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 Small Cap portfolio returned 2.5% gross (2.3% net) during the quarter vs. a 3.2% increase in the Russell 2000 Value Index. Stock selection was a headwind to relative performance, partially offset by positive sector exposure.

The Small Cap portfolio trailed the Russell 2000 Value in Q2 and came up short of our long-term 85-90% upside capture expectations. The re-emergence of soft-landing optimism led to a low quality rally among Small Cap equities. The lack of exposure to Growth factors and limited benefit from Quality factors were headwinds.

Top 3 Contributors to Relative Performance

Matson (MATX) – Shares of MATX rallied during Q2 as the company's ocean freight services benefited from stabilizing market conditions and freight rates. Transpacific trade dynamics may improve as retailers continue to work through inventory, while the return of tourism should help support demand in its Jones Act markets. MATX's success since the onset of the pandemic has enabled permanent volume additions in the China trade lane, a transformed balance sheet, and significant share count reduction. MATX remains strategically positioned as a US Jones Act shipping operator and its expedited freight service continues to offer an attractive value proposition for its customers.

Murphy USA (MUSA) - Shares of MUSA rebounded in Q2 reflecting strong operating results and thoughtful capital allocation. MUSA's low-price/high-volume strategy has led to profitable market share gains in the current environment. In May, management announced a new repurchase program equivalent to roughly 25% of the company's market cap.

Vontier (VNT) - VNT continued to rally following strong quarterly results and ongoing execution of its portfolio transformation strategy. All business segments demonstrated positive trends during the quarter as end markets remain healthy and supply chain issues ease. Management also reiterated their encouraging outlook, as they appear to be moving beyond the notable electric vehicle headwinds that have weighed on sentiment. We believe VNT's portfolio of highly profitable and resilient franchises remain well positioned to serve its large customer base with a variety of value-added solutions, while capitalizing on emerging trends within the mobility market.

Top 3 Detractors from Relative Performance

Ingevity (NGVT) – NGVT shares underperformed in Q2 after lowering full year guidance due to a slower than expected recovery in China and customer destocking. Additionally, as NGVT's key raw material (crude tall oil) is structurally undersupplied, investors are questioning whether the business's transition to alternative fatty acids at one of their three US-based plants will support consistent profitability going forward. We believe that NGVT's investment in alternative fatty acid capacity will enable the business to enter new markets, provide a cost advantage, and will enable feedstock selection, which can provide better products for customers. In addition, management has an excellent capital allocation record and we believe the current valuation of the stock is compelling. In our view, NGVT's diverse product mix and monopoly position on activated carbon for automobiles provide ample downside protection.

Atlantic Union Bankshares (AUB) – Shares of AUB underperformed the broader market in Q2 and YTD reflecting banking stress earlier in the year that saw several large banks shut down or sold. We continue to believe that AUB's footprint in a strong Virginia market will allow them to outperform over the long term. The stock also offers an attractive and growing dividend.

CTS Corp. (CTS) – CTS underperformed the broader market during Q2 after it reported a cautious outlook reflecting softness in the industrial market from inventory destocking and a longer recovery in auto sales. On a positive note, revenue accelerated sequentially and new business wins in non-transport end markets are improving. CTS has successfully moved up the value chain as it provides solutions for highly engineered, differentiated products. CTS continues to return 20-40% of cash to shareholders through its buyback program. We remain attracted to CTS's market share position in niche markets and management's self-help initiatives.

Sector Influence

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

- What Helped: Underweight Financials (a weaker performing sector) & overweight Industrials (a better performing sector)

- What Hurt: Overweight Cons. Staples (a weaker performing sector) & underweight Energy (a better performing sector)

Trades During the Quarter

- Exited: **RB Global (RBA) –** Reflects market cap of RBA, which exceeds $10B & is too large for the portfolio. We received shares earlier in the year as part of the closing of RBA's acquisition of IAA (cash and stock deal).
- Reduced: **Evoqua (AQUA) –** Trimmed ahead of the closing of the acquisition of AQUA by Xylem.
- Initiated: **Cable One (CABO) -** CABO provides internet, video, and phone services to residential and business customers, but is primarily focused on high-speed broadband connectivity in rural markets with limited competition and/or inferior DSL technology. The quality of its network allows CABO to deploy faster residential internet speeds than most of their competitors, and it has ample unused network capacity, providing runway for increases in data consumption over time. We believe CABO is an excellent broadband operator with superior profitability than its peers. Its utility-like service offers great defensive characteristics; meanwhile, it has an attractive growth profile, consistent cash flow generation & strong returns on invested capital.
- Initiated: **Casella Waste Systems (CWST) –** CWST is the 5th largest waste company in the U.S., and it's the #1 player in the dense Northeast. CWST is vertically integrated and has significant rural market exposure (~70%) versus its peers. The Northeast hasn't approved a new landfill permit in 30 years, so the scarcity value of landfills combined with CWST's vertical integration has given it significant pricing power. We're attracted to CWST's leading position in a stable business with high degree of recurring revenue. It has low leverage and is family owned. Plus, as a smaller player in a consolidating industry, CWST could possibly be acquired by a large player in the future. Later in Q2, we added to our purchase, increasing the size to roughly 3%.
- Initiated: **Marten Transport (MRTN)** – MRTN is a family owned U.S. trucking company with a diversified business mix. MRTN differentiates itself through its guaranteed pay policies, which enable it to hire and retain the best drivers. This helps lead to lower turnover and accident rates, which results in excellent reliability, service quality, customer retention and pricing power. MRTN's business mix skews toward temperature-sensitive goods, where rates are more stable and demand is more consistent in this category. We're attracted to MRTN's defensive business mix, high customer retention (high 90s), net cash balance sheet, and consistent improvement in margins and ROIC.
- Exited: **Xylem (XYL) -** Reflects market cap of XYL, which exceeds $20B & is too large for the portfolio. We received shares as part of the acquisition of Evoqua by XYL.
- Increased: **Atlantic Union Bankshares (AUB) –** Addition reflects confidence in the long-term outlook of the bank and its 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. 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
Small Cap (Gross)	2.5%	10.4%	20.8%	17.3%	8.3%	7.5%	12.3%
Small Cap (Net)	2.3%	10.0%	20.1%	16.5%	7.5%	6.7%	11.8%
Russell 2000 Value	3.2%	2.5%	6.0%	15.4%	3.5%	7.3%	8.7%

Inception date: 9/30/1999. 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: September 30, 1999

Composite Definition: The Small Cap strategy invests mainly in conservative, low-beta, small-cap equities with a focus on above-average downside protection. Primarily we seek profitable, financially stable small-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 small-cap indices. Accounts in this product composite are fully discretionary taxable and tax-exempt portfolios with a minimum of $100,000 in assets. The product is measured against the Russell 2000 Index and has a creation and inception date of September 30, 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 relationship and any potentially bundled fee scenarios. This policy is not retroactive, but will continue to apply going forward.

Benchmark Description: Primary: Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. Secondary: Russell 2000 Value Index measures the performance of the small-cap segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. Benchmark returns are not covered by the report of independent verifiers. The Small Cap product is typically compared to the Russell 2000 Index. Any comparison to the Russell 2000 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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