Portfolio Commentary

Market Update

U.S. stocks posted positive returns during Q2, with most of the gains generated during the month of June. The broader market, as measured by the Russell 3000 Index, returned 8.4%. Slowing inflation, optimism around the potential benefits of artificial intelligence (AI), and better than expected economic news driven by solid consumer spending combined to lift the market higher. While growth of the overall economy has slowed, a strong labor market with rising wages has allowed the economy to avoid a much anticipated recession.

Shares of larger, technology related companies led the equity market. Market leadership was narrow as seven large cap companies drove the Core and Growth indices. Market performance was bifurcated across the market cap spectrum, with Large and Mega Cap stocks materially outperforming. Style, sector, and factor leadership largely mimicked Q1. Growth continued to dominate Value, and the Growth-oriented Info Technology, Cons. Discretionary and Comm. Service sectors generally led across the market cap spectrum. Turning to market factors, companies exposed to Growth and Volatility factors (higher beta) posted the best results, while Yield and Value factors were laggards. Quality and Momentum factors had a mixed impact.

Key Performance Takeaways

The London Company Large Cap portfolio returned 8.0% gross (7.9% net) during the quarter vs. a 4.1% increase in the Russell 1000 Value Index. Both sector exposure and stock selection were tailwinds.

The Large Cap portfolio outperformed the Russell 1000 Value and exceeded our long-term 85-90% upside capture expectations. Less exposure to Value factors and some exposure to the "Magnificent 7" (Apple and Alphabet) aided relative performance.

Top 3 Contributors to Relative Performance

Apple (AAPL) – Continuing the trend from Q1, AAPL and the rest of the "Magnificent 7" significantly outperformed the broader market during Q2. Investor sentiment was enhanced by AAPL's introduction of its augmented reality headset, named Apple Vision Pro. The company's rich ecosystem of hardware and software provide it with an almost unassailable competitive moat.

Martin Marietta Materials (MLM) - Shares of MLM outperformed during Q2, driven by improving sentiment around construction activity, along with strong quarterly results that demonstrated robust pricing power and continued margin expansion. Visibility in demand is improving with tailwinds supporting heavy non-residential and infrastructure projects over the medium-term, likely offsetting any temporary weakness in residential and light commercial activity. The company's leadership position within aggregates and exposure to financially healthy states gives us confidence that it will benefit from growth in infrastructure and construction spending for many years.

Alphabet (GOOG) - GOOG outperformed during Q2 due to better than expected Search revenue and momentum in Cloud. The slowdown in broader advertising spending continued this quarter, but there were signs of stabilization. Management also reiterated its focus to refine costs and improve profitability for long-term growth. GOOG's capital allocation priorities have been favorable as the company continues to invest in the business and return capital to shareholders via its buyback program.

Top 3 Detractors from Relative Performance

Progressive (PGR) – PGR underperformed during Q2 due to concerns about additional price hikes needed to maintain its targeted profitability ratio. PGR continues to increase auto policies in force, but recent costs were higher than expected. To combat weaker than expected margins, PGR is reducing advertising spending and increasing prices on insurance. Looking ahead, we believe PGR remains well positioned reflecting its more flexible pricing platform and tech solutions that monitor and price for distracted driving. While near term costs were higher than expected, PGR has a great track record of profitability and conservative underwriting philosophy.

Starbucks (SBUX) – Sentiment on SBUX turned more negative in this uncertain macro environment with the impending return of student loan payments in the U.S. SBUX reported very strong results for the Jan-March quarter, but exercised caution by not raising guidance. SBUX is beginning to realize tailwinds from the re-opening of the Chinese economy, adding a buffer to growth and margins for the remainder of the year.

Texas Instruments (TXN) – TXN shares declined 2% during the quarter. Demand was weaker in all markets except auto. While revenue was down 11% due to the slowing economy, we believe the outlook is positive. The company continues to invest in manufacturing facilities and should benefit from increased spending related to the CHIPS act. TXN is exposed to various end markets across the economy (e.g. automotive & industrials). We believe growth in analog semiconductor content demand, in most markets, will drive TXN.

Sector Influence

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

- What Helped: Underweight Healthcare & Utilities (two weaker performing sectors)

- What Hurt: Underweight Comm. Services (a better performing sector) & overweight Materials (a weaker performing sector)

Trades During the Quarter

- Reduced: **O'Reilly Automotive (ORLY) –** Reduced ORLY twice during Q2, reflecting strong recent performance that resulted in a relatively high valuation. ORLY remains well positioned for growth and leads the auto parts industry, which is fairly insulated from economic turbulence.
- Initiated: **Republic Services (RSG) –** RSG is the 2nd largest waste management company in North America. It generates consistent, predictable cash flows with over 80% of its revenues being annuity-like. RSG holds almost 25% of the landfill capacity in the U.S. Industry consolidation and the limited availability of landfills, on top of high transportation costs, have created local duopolies for landfill owners in their respective markets and increased returns. We're attracted to RSG's leading position in a stable business with a high degree of recurring revenue, and we believe the company is at an inflection point with its pricing strategy and landfill asset utilization. RSG has a solid balance sheet along with an experienced and shareholder friendly management team.
- Exited: **Verizon (VZ) -** Sale reflects heightened competitive activity from both AT&T and T-Mobile. While VZ has the highest quality network, we are concerned that competitors' focus on market share gains could continue to negatively affect VZ's business.
- Reduced: **Berkshire Hathaway (BRK.B) –** We believe the long-term outlook for BRK.B remains strong, but decided to reduce the weighting in the portfolio to roughly 6%.
- Initiated: **Albemarle (ALB) –** ALB is a global chemical company that develops, manufacturers and markets highly-engineered specialty chemicals across a diverse range of end markets. ALB operates in three segments: Energy Storage (battery and technical grade lithium), Specialties (bromine and specialty lithium products), and Ketjen (formerly known as catalysts). Cost advantage in the Energy Storage and Specialties businesses along with high switching costs in the Ketjen division form the basis of the company's moat. Energy Storage has become the core business as electric vehicle (EV) penetration has increased, driving growth in demand for lithium ion batteries. We expect this trend to continue, and ALB is well-positioned to capture value as the industry grows. We're attracted to ALB's leading industry position, cost advantages and solid margins. We initiated this position when sentiment on lithium was at a trough, which allowed us to establish a position in ALB at an attractive valuation.

Looking Ahead

Uncertainty remains high as we enter the second half of 2023. Continued progress on the inflation front is encouraging, and labor market strength may continue to underpin consumer resilience. That said, we note that core inflation remains above the Federal Reserve's long-term target of 2%, and it is likely the Fed maintains a restrictive posture if the labor market strength continues. Importantly, monetary policy works with a lag, and we have probably not felt the full impact of prior rate increases or the full effects of tighter lending standards. We remain cautious, as the odds of a recession are still high and the risks of a credit crunch are elevated.

Narrow markets can be quite fragile. The concentrated, top-heavy nature of the market creates an environment prone to risk reversals, and we continue to expect greater volatility in the months ahead. In addition, valuations appear relatively high vs. history, despite concerns about a pending recession and higher interest rates. As inflation concerns subside, we believe growth and employment will come into greater focus. Since the October 2022 bear market low, 100% of the market's rally has been attributable to P/E valuation multiple expansion. Meanwhile, earnings growth has been weak, and it could weaken further if we enter a recession. We may experience muted returns in the near term, given recession odds and elevated valuations. In that environment, companies that are higher quality, reasonably valued, and prudently returning capital to shareholders are likely better positioned. By that measure, we believe the attractive shareholder yields, quality value orientation, and high active share of our portfolios provide us with a compelling advantage in a fragile market environment with elevated uncertainty.

Annualized Returns
As of 6/30/2023

	QTD	YTD	1Y	3Y	5Y	10Y	ITD
Large Cap (Gross)	8.0%	10.9%	17.3%	13.7%	9.8%	10.6%	11.3%
Large Cap (Net)	7.9%	10.7%	16.8%	13.3%	9.3%	10.1%	10.7%
Russell 1000 Value	4.1%	5.1%	11.5%	14.3%	8.1%	9.2%	9.5%

Inception date: 6/30/1994. Past performance should not be taken as a guarantee of future results. Performance is preliminary. Subject to change.

Disclosure Notes

The London Company's performances are size weighted and annualized based on calculations for the period ending June 30, 2023. 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 Advisor, 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: 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. As of July 1, 2022 The London Company redefined the composites to exclude all dual contract relationship and any potentially bundled fee scenarios. This policy is not retroactive, but will continue to apply going forward.

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. The Large Cap product is typically compared to the Russell 1000 Index. Any comparison to the Russell 1000 Value 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.

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The London Company of Virginia, LLC

1800 Bayberry Court, Suite 301
Richmond, VA 23226

Tel: 804.775.0317
info@TLCadvisory.com

www.TLCadvisory.com