

Portfolio Commentary

Full Year Market Update

U.S. equities posted another strong year of performance in 2024, in almost a carbon copy of 2023's robust gains. An easing of macro risks (lower inflation and a weakening labor market), a shift at the Federal Reserve to less restrictive monetary policy, and a late-year election bump drove market gains. And like last year, there was a wide dichotomy in leadership as the market favored larger cap growth over smaller cap value. While equity markets delivered strong headline gains in 2024, these returns were largely driven by multiple expansion, leaving valuations elevated and the market increasingly reliant on a handful of mega-cap leaders. Looking at market factors, Growth, Volatility, Size, and Momentum factors had the most positive impact on relative returns, while Value, Yield, and most of the Quality factors presented headwinds.

Key Performance Takeaways

The London Company Mid Cap portfolio returned 9.4% (9.1% net) year-to-date vs. a 15.3% increase in the Russell Midcap Index. Both stock selection and sector exposure were headwinds to relative performance.

Our Mid Cap portfolio produced solid absolute returns, but it trailed its benchmark and came up short of our 85-90% upside participation expectations. Over 50% of the headwind was sector related. Our factor exposure (limited Momentum, Growth or Volatility) and weakness in several holdings presented additional obstacles to relative performance. While the short-term report card hasn't been as favorable this year as the prior two years, the longer-term performance remains strong.

Looking ahead, the opportunity down the market cap spectrum is meaningful. Valuations are at historically attractive levels for smaller companies compared to large caps. That said, there is a need to stay up in quality given the elevated rate backdrop, the corporate debt wall maturity approaching, and sluggish demand environment. We believe our Mid Cap portfolio is well positioned to capitalize on attractive relative valuations while avoiding the pitfalls associated with lower-quality, smaller cap companies.

Top 3 Contributors to Relative Performance

Allison Transmission Holdings, Inc. (ALSN) – ALSN shares significantly outperformed the broader market during the year after reporting four strong quarters of results reflecting top-line growth, pricing power, and margin expansion. Segments generally performed well aside from North American off-market, which has significant energy exposure. We are also starting to see the company's defense end-market strategy paying off as the world readies for growing geopolitical tensions. We continue to like the company's wide moat and solid management team.

Armstrong World Industries, Inc. (AWI) – AWI shares outperformed as the company continues to exhibit strong sales and earnings growth amidst muted market conditions. Markets are beginning to stabilize and should return to low single digit growth, with the recovery led by new construction, renovation, and growth initiatives. Positive trends in transportation, education, health care, and data centers gives us confidence that the company will continue to execute.

M&T Bank Corporation (MTB) – MTB outperformed in 2024 on a series of positive financial updates and the reinstatement of its share repurchase program. MTB is well positioned going forward, having built capital and reduced its exposure to commercial real estate loans. We have a favorable view of MTB management, and we expect the bank to continue compounding value for shareholders while serving its customers well and managing credit effectively through cycles.

Top 3 Detractors from Relative Performance

Dollar Tree, Inc. (DLTR) – DLTR faced pressures this year from industry-wide weakness in discretionary purchases, the ongoing battle with cost inflation, and a realization that the Family Dollar turnaround efforts were not bearing fruit. For these reasons, DLTR revised its EPS guidance down by >20% throughout the year. We also saw a regime change at year-end with Rick Dreiling (CEO and Chairman) stepping down and the CFO shortly after him. The strategic review of Family Dollar is ongoing, and we believe a separation of this asset would immediately be accretive to DLTR's EPS. This is before considering a potentially large tax benefit that could result from a sale. On a go-forward basis, we are optimistic about the optionality inherent in the Dollar Tree banner. The banner is in early innings of its multi-price point conversion and capital is available to reinvest into this higher return retail concept now that Family Dollar is viewed as non-core.

Lamb Weston Holdings, Inc. (LW) – LW underperformed the benchmark during the year due to excess industry supply limiting pricing gains, poor execution on its ERP rollout, market share losses, and weak restaurant foot traffic. While there are short-term tailwinds, the long-term industry drivers remain attractive. We remain attracted to LW's flexible balance sheet, leading market share, capital allocation strategy, and industry tailwinds.

Entegris, Inc. (ENTG) – ENTG lagged during the year with more pronounced weakness in the second half. Management extended the recovery timeline for semiconductors due to sluggish demand in older technologies and the timing of new nodes. That said, ENTG benefits from the higher amount of materials needed for new technologies and is winning business as its products deliver faster yield times. We remain attracted to the industry's high barriers to entry, limited competitors, and high switching costs.

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 Health Care (a weaker performing sector)
- What Hurt: Overweight in both Consumer Staples & Materials (weaker performing sectors)

Portfolio Characteristics & Positioning

We believe the Mid Cap portfolio is positioned for long-term durability and possesses the fundamental ingredients that stand the test of time: wide moats, sustainably high returns on capital, strong cash flow generation, low leverage ratios, and trading at a reasonable valuation. As a corporate debt maturity wall approaches and the cost of that capital stays elevated, we believe companies with strong balance sheets and the ability to self-fund their operations could have a structural advantage in 2025 and beyond. In an environment of possibly lower returns and greater volatility, we believe the Mid Cap portfolio offers an attractive option for equity investors.

Portfolio Characteristics	Mid Cap	Russell Midcap
Pre-tax ROC (3 Yr. Avg.%)	18.7	10.9
Net Debt/EBITDA	2.0x	2.9x
Enterprise Value/EBITDA	17.3x	14.2x

Source: FactSet

Looking Ahead

As we enter 2025, we believe the market faces an inflection point where sustaining momentum becomes increasingly difficult. Across the real economy, demand still seems sluggish and clear late-cycle signals persist. Revenue growth and corporate profits have leaned on inflationary pricing, but margins face growing headwinds as inflationary pricing fades, input costs rise, and demand softens. The Fed cut rates during 2024, but the yields on longer-dated treasuries actually rose as the year ended. Stubbornly high borrowing costs continue to plague rate-sensitive areas of the economy, like housing. Employment and inflation data may be volatile in 2025 and could affect changes in monetary policy and lead to greater volatility across equity markets.

Despite resilient economic data and limited signs of credit risk, we believe vigilance is warranted. Our cautious posture persists due to high valuations, market concentration, looming debt challenges, and fraying consumer health. We anticipate lower expected returns in the near term, based on slowing growth (function of restrictive monetary policy) and high valuations. Valuation multiple expansion can only take the market so far (particularly late in a market cycle). We expect a reversion to the mean whereby earnings growth & dividends drive returns going forward. While optimism remains high, the vulnerabilities of momentum-driven leadership highlight the need for discipline. Markets may reward risk-taking in the short term, but lasting wealth is built through patience, real income, and fundamentals.

We believe the Mid Cap portfolio is positioned for long-term durability and possesses the fundamental ingredients that stand the test of time.

Annualized Returns

As of 12/31/2024

	QTD	1Y	3Y	5Y	10Y	ITD
Mid Cap (Gross)	-1.8%	9.4%	6.2%	9.4%	11.0%	12.7%
Mid Cap (Net)	-1.8%	9.1%	5.9%	9.1%	10.6%	12.3%
Russell Midcap	0.6%	15.3%	3.8%	9.9%	9.6%	11.4%

Inception date: 3/31/2012.

Performance is preliminary. Subject to change. Past performance should not be taken as a guarantee of future results.

Rev FY MC 20241231

Disclosure Notes

The London Company's performances are size weighted and annualized based on calculations for the period ending December 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.