Portfolio Commentary

Market Update

U.S. equities rallied during 4Q with the major indices posting double-digit returns. Moderating inflation, some weakening in the labor market, and slowing economic growth raised the odds of a soft landing. The easing of financial conditions combined with indications by the Federal Reserve that it would pivot to rate cuts later in 2024 set forth a positive feedback loop for risk assets in 4Q. For the quarter, the Russell 3000 Index rose 12.1%.

There was a notable broadening of market strength in 4Q, as Small and Mid-Cap stocks posted the strongest gains. The recent broadening out of the market was a welcome reprieve, yet the cap-weighted Large Cap indices remain historically top-heavy and the mega-cap Magnificent 7 (Apple, Microsoft, Amazon, NVIDIA, Alphabet, Tesla, & Meta Platforms) were dominant in 2023. Some of the biggest beneficiaries of the 4Q drop in yields were the biggest victims of the rise in yields: regional banks, property stocks, cyclical sectors, and low quality, highly levered companies. Looking at market factors, Volatility and Growth were positive in 4Q while Value and Yield factors were mixed. Quality and Momentum factors were the biggest detractors during the final quarter.

Key Performance Takeaways

The London Company Mid Cap portfolio gained 12.9% (12.8% net) during the quarter vs. a 12.8% gain in the Russell Midcap Index. Outperformance was driven by positive stock selection, partially offset by headwinds from sector exposure.

The Mid Cap portfolio produced solid absolute and relative performance in 4Q, outperforming its benchmark and exceeding our 85-90% upside capture expectations. The lack of exposure to the Energy sector and positive stock selection aided relative results.

Top 3 Contributors to Relative Performance

Armstrong World Industries (AWI) – AWI outperformed during 4Q after demonstrating earnings stability amidst a challenging demand backdrop, as well as strong progress on key growth initiatives. AWI's unique competitive advantages, diverse end market mix, and a favorable industry structure should support outperformance going forward. Additionally, AWI's strong balance sheet provides ample downside protection.

Entegris (ENTG) – ENTG shares rallied during the quarter as visibility in the semiconductor market improved and demand for its value added product suite remains strong. ENTG is benefiting from the higher amount of materials needed for miniaturization and is winning business as its products deliver faster time to yield. Management has been delivering on its debt reduction strategy. We remain attracted to the industry's high barriers to entry, limited competitors, and high switching costs.

Dollar Tree (DLTR) – DLTR shares outperformed in 4Q as the business demonstrated share gains, progress on the rollout of multi-price assortment, and bold capital allocation with a large stock buyback during the third quarter. We believe the investments the company has made over the last year will continue to support higher returns going forward. Further, we view valuation as attractive on a sum-of-the-parts basis and have conviction in the management team, which now consists of the best operators in the retail industry.

Top 3 Detractors from Relative Performance

Hasbro (HAS) – Shares of HAS underperformed in 4Q due to concerns of another weak holiday season. Hasbro has been taking costs out of the business by eliminating roughly one-third of its headcount this year. However, results for 3Q were disappointing with revenues continuing to decline in Consumer and Entertainment, causing none of the cost saving efforts to flow through to the bottom line. Management lowered guidance based on the results. The company completed the sale of eOne in December 2023 and will use the proceeds to de-lever the balance sheet, which should help protect the dividend. We believe reduced corporate complexity and improving fundamentals are both near-term catalysts for the stock.

Old Dominion (ODFL) – Shares of ODFL underperformed in the quarter reflecting a weak freight market. The company's earnings report was positive, though, as declining volumes were somewhat offset by higher yields. The company did not chase share gains following the recent bankruptcy of Yellow Corp. This should be seen as a positive, though, as ODFL has always chosen to focus on freight and revenue quality. We view ODFL as the best operator in the LTL freight industry.

Steris (STE) – STE underperformed in 4Q reflecting cautious investor sentiment with respect to normalization of the company's healthcare capital equipment backlog, as well as continued softness in the Dental business. Fiscal 2Q results (reported in November) were solid relative to expectations, and guidance was maintained, but there were enough concerns to keep the stock in check, relatively flat in an up market. Big picture, we continue to view STE as a solid compounder, and the near-term concerns do not alter our view on competitive positioning, longer-term growth, or ability to operate efficiently and control costs.

Sector Influence

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

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

- What Hurt: Overweight in both Consumer Staples & Materials (two weaker performing sectors)

Trades During the Quarter

- Reduced: **Lennox International (LII) –** Reduction reflects strong rally in LII since we incepted the position in 2022, including a >70% return YTD. We remain confident in the long-term outlook.
- Reduced: **Copart (CPRT) -** Reduction reflects the strong rally in CPRT over many years, including a >60% return YTD. Following the recent rally, the market cap of CPRT is approaching $50B, which is at the upper end of the range for the Mid Cap portfolio.
- Increased: **Pool Corporation (POOL) –** Addition reflects our confidence in the long-term stability of the business. The stock has lagged the broader market over the last two years. POOL maintains strong fundamentals driven by growth in pool spending and outdoor living along with a growing installed base.
- Initiated: **Keysight Technologies (KEYS) –** KEYS is a dominant player in the electronic test and measurement industry. KEYS develops the tools that enable electrical engineers to analyze signals and assess the functionality of components and systems. Originating from Hewlett-Packard, KEYS became an independent entity in 2014, evolving into a market leader with a 25% share of its expansive total addressable market. On the road to higher speeds and greater connectivity, the tools provided by KEYS are indispensable for R&D. We view KEYS as a "strong getting stronger" story. KEYS's vast scale, enduring relationships with major clients, and decades of R&D contribute to a formidable moat. KEYS is highly profitable with gross margin >60% and invests heavily to retain its superiority. KEYS boasts a strong, net-cash balance sheet and robust cash flow generation. Recent stock weakness, attributed to uncertainties in China and industry destocking, presented a compelling entry point to own this quality compounder.

Looking Ahead

After such a strong 2023, we believe investors should temper expectations for 2024. Stocks defied rate hikes, wars, collapsed banks, and recession fears in 2023. Now, calls for a soft landing are consensus; sentiment is overly optimistic; and markets are priced for very little risk. Predicting the future direction of the economy is always challenging. While we do agree the odds of a recession have come down, they are still elevated. A soft landing remains in reach, but much of that hinges on whether the Fed eases soon enough to avoid an employment problem. Perhaps this time it will be different, but historically the odds of sticking the landing have been very low. Even though we have greater clarity over the Fed's path from here, there still remains a long list of items creating uncertainty that could lead to greater volatility in 2024.

In terms of the equity market, we believe returns in the near term may be modest, with shareholder yield (dividends, share repurchase, debt reduction) comprising a significant percentage of the total return. Economic growth is likely to slow; earnings estimates appear optimistic; and valuations are somewhat elevated. Moreover, investors continue to expect a faster pace of rate cuts than members of the FOMC currently suggest. The difference in the pace of rate reductions could lead to greater levels of volatility in 2024. Markets are impossible to outguess in the short run, but we believe the antidote to uncertainty is quality and that solid company fundamentals will lead to strong risk-adjusted returns in the long run. With that in mind, the characteristics of our portfolios remain attractive, and we believe we're well positioned for an uncertain future.

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Annualized Returns
As of 12/31/2023

	QTD	1Y	3Y	5Y	10Y	ITD
Mid Cap (Gross)	12.9%	28.6%	8.4%	14.5%	11.1%	13.0%
Mid Cap (Net)	12.8%	28.2%	8.1%	14.2%	10.7%	12.6%
Russell Midcap	12.8%	17.2%	5.9%	12.7%	9.4%	11.1%

Inception date: 3/31/2012. Past performance should not be taken as a guarantee of future results. Rev MC 20231231

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 December 31, 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.

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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.

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