Portfolio Commentary

Q4 Market Update

U.S. stocks traded higher during Q4, reflecting softening inflation data and a slowdown in the pace of interest rate increases from the Federal Reserve. For the quarter, the broader market, as measured by the Russell 3000 Index, rose 7.2%. Q4 started strong following reports that broader inflationary pressures were beginning to moderate. Shares reversed course in December as more hawkish commentary from the Fed led to falling prices. Fear of a pending recession remains high and the yield curve remained inverted at the end of the quarter. Stocks traded higher across the market cap spectrum led by strength in Mid Cap companies. Stylistically, Value had one of its strongest quarters of relative performance versus Growth since the popping of the Tech Bubble. Cyclical sectors generally had the edge over Defensive. In terms of market factors that drove performance, Value (lower valuation) and Yield (higher) had a positive impact on relative returns. Volatility factors presented headwinds, while Growth, Quality, and Momentum factors had a mixed impact.

Key Performance Takeaways

The London Company Income Equity portfolio returned 9.9% gross (9.8% net) during the quarter vs. a 7.2% increase in the Russell 1000. Both stock selection & sector exposure were additive to performance.

The Income Equity portfolio closed 2022 on a high note. It posted strong absolute & relative performance in Q4—exceeding expectations of 85-90% upside capture in a rising market. The portfolio played solid defense amidst the volatile December selloff, which more than offset continued sector headwinds, particularly being underweight Energy. Looking ahead, we believe the strong cash flow generation and capital flexibility of our businesses should provide meaningful protection if market fundamentals continue to deteriorate.

Top 3 Contributors to Relative Performance

Air Products & Chemicals (APD) – APD reported favorable results in November that highlighted the stability in the business model through take-or-pay contracts and benefits of pricing power in a rational, oligopolistic industry. APD is pushing through 20%+ pricing increases that are helping them to recapture margin lost from energy inflation. Additionally, APD's megaprojects in the U.S. have recently become more attractive, and new projects are reaching the return threshold to move forward, due to provisions for blue and green hydrogen included in the Inflation Reduction Act.

Blackrock (BLK) – BLK outperformed in Q4 after underperforming for the first three quarters of 2022. In the short term, BLK tends to trade with market sentiment due to the bulk of revenue tied to assets under management. Longer term, we see BLK as a high quality compounder that will likely outperform the asset management industry over full cycles. We remain attracted to BLK's strong competitive positioning, low leverage, high margins, and healthy capital return.

Merck (MRK) – MRK benefitted from strong earnings and defensive market positioning during Q4. MRK continues to leverage its strength in oncology with its leading Keytruda franchise, which has demonstrated success in earlier-stage launches and new combination therapies. MRK is also seeing continued momentum for its human papillomavirus vaccine, Gardasil, across its markets globally. We remain attracted to MRK's strong bullpen of drugs and vaccines and believe MRK's new leadership team can accelerate its drug pipeline and supplement growth with business development opportunities.

Top 3 Detractors from Relative Performance

Dominion Energy (D) – D underperformed in Q4 as the company announced results in-line with expectations, but surprised analysts by announcing a portfolio review, which will likely include some asset sales and may attempt to address the regulatory framework in Virginia. The announcement implies that the previously articulated medium-term EPS growth guidance should no longer be relied upon. In our view, many analysts and investors took a "shoot first" approach, selling on uncertainty. We note that management clearly stated that they will not be considering actions that would result in a cut to the dividend, and we believe it is better to get more color on the plan and reassess as opposed to reactively selling into negative sentiment.

Crown Castle (CCI) – CCI underperformed reflecting its relatively high debt levels and timing issues related to network equipment deployment. Higher interest rates continued to cause much of the multiple compression. The tower business continues to be resilient and activity is growing as carriers are spending to enhance networks and deploy spectrum. We believe CCI is in a good position for future growth in towers and should start to benefit from scaling the small cell business as co-located nodes deliver higher yields. We like CCI's stable revenue stream, long-term tailwinds on growth in data consumption, and its ability to return cash to shareholders through its dividend policy.

Fidelity National Information Services (FIS) – FIS underperformed in Q4 reflecting disappointing results from its merchant acquiring segment that indicated share loss within a portion of its small/medium (SMB) size business portfolio. New leadership took over during the quarter and immediately implemented a strategic review, new cost-cutting initiatives, and aggressively pivoted the SMB strategy to focus on higher growth verticals. SMB underperformance has largely overshadowed the healthy growth trends within FIS's other core segments, which represent the vast majority of sales. We remain attracted to the company's durable and diverse business model as it maintains a leadership position across its core segments and provides mission critical services to its customers.

Sector Influence

We are bottom-up stock pickers, but sector exposures influenced relative performance as follows:

- What Helped: Overweight Cons. Staples (a better performing sector) & underweight Info. Technology (a weaker performing sector)

- What Hurt: Underweight Healthcare & Energy (two better performing sectors)

Trades During the Quarter

- **Increased:** Fidelity National Information Services (FIS) – Using excess cash, we elected to add to our existing position in FIS, reflecting the stock's significant discount to our estimate of intrinsic value. The recent weakness in FIS's merchant acceptance business has overshadowed the healthy growth trends within FIS's banking & capital markets business, which represent 70% of revenues and boast long-term contracts with price escalators, high customer retention, and high switching costs. Using peer multiples for the banking and capital markets segments, FIS's share price implied no value for the merchant acceptance business, despite its growing revenue and cash flow generation. We believe that valuation discount will correct over time. Finally, the stock offers a 2.7% dividend yield and the dividend was increased 20% during the year. Management plans to increase the dividend payout ratio with plans for another 20% dividend increase in 2023.

Looking Ahead

As we enter 2023, conditions remain fragile, and the lagged effect of 2022's rate hikes and Quantitative Tightening (QT) may lead to further economic weakness. Inflation remains higher than desired, but inflation readings have improved from peak levels. Meanwhile, the labor market remains tight and the service side of our economy remains strong. As the Fed continues to balance its goals of stable pricing and full employment, additional rate hikes are likely early in the year. It is hard to predict what could happen longer term, but the message from the Fed is that rates will stay higher for longer. Much will depend on the level of inflation and the performance of the broader economy. In terms of the equity market, we recognize the difficulty in determining what is already factored into stock prices at this point in the economic cycle. With higher interest rates likely, equity valuations may experience multiple compression, while a slowing economy may lead to weaker earnings from many companies. The next phase of this slowdown will likely hinge on the path of earnings, credit spreads, and employment. In this more challenging environment, we continue to expect greater volatility in share prices and lower expected 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.

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

Annualized Returns
As of 12/31/2022

	QTD	1Y	3Y	5Y	10Y	ITD
Income Equity (Gross)	9.9%	-11.0%	6.9%	8.9%	11.5%	9.1%
Income Equity (Net)	9.8%	-11.3%	6.5%	8.5%	11.0%	8.4%
Russell 1000	7.2%	-19.1%	7.4%	9.1%	12.4%	6.4%

Inception date: 12/31/1999. Past performance should not be taken as a guarantee of future results.

Disclosure Notes

The London Company's performances are size weighted and annualized based on calculations for the period ending 12/31/2022. 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.

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Composite Creation/Inception Date: December 31, 1999

Composite Definition: The Income Equity strategy invests mainly in common equities with a focus on higher overall dividend yield orientation, which may be supplemented with primarily investment grade, preferred equities. This strategy has a more conservative orientation, with a focus on capital preservation, income and growth, in order to provide greater yield and downside protection relative to our Large and Mid Cap strategies. Our Income Equity strategy is designed to generate above-average, absolute returns over full market cycles. Accounts in this product composite are fully discretionary taxable and tax-exempt portfolios with no minimum dollar amount of assets. The product is measured against the Russell 1000 Value Index and has a creation and inception date of December 31, 1999. 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. As of July 1, 2022 The London Company redefined the composites to exclude all dual contract relationships and any potentially bundled fee scenarios. This policy is not retroactive, but will continue to apply going forward.

Benchmark Description: The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. Benchmark returns are not covered by the report of independent verifiers. The Income Equity product is typically compared to the Russell 1000 Value Index. Any comparison to the Russell 1000, 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. Returns are calculated and stated in U.S. 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.

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