Portfolio Commentary

Market Update

U.S. stocks posted solid gains in 1Q as stable economic growth, decelerating inflation, and some weakening in the labor market suggest a greater chance of a soft landing. Still, sticky inflation data and a tight labor market pushed out the timeline for the Fed's first rate cut, leading to a rise in yields. Nevertheless, the S&P 500 notched its strongest start since 2019. For the quarter, the broader market, as measured by the Russell 3000 Index, rose 10%. Stocks were higher across the market cap spectrum, but larger companies exposed to growth factors posted the strongest gains. The Artificial Intelligence (AI) hype that powered 2023's market rally extended its momentum into 2024. Although there were signs of some rotation away from the dominance of mega-caps, leadership dynamics largely remained unchanged. Market performance continued to be driven by Momentum, Growth, and Volatility market factors, while Yield, Value, and Quality factors lagged behind.

Key Performance Takeaways

The London Company Mid Cap portfolio gained 9.8% (9.7% net) during the quarter vs. a 8.6% gain in the Russell Midcap Index. Both stock selection and sector exposure aided relative performance.

The Mid Cap portfolio produced solid absolute and relative performance in 1Q, exceeding our upside capture expectations of 85-90%. Our Quality orientation continued to stand out down the market cap spectrum where earnings weakness was more pervasive. Company fundamentals continued to drive price, and the strong balance sheets of our companies—many with net cash—remained a significant advantage in this high rate environment.

Top 3 Contributors to Relative Performance

Allison Transmission (ALSN) – ALSN reported excellent results in the quarter, including continued margin expansion. Additionally, guidance called for flattish revenue next year, which suggests that demand remains resilient – commercial vehicles never experienced a pandemic-driven boom to begin with, as OEMs struggled with supply chain challenges. We think the valuation remains very attractive for this strong moat and highly cash-generative business.

Armstrong World Industries (AWI) – AWI was up 27% in 1Q after reporting strong quarterly results while providing solid guidance. AWI is executing effectively on key growth initiatives, leveraging pricing power, and demonstrating earnings resiliency. We remain attracted to the business because of its strong pricing power, annuity-like nature of the remodel portion of the business (roughly 70% of revenue), and management's excellent capital allocation.

Vulcan Materials (VMC) – VMC outperformed in the first quarter of 2024. VMC has demonstrated strong unit profitability improvements over the last year, and these improvements should continue throughout 2024 as the company expects to raise prices at a double-digit percentage for the second consecutive year. Beyond 2024, VMC will benefit from the Infrastructure Investment and Jobs Act as the largest aggregates business in the country. We believe VMC'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. 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.

Top 3 Detractors from Relative Performance

Churchill Downs (CHDN) – CHDN underperformed during 1Q, but the business continued to perform well. With the exception of some softness in parts of the casino business, CHDN is executing well and demonstrating exemplary capital allocation. Ticket sales for the 2024 Kentucky Derby are on trend; the historical racing machine business is performing well, and TwinSpires (online horse betting) has been solid. The negative on CHDN is that leverage remains elevated following a meaningful 2022 acquisition. We view the deal as strategically sound, and we expect leverage to come down next year with robust cash generation and EBITDA growth.

Dollar Tree (DLTR) – DLTR underperformed in the first quarter of 2024 as a difficult macroeconomic backdrop, a mix shift toward lower margin consumables over higher margin discretionary products, and broad-based shrink in the retail industry led to Family Dollar results that fell short of expectations. Despite these challenges, the business has won share across both banners recently and the management team is prudently allocating capital toward optimizing both footprint and store productivity. We believe these investments and operational initiatives will 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 some of the best operators in the retail industry. We were encouraged to see a board member recently buying stock.

Skyworks (SWKS) – SWKS is a substantial supplier to Apple, a customer that often constitutes 50-70% of SWKS's revenue. As such, sentiment regarding Apple devices is frequently expressed through both stocks. In this case, SKWS's shares were negatively affected by Apple's weakness earlier in the year, stemming from concerns over iPhone demand in China. Unfortunately, the news with Apple more than offset SWKS' positive earnings report that suggested the end of a capital spending cycle will usher in a period of substantial free cash flow.

Sector Influence

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

- What Helped: Underweight both Real Estate & Communications Services (two weaker performing sectors)

- What Hurt: Underweight in both Energy & Financials (two better performing sectors)

Trades During the Quarter

- Exited: **Perrigo (PRGO) -** Our PRGO thesis has not worked out, and the turnaround plan under former CEO Murray Kessler fell short of our goals. PRGO continues to progress in its plans to be a global leader in private label self-care products, but following the retirement of Kessler, we decided to exit the position.
- Reduced: **AerCap (AER), Old Dominion Freight (ODFL), Vulcan Materials (VMC), & BellRing Brands (BRBR) -** The four trimmed positions are stocks that have done well in recent years and the position size of each had crept higher. We trimmed roughly 1% from each. No change in our outlook for the companies.
- Initiated: **Crown Castle (CCI) –** CCI operates as a real estate investment trust. It is the 2nd largest operator of wireless tower communication sites in the U.S., and is well positioned to capitalize on the long-term growth in data consumption. CCI generates recurring revenue from tower leases and has 75% of the towers under longer-term lease agreements with annual price escalators. Our initiation of CCI represents our positive outlook on the tower business (70% of revenue) and pressure from investors to make a strategic shift in the fiber/small cell business (30% of revenue). The small cell business has been challenging for years. Management may make a strategic shift and could sell the fiber assets to focus more on the stable tower business. We believe this could improve profitability and cash flow generation. The stock currently trades at a discount to its peers.
- Initiated: **Bruker (BRKR) –** BRKR designs and manufactures advanced scientific instruments as well as analytical and diagnostic solutions for a number of differentiated end markets in the life sciences arena. Its solutions enable its customers to explore life and materials at microscopic, molecular and cellular levels. With a global presence and a focus on life sciences, it benefits from long-term drivers like proteomics research. BRKR derives its competitive moat from its highly innovative instruments that push the cutting edge of science, enabling strong pricing power and market leadership. BRKR's management team has an excellent track record of capital allocation and delivering on their promises that help create shareholder value. Over time, BRKR has reduced its reliance on government/academic customers, diversified away from Europe, increased growth, and expanded margins meaningfully. BRKR also possesses many characteristics we look for in a company, including a strong balance sheet, high ROIC (>20%), improving margin (close to 20%), and high inside ownership.

Looking Ahead

With slowing inflation, signs of better balance in the labor market, and normalized GDP growth expectations, the Fed will probably start to lower rates later this year. We believe the Fed will proceed with caution, attempting to balance the risk of easing policy too early against the risk of maintaining rates in a restrictive position for too long. While the odds of a recession in the near term have declined, risks remain. Longer term, we remain positive regarding the U.S. economy and expect real annualized GDP growth in the 2% range driven by growth in the labor force and improving productivity.

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. After such a strong five-month rally, it's fair to question the sustainability of the market's strength. Narrow, top-heavy markets are fragile, and the recent surge in insider selling activity, especially in tech companies, likely reflects the extreme valuations and unsustainability of this AI momentum trade. The odds of a recession have come down, but our cautious posture persists due to high valuations, market concentration, looming debt challenges, and the lengthiest inversion of the yield curve in history. Continued multiple expansion in a higher rate environment is unlikely. We suspect the S&P 500 will eventually track earnings, so we would expect more volatility, especially in stocks where a lot of growth is already priced in. We see a greater opportunity for quality operators with durable cash flow generation, strong balance sheets, and attractive shareholder yields in the years ahead.

Annualized Returns
As of 3/31/2024

	QTD	1Y	3Y	5Y	10Y	ITD
Mid Cap (Gross)	9.8%	32.5%	9.6%	13.4%	12.1%	13.6%
Mid Cap (Net)	9.7%	32.1%	9.3%	13.0%	11.7%	13.2%
Russell Midcap	8.6%	22.4%	6.1%	11.1%	10.0%	11.6%

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 March 31, 2024. 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.

Definition of Firm: The London Company of Virginia is a registered investment advisor. Registration does not imply a certain level of skill or training. More information about the advisor, including full descriptions of its investment strategies, fees and objectives, can be found in the firm's Form ADV Part 2, which is available upon request by calling 804.775.0317 or visiting www.TLCadvisory.com. The London Company claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Please visit www.TLCadvisory.com or contact us at 804.775.0317 to request a complete list and description of The London Company's composites and/or a GIPS® Report that adheres to the (GIPS®) standards.

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 Midcap 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 Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap 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 Midcap Value Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes those Russell Midcap 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 London Company 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. Prior to April 1, 2024 returns are calculated gross of withholding taxes on foreign dividends and interest. Starting April 1, 2024, performance is calculated net or gross of foreign withholding taxes on dividends and interest income dependent on custodian data. Dividends are reinvested. The accounts represented in the composite reflect actual London Company fees paid on the particular account which may be different from the fee normally offered to other clients. 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. An investment in a London Company strategy is subject to risks, including the loss of principal. Referenced strategies may not be suitable for all investors. The appropriateness of a particular strategy will depend on individual circumstances and objectives. In making an investment decision, individuals should utilize other information sources and the advice of their investment advisor.