Portfolio Commentary

Q2 2023 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 Mid Cap portfolio returned 10.3% gross (10.2% net) during the quarter vs. a 4.8% increase in the Russell Midcap Index. Both sector exposure and stock selection were tailwinds.

The Mid Cap portfolio outperformed the Russell Midcap in Q2, and exceeded our 85-90% upside capture expectations. Despite headwinds from factor performance, the portfolio outperformed the benchmark in a strong market environment. As fundamentals have come under pressure down the market capitalization spectrum, our Quality orientation has stood out.

Top 3 Contributors to Relative Performance

Entegris (ENTG) – ENTG outperformed during Q2, gaining share in its end markets, while highlighting an improving outlook with a potential recovery later this year. Strong demand for mission-critical products, such as liquid filters, and the easing of supply chain constraints were highlights. Its value-added offerings allow for above-average growth relative to the rest of the industry across all cycles. ENTG has drastically increased its size and scale to become one of the most diversified players in the semi-materials industry. Management remains focused on debt reduction. We remain attracted to the industry's high barriers to entry, limited competitors, and high switching costs.

Vulcan Materials (VMC) - Strong pricing power, dominant positions in local markets, and targeted exposure to high growth metropolitan areas contributed to VMC's outperformance in Q2. As the largest aggregates business in the country, VMC is well positioned to benefit from the Infrastructure Investment and Jobs Act over the next several years. We continue to view VMC's pricing power through the cycle, exposure to publicly funded projects and strong balance sheet as sources of downside protection. We also believe Vulcan's ongoing investments in technology and market intelligence should continue to support the business's market leadership, pricing power, and best-in-class operations capabilities over the long-term.

Lennox International (LII) - LII outperformed during Q2. While residential HVAC volume turned negative, current trends are consistent with expectations. Additionally, the new CEO is executing well against stated objectives, specifically, on restoring profitability of the Commercial segment. We are also supportive of management's decision to sell the international business, which we viewed as a subscale distraction. We see LII as a high quality business in a good industry with opportunities to improve, and we are pleased to see the company effectively attacking opportunities for improvement.

Top 3 Detractors from Relative Performance

UniFirst (UNF) – UNF experienced a challenging environment with higher costs (rental garments and one-time items), and management reduced guidance reflecting sustained cost pressures. Margins remain meaningfully compressed relative to pre-pandemic levels. On a positive note, pricing remains strong, as customers seem to understand the justification of higher cost of service. We believe UNF should be able to normalize margin over time, due to the oligopolistic nature of the industry.

Skyworks Solutions (SWKS) – SWKS underperformed during Q2 reflecting slowing growth at smartphone manufacturers. In the most recent quarter, gross margins were temporarily impacted by a cut in fab utilization and the rightsizing of higher inventories. Looking longer-term, we believe SWKS's expertise in RF semiconductor design and manufacturing, coupled with its broadening product portfolio are enduring competitive advantages.

Cincinnati Financial (CINF) – Shares of CINF underperformed in Q2 reflecting an intentional reduction in sales growth to focus on profitability. The broader property and casualty insurance subsector underperformed the market, and CINF was no exception, as many carriers struggle to keep up with cost inflation. We believe CINF has the financial discipline and the right strategy to return to prior underwriting margins.

Sector Influence

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

- What Helped: Overweight Industrials (a better performing sector) & underweight Utilities (a weaker performing sector)
- What Hurt: Overweight Cons. Staples & Materials (two weaker performing sectors)

Trades During the Quarter

- There were no trades this quarter.

As we face an economic slowdown with a higher cost of capital environment, we believe companies with strong balance sheets and the ability to self-fund their operations should have a tangible advantage in 2023 and beyond.

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
Mid Cap (Gross)	10.3%	17.4%	19.3%	12.8%	10.8%	11.5%	12.7%
Mid Cap (Net)	10.2%	17.2%	18.9%	12.5%	10.4%	11.1%	12.3%
Russell Midcap	4.8%	9.0%	14.9%	12.5%	8.5%	10.3%	10.9%

Inception date: 3/31/2012. 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: 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. As of July 1, 2022 The London Company redefined the composites to exclude all dual contract relationships and any potentially bundled fee scenarios.

Benchmark Description: Primary: Russell Mid Cap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Mid Cap 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 Mid Cap Value Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes those Russell Mid Cap 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. 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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