To clients and friends of The London Company

This quarter, and frankly all of 2022, has felt like stop and go traffic. It's been frustrating and anxiety-inducing. Any crawl forward elicits excitement. Like, "Alright. This is it. The worst is behind us; things are moving now!" Then all of a sudden, we're in a standstill again, wondering what sort of calamity must be up ahead. Well, we know the Federal Reserve is king of the road in this equation. To combat persistently high inflation, the Fed has been aggressively tapping the breaks with restrictive monetary policy. While it can take time for the full effect of the Fed's actions to work through the system, the chain reaction has already led to erratic gridlock. This stop & go dynamic was reflected in the performance of the broad market, which finished in negative territory for the third quarter.

Broad Market Performance	Q3	YTD
Russell 3000	-4.5%	-24.6%

There were many moving parts in Q3, but ultimately stocks were pushed lower for a third straight quarter as the Fed's tightening cycle ramped up. We entered the second half of 2022 with overly negative equity market sentiment. A brief drop in treasury yields, some "better than feared" earnings announcements and a sharp decline in commodity prices helped spark the S&P 500's fourth rally of this bear market. The roughly 18% bounce off the June lows would eventually roundtrip and finish lower. Fed officials poured cold water on equity markets (and risk assets broadly) as they progressively ratcheted up hawkish messaging during the quarter. The Fed raised its benchmark federal funds rate by 75 basis points for a third consecutive meeting, lifting the rate to 3.25%. Internal Fed interest rate projections set expectations for additional heavy frontloading. If that wasn't enough, the pace of quantitative tightening ramped up, doubling the monthly reduction of the Fed's balance sheet. These hawkish moves were underpinned by stubbornly high inflation readings and a labor market that remains tight. A byproduct of the Fed's aggressive actions was magnified in currency markets. The U.S. dollar soared against almost every currency, creating disruption abroad. All told, fears of a hard landing and/or a policy misstep escalated, as evidenced by further inversion of the yield curve. Equities were held hostage by the thrust of monetary policy and sharp rise in rates. Weakness was felt across the market cap spectrum, but Small Caps outperformed Large Cap equities, due in part to their insulation from currency movements. Stylistically, Growth outperformed Value across the board, reflecting concerns over a slowdown in economic momentum. Looking at market factors, Volatility factors had a positive impact, while Growth was net neutral. Value, Yield, and Quality factors mostly presented headwinds; while, Momentum factors had a mixed impact.

The Reset Continues

Market Highlights
The market playbook of the past 10+ years is being upended, and investors need to be much more selective going forward.
Attributes like a strong balance sheet and the ability to self-finance operations are poised to stand out as competitive advantages in a higher cost of capital environment.
If earnings come under pressure, history suggests high quality market factors are best positioned to weather the storm.

As we've highlighted in recent quarters, we believe we're living through a reset, and the playbook that thrived over the past 10+ years is being upended. If we back up, the basic fundamental setup hasn't changed throughout 2022: we have a serious inflation problem and the Fed needs to drain liquidity from the financial system, even though we're in the midst of an economic slowdown. But, if we zoom out, it's more apparent how the last 10+ years have been the exception and not the norm. We're seeing multi-decade records being set across inflation, rates, currencies, etc. When interest rates were at rock

Metric	12/31/2021	9/30/2022	Last Time at Current Level
2Y TSY Yield	0.73%	4.22%	2007
10Y TSY Yield	1.52%	3.83%	2010
2Y-10Y TSY Spread	0.79%	-0.39%	2000
30Y Mortgage Rate	3.37%	6.70%	2007
Consumer Price Index YoY	7.0%	8.3%*	1981
U.S. Dollar Index	95.97	112.12	2002
Crude Oil Prices (WTI)	$75.21	$79.49	2014

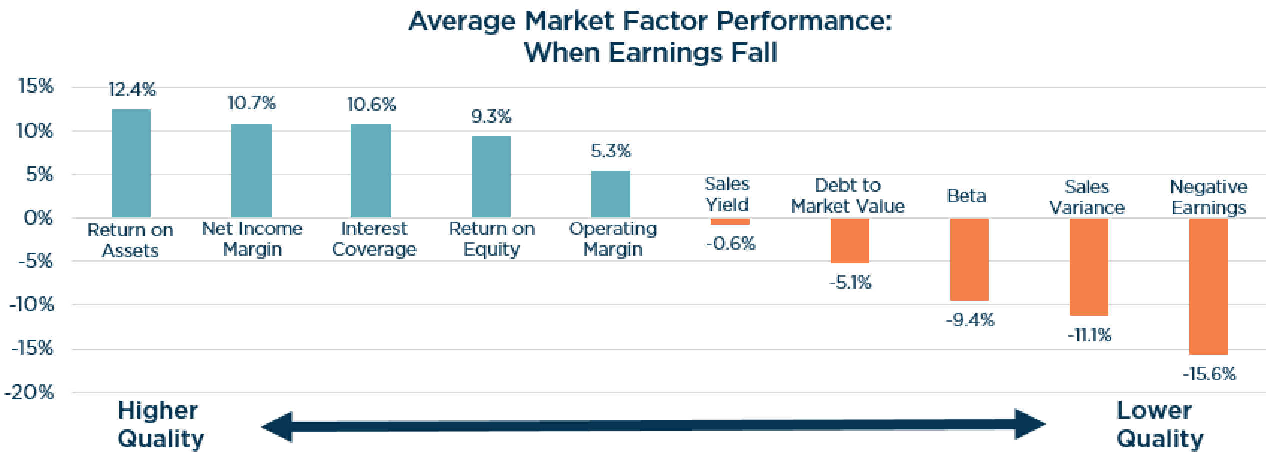
Source: JP Morgan, Strategas & WSJ
*Data as of 8/31/2022

bottom levels and inflation was low and stable, the playbook for attractive returns was simpler. Investors who previously embraced 'don't fight the Fed,' 'buy the dip,' and TINA ('there is no alternative' to stocks) were rewarded, but now they're facing a tough adjustment. This market is punishing stubbornness and recency bias. Investors expecting us to get back to 2019, pre-pandemic conditions may be waiting a while. Further, after several interest rate increases by the Fed, now there is an alternative (TIAA) to equities. Currently, only 11% of stocks in the S&P 500 have a dividend yield higher than the 2-year Treasury bill, levels last seen in 2006. Taken together, the risk backdrop has meaningfully shifted and the competition for capital has sharply increased. In our view, the bar has been raised, and the easy gains are now in the rearview mirror. Going forward, we believe carefully balancing risk with reward and being selective will be the playbook for success. This backdrop should favor active managers.

The risk backdrop has meaningfully shifted and the competition for capital has sharply increased. In our view, the bar has been raised, and the easy gains are now in the rearview mirror.

As monetary policy has begun to normalize, risk factors and the cost of capital have reverted toward historical norms as well. For more than a decade, the appetite for yield and growth pushed many investors further out the risk curve. Businesses were spoiled by abundant access to cheap capital. Zombie companies, those with debt servicing costs higher than profits, were able to proliferate amidst this corrosive backdrop. In fact, zombie companies' share of U.S. firms more than tripled since the Global Financial Crisis. But, inflation's return and the Fed's restrictive monetary policy has flipped the script. Now, risk capital has moved to the sidelines and the price of risk (i.e. the premium investors demand for taking risk) has surged. You can see this in rising credit spreads for corporate and sovereign bonds. Moreover, access to capital has declined sharply. Bond issuance for U.S. investment grade and high yield debt has plummeted. Meanwhile, IPO activity has collapsed. We feel the companies we own have greater control over their own destiny, with excellent financial health and business model resiliency that can weather the full economic cycle. But, for 10+ years, many of these companies received little credit for having a strong balance sheet or the ability to self-finance their operations. Going forward, however, we believe these attributes will stand out as competitive advantages.

If this cycle continues to follow the roadmap of history, the tightening of financial conditions is poised to catch up to profits. As we highlighted in Q2, the easing and tightening of financial conditions operates with a lag. Until now, the effects of Fed tightening have been felt hardest in the housing sector—the most interest rate sensitive area. Looking at leading economic indicators, we see the business cycle is trending toward contractionary territory. The business cycle leads the profits cycle, and the profit cycle leads the labor market. Most of the declines in the stock market this year have been the result of valuation multiple compression. Earnings have actually been quite resilient. But given the rapid rise in yields and broad-based tightening already in the pipeline, it seems likely that earnings could be the next shoe to drop. Since 1985, there have been six periods of earnings slowdowns. As illustrated in the chart below, market leadership has been consistent during these periods, with investors bidding up profitability and selling risk. As we've underscored in the past, the benefits of quality factors, like high margins, earnings stability, and robust balance sheets, become disproportionately valuable during periods of economic distress.



Source: Piper Sandler. S&P 500 factor performance high to low (Q1 vs Q5). Sector adjusted. Reflects average performance for following periods of declining earnings estimates: (Jan'86-May'86, Sept'89-Apr'91, Sept'00-Nov'01, Oct'07-May'09, Sept'14-Mar'16 & Feb'20-May'20).

Strategy Recap

For The London Company portfolios, our strategies produced mixed results during Q3, but performance remains solid for the year. The robust bear market rally that dominated most of Q3 was led by low quality, high beta equities, so our portfolios were behind from the jump. Fortunately, all of our strategies played solid defense down the stretch in September. For Mid Cap and Income Equity, however, it wasn't enough to offset the weakness from earlier in the quarter, and they trailed their benchmarks. Our Large Cap portfolio slightly outperformed. Meanwhile, our Small Cap and SMID portfolios delivered on our downside protection expectations in Q3, capturing 75% or less of the market drawdown. With the exception of Income Equity, each strategy is outperforming its primary benchmark for the year. Income Equity has trailed the Russell 1000 Value this year, but it has delivered strong downside protection versus the S&P 500. All of our strategies have benefited from strong results from their portfolio holdings, but the best relative results this year have been achieved down the market capture spectrum. Our Mid Cap, SMID and Small Cap portfolios have received an extra boost from a handful of acquisition announcements and activist investor involvement in some of our companies. We've been encouraged to see strategic buyers and institutional investors validate the strong value potential we see in our holdings. Meanwhile, many of the companies in our Large Cap and Income Equity portfolios hold near record cash balances and generate high free cash flow yields. We believe these attributes could translate to an accelerated return of capital through larger share repurchases and dividend payouts in the quarters ahead.

Looking Ahead

As we look out our windshield to the road ahead, it is a sea of red lights, but traffic is still moving. The path for a soft landing is narrowing, but there are still some noteworthy tailwinds. The U.S. labor market remains incredibly tight with job openings nearly double the number of unemployed. Inflation has been trending lower. Goods and energy prices have subsided and supply chain pressures continue to improve. Plus, longer-term inflation expectations currently remain well anchored. U.S. consumer and corporate fundamentals remain broadly strong, which should provide some cushion in the face of growing headwinds. Valuations for major indices are trading at or below historical averages; meanwhile, the stock market is tactically under-owned with historically depressed sentiment—typically great contra indicators for long-term investing. Nevertheless, as we've outlined, the list of headwinds is considerable. We're currently in the throes of the fastest tightening cycle in at least 40 years. This is unlikely to happen without a couple fender benders in the economy, but hopefully we can avoid a multi-car pileup. Ultimately, pressure on equities is likely to continue until economic momentum turns positive or the Fed starts cutting rates. The path of earnings, credit spreads and employment will be key in terms of the magnitude of a slowdown. Meanwhile, unprecedented uncertainty is likely to keep volatility levels elevated.

For us at The London Company, we continue to focus on what we can control. We find comfort in the durable competitive advantages and financial health of our companies. We believe the strong cash flow generation and capital flexibility of our businesses should provide meaningful protection if market fundamentals continue to deteriorate. The total shareholder yield (dividends + net buybacks) for each of our portfolios is very attractive, and it could play a significant role in investors' total returns, should we experience a prolonged stretch of muted performance for equities.

> We believe the strong cash flow generation and capital flexibility of our businesses should provide meaningful protection if market fundamentals continue to deteriorate.

As with all traffic jams, this too shall pass. Times like these remind us of the expression 'investing is the only business where people run out of the store when things go on sale.' Wars, inflation, recessions, bubbles, pandemics, geopolitical events, policy mistakes, and more have all happened over time, but stocks have always come back eventually to new highs. We believe history will repeat itself once again. Market drawdowns and volatility can be stressful, but we hope our approach to capital preservation mitigates some of that fear. Our proven, reliable investment process has a lot of mileage on the odometer—including some experience with nasty gridlock. We know patience, persistence, and diligence beats honking, horsepower and lane-changing when it comes to navigating congestion successfully.

Finally, we're pleased to announce another important step for The London Company in our goal of remaining a sustainable and multi-generational Firm. **Samuel D. Hutchings, CFA, Principal, Portfolio Manager has assumed the additional responsibilities of Co-Lead Portfolio Manager on the Firm's Income Equity and Large Cap strategies**. In his expanded role, Sam will share leadership of the two portfolios with Founder and CIO, Stephen M. Goddard, CFA. Sam joined The London Company in 2015 and is respected among the team as a thought-leader and talented stock picker, with deep knowledge of markets. Sam's appointment follows the similar strategic step taken in 2019 with the naming of J. Brian Campbell, CFA to Co-Lead Portfolio Manager for our Small Cap, SMID, and Mid Cap portfolios. We believe these steps set the Firm up for years of continued success down the road.

Important Disclosures:

Performance is preliminary and subject to change. Past performance is no guarantee of future results. This report is for informational purposes only. 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. All data references are as of September 30, 2022 unless noted otherwise.

The London Company of Virginia is a registered investment advisor. More information about the advisor, including its investment strategies, fees and objectives, are fully described in the firm's Form ADV Part 2, which is available by calling 804.775.0317, or can be found by visiting www.tlcadvisory.com.

LCO-22-300

Tel: 804.775.0317 www.tlcadvisory.com 1800 Bayberry Court, Suite 301 Richmond, VA 23226