

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 Small-Mid Cap portfolio gained 15.2% (15.0% net) during the quarter vs. a 13.4% increase in the Russell 2500 Index. Both stock selection and sector exposure were tailwinds.

The SMID 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

MBIA (MBI) – Shares of MBI rose significantly after the company announced a special dividend of \$8 per share. The stock was trading in the \$13 range at the time. The company is no longer writing municipal bond insurance and is slowly winding down operations.

Deckers (DECK) – DECK thoughtfully manages top brands in the footwear industry, which has allowed them to outperform other retailers in the current environment. UGG and HOKA are benefitting from brand heat, and management stays focused on acquiring and retaining customers. The company continues to diversify revenue through the growth of HOKA (non-seasonal), and the expansion of UGG into new categories. The cash balance sheet with no debt provides an additional element of downside protection.

Trex (TREX) – TREX continued its rally through 4Q on optimism for future rate cuts as a potential help to demand for composite decking and all things construction. The company performed very well in 2023 primarily due to an improving macro outlook. TREX entered the decking slowdown from a position of strength, and we have been pleased but not surprised by the company's execution. We continue to have a high degree of confidence in the competitive positioning of TREX as a market leader in an oligopoly, and the ability of management to execute well operationally, allocate capital rationally, and maintain a strong balance sheet.

Top 3 Detractors from Relative Performance

White Mountains (WTM) – We believe the relative underperformance of WTM in 4Q reflected dovish comments from the Fed and a rotation into more aggressive stocks. During the quarter, WTM launched a private investment fund led by John Daly, who founded Alleghany Capital (since Berkshire Hathaway acquired Alleghany and no longer needed a separate Alleghany Capital). We have confidence in management's ability to increase book value per share over time, through both conservative underwriting and portfolio changes.

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.

Cable One (CABO) – The market environment remains challenging for CABO with lower move activity and greater competition from fixed wireless offerings. Despite muted subscriber trends, CABO continues to generate profitable growth for its broadband service. Management appears disciplined in striking an appropriate balance between pricing and incremental penetration, while prioritizing free cash flow generation. CABO is well positioned as an advantaged provider of high-speed internet in rural markets. We believe its relatively low penetration, superior service, and M&A prowess are supportive of long-term earnings growth.

Sector Influence

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

- What Helped: Underweight Energy (a weaker performing sector) & overweight Cons. Discretionary (a better performing sector)
- What Hurt: Overweight Cons. Staples (a weaker performing sector) & underweight Financials (a better performing sector)

Trades During the Quarter

- Reduced: **Broadridge (BR)** – Reduced BR on strength (>30% YTD). Following the latest rally, BR's market cap exceeded \$20B. We typically start reducing positions in the SMID portfolio once market cap exceeds \$15B.
- Exited: **Hayward Holdings (HAYW)** – We exited our position in HAYW following a rebound in 2023 (up 50% YTD), as we believe the company may face headwinds in the future and we have greater confidence in DAVA.
- Initiated: **Endava (DAVA)** – DAVA is one of the largest next-generation IT servicers in the world, specializing primarily in custom application development. DAVA benefits directly from the trend towards increasing sophistication of enterprise IT environments (more variety, faster, more convenience, etc.). With a workforce exceeding 10,000 and a culture that fosters agile technology solutions, DAVA has an edge over less nimble competitors while also having a deep bench of skilled developers. We believe that the shortage of quality technical talent will persist for the near future, which supports a very favorable pricing and margin environment for DAVA. DAVA also has a strong balance sheet, minimal capital expenditures, and trades at an attractive discount to our conservative estimate of intrinsic value.

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
SMID Cap (Gross)	15.2%	24.8%	9.1%	14.3%	9.0%	15.2%
SMID Cap (Net)	15.0%	23.9%	8.3%	13.5%	8.2%	14.3%
Russell 2500	13.4%	17.4%	4.2%	11.7%	8.4%	13.8%

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, 2009

Composite Definition: The Small-Mid Cap strategy is an extension of our Small Cap strategy with weighted market capitalization higher than our Small Cap portfolio, and is within the market capitalization ranges of the major domestic small to mid-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 2500 Index and has a creation and inception date of March 31, 2009. 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 dual contract relationships and any potentially bundled fee scenarios. This policy is not retroactive, but will continue to apply going forward.

Benchmark Description: Primary: Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. Russell 2500 is a subset of the Russell 3000 Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. Secondary: Russell 2500 Value Index measures the performance of the small to mid-cap segment of the U.S. equity universe. It includes those Russell 2500 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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