommodate future growth.
- **Churchill Downs (CHDN)** – CHDN rebounded during Q3. CHDN management continues to deploy growth capital into high ROIC projects (e.g. expanding the historical race wagering business). Additionally, CHDN recently announced an agreement to sell the Arlington Racetrack in Illinois at an attractive price and announced a new repurchase authorization.
- **Moelis (MC)** – MC has steadily outperformed all year. M&A activity did not let up during Covid, and MC continues to report record results. Additionally, MC is returning 100% of cash flow to shareholders via dividends, special dividends, and share buybacks. MC's management expects the positive operating conditions continuing into 2022.

Top 3 Detractors from Relative Performance

- **Lamb Weston (LW)** – LW struggled in Q3 due to concerns around inflation and supply chain issues. Supply issues were magnified due to the higher volumes. The issues are short term and LW has responded to control what it can. We remain attracted LW's market share, balance sheet, and pricing power.
- **Skyworks (SWKS)** – SWKS underperformed in Q3 for several reasons, all of which seem temporary in nature. First, there is concern about the global supply chain not being able to produce enough raw materials for semiconductors to meet demand. Second, there is a concern the devices that require the semiconductors (e.g. smartphones) will not be able to be shipped globally. Finally, there is concern this strong semiconductor cycle will not last. SWKS remains well positioned to benefit from both the 5G and WiFi 6 technology cycles.
- **AptarGroup (ATR)** – ATR was down in Q3 due to destocking in the Pharma business and margin pressure from higher costs and product mix. Pharma was impacted by lower customer consumption and higher inventory levels. Meanwhile, ATR's other two segments reported double digit growth.

Trades During the Quarter

- **Exited: CDK Global (CDK)** – Reflects frustration with recent execution and frequent M&A deals. We decided to allocate the proceeds to businesses with stronger fundamentals.
- **Exited: Cintas (CTAS)** – Reflects the strength in recent years, which led to a market cap over $40B and a lofty valuation.
- **Increased: Unifirst (UNF)** – Reflects UNF's leading position in the stable uniform rental market and improving fundamentals. UNF trades at 12x EBITDA vs. Cintas, which trades at 25x.
- **Reduced: Skyworks (SWKS)** – Reflects recent strength in the business and position size. We remain attracted to SWKS.
- **Increased: Ball Corp (BLL)** – Reflects the current strength of the business and its long-term stability.
- **Initiated: Churchill Downs (CHDN)** – CHDN owns the Kentucky Derby along with casinos, racinos, a leading wagering website, and other racetracks. Thesis is based on the value of the underlying properties, stability of cash flow, and potential for regulatory changes that could expand CHDN's market. We've owned CHDN in our smaller cap portfolios in the past.

Looking Ahead

We maintain a positive view on the US economy and expect strong real GDP growth in 2021, but note the rate of growth in the second half of the year will likely decelerate vs. the first half. The US consumer is in great shape and labor markets continue to improve. Separately, the manufacturing and services segments of the economy are firmly in expansionary territory. That said, the Delta variant remains a potential risk. Further, fiscal stimulus will likely start to wane and the Fed will likely begin to reverse some of its accommodative monetary policies later this year and into 2022. This could lead to slower growth in 2022. In terms of equities, we recognize valuations are on the rich side. At current valuations along with various short-term risks to the economic outlook (e.g. rising inflation & potential tax increases), we expect greater volatility and possibly more muted returns in the near term. Longer term, we continue to believe quality attributes and solid company fundamentals will lead to strong risk adjusted returns over time.

Q3 | 2021

Mid Cap

THE LONDON COMPANY

Performance

As of September 30, 2021

	QTD	YTD	One Year	Three Years	Five Years	Inception to Date
Mid Cap (Gross)	-2.1	7.4	22.7	14.1	15.7	14.3
Mid Cap (Net)	-2.2	7.1	22.3	13.7	15.3	13.8
Russell Mid Cap	-0.9	15.2	38.1	14.2	14.4	13.5

Inception date: 3/31/2012

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 September 30, 2021. 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: March 31, 2012

Composite Definition: The Mid Cap equity strategy invests mainly in conservative, low-beta mid cap equities with a focus on above-average downside protection. Primarily, we seek profitable, financially stable mid cap companies that consistently generate free cash flow, high returns on unleveraged operating capital, trade at significant discounts to their intrinsic values, and are run by shareholder-oriented management. Positions are usually within the market capitalization range of the major, domestic mid cap indices. Accounts in this product composite are fully discretionary taxable and tax-exempt portfolios with a minimum of $100,000 in assets. This product is measured against the Russell Mid Cap Index and has a creation and inception date of March 31, 2012. 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: Primary: Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. Secondary: Russell Midcap Value Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. Benchmark returns are not covered by the report of independent verifiers.

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.