

# Portfolio Commentary

## Market Update

After the significant downturn in the first quarter, U.S. equities experienced a double-digit increase in 2Q. The broader market, as measured by the Russell 3000 Index, increased 11.0%. Volatility surged in early April following new U.S. tariff announcements aimed at reshaping global trade. A double-digit, risk-on rally ensued following a temporary pause in tariff escalations, widespread optimism around enterprise AI, and a healthy earnings outlook. Additionally, improving sentiment, a healthy labor market, and expectations of future Federal Reserve rate cuts further supported the upward momentum, even amidst geopolitical tensions and mixed economic signals. Growth styles led Value, and Large Caps outperformed Small Caps. Turning to market factors, Growth and Volatility posted the strongest returns, and most Momentum factors outperformed. Value and Yield factors had a negative impact, while Quality factors were mixed.

## Key Performance Takeaways

The London Company Small Cap portfolio increased 2.7% (2.4% net) during the quarter vs. an 8.5% increase in the Russell 2000 Index. Sector allocation was a tailwind to relative performance while stock selection was a headwind.

The Small Cap portfolio came up short of our 85-90% upside capture expectations in 2Q. Our exposure to Lower Volatility and Quality factors flipped from a tailwind in 1Q to a headwind in 2Q, as high beta and momentum driven rallied sharply following tariff de-escalation. Despite positive sector exposure, pockets of idiosyncratic weakness across several holdings were additional headwinds to relative performance. The recent strength of some of the riskier, more speculative Mid & Small Caps names is not driven by fundamentals nor is it sustainable longer-term. Historically, a reliance on high Quality factors has proven to be a strategy that can lose battles along the way but tends to win the war over time. Fortunes can change quickly with a high conviction portfolio, and we remain confident in the operating metrics of portfolio companies.

## Top 3 Contributors to Relative Performance

**Gates Industrial Corporation Plc (GTES)** – GTES was a top performer after delivering a strong quarter, driven by robust automotive replacement demand despite tariff challenges. Management reaffirmed guidance, leveraging pricing power and operational efficiencies to offset tariff costs. The stable replacement channel and margin gains from cost reductions and footprint optimization enhanced performance. We remain attracted to its strong margin profile, and low capital needs continue to drive robust free cash flow. Management's disciplined capital allocation, balancing buybacks and deleveraging, enhances long-term shareholder value.

**NewMarket Corporation (NEU)** – NEU outperformed this quarter, fueled by strong AMPAC revenue growth from better volume and product mix, despite weaker Petroleum Additives results. The planned capacity expansion for the AMPAC business signals robust demand for rocket additives in a stable, oligopolistic market. Management prioritizes debt reduction and shareholder returns through dividends and buybacks.

**Armstrong World Industries, Inc. (AWI)** – AWI shares outperformed in the quarter due to beating expectations, driven by increased volumes from recent acquisitions and an increase in pricing. We continue to like AWI for its consistent execution, strong financials, leading market share and persistent moats through its exclusivity agreements and warranties.

## Top 3 Detractors from Relative Performance

**ACI Worldwide, Inc. (ACIW)** – ACIW was a bottom performer due to investor disappointment over unchanged guidance, despite robust results. The company's stable business, underpinned by a high proportion of recurring revenues and nearly a year of revenue visibility from its contracted backlog, supports our positive outlook. Sustained organic growth and insider buying by the CEO during the stock pullback reinforce confidence in ACIW's long-term potential.

**White Mountains Insurance Group Ltd (WTM)** – WTM was a bottom name due to industry headwinds. For U.S. P&C insurers, performance was mundane in 2Q, whereas the rest of the market had a rebound. We remain confident in the company's ability to deliver outsized growth in book value per share over time through prudent capital allocation.

**Matson, Inc. (MATX)** – MATX was a bottom name due to concerns around tariff-related uncertainties impacting China. Markets that are protected by the Jones Act, which form the majority of its business, remain stable and offer a buffer against tariff-related uncertainties in China. Management is focused on maintaining reliable, on-time shipping, expecting a demand recovery as inventories dwindle.

## Sector Influence

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

- What Helped: Underweight in Health Care and Energy (weaker performing sectors)
- What Hurt: Overweight in Consumer Staples and Real Estate (weaker performing sectors)

## Trades During the Quarter

- Initiated: **Interparfums, Inc. (IPAR)** – IPAR is a fragrance company offering a portfolio of leading brands via long-term licensing agreements. IPAR has licensing agreements with Montblanc, Jimmy Choo, Coach, Lanvin, Kate Spade, Lacoste, and others. IPAR boasts a net cash balance sheet, founder-led management, and high ROIC. IPAR's competitive advantages include superior product development and brand equity. We believe IPAR is poised to benefit from growth in the fragrance market, driven by post-COVID consumer behavior shifts, premiumization (higher pricing), and new user penetration. Valuation is attractive (14x EV/EBITDA), reflecting uncertainty around consumer spending.
- Exited: **Cable One, Inc. (CABO)** – Sale reflects heightened competitive activity and share losses to fixed wireless access. Our thesis about less competition in rural markets proved to be incorrect. We sold the remaining position following share weakness.
- Exited: **Somnigroup International Inc (SGI)** – Sale reflects the rising market cap of the company (formerly Tempur Sealy) following the closing of the Mattress Firm acquisition. At \$14B in market cap, SGI was too large for the Small Cap portfolio.

## Looking Ahead

There is elevated uncertainty as we start the second half of 2025 with a high likelihood of greater tariffs being announced in the weeks ahead. Consumer confidence has declined recently due to the risks of additional tariffs, but the broader economic data still supports growth in the near term, although growth is decelerating. While we are not predicting a recession, the odds of a recession have increased. In terms of monetary policy, the Fed appears to be on a steady course for two or three rate cuts later in the year. The effect of tariffs on both inflation and the broader economy could change those plans, though.

In terms of the equity market, the S&P 500 is back to the expensive, concentrated territory in which it began the year. Meanwhile, the macro risk backdrop has deteriorated since the start of 2025, including labor market softening, ongoing tariff uncertainty, debt headwinds, geopolitical tensions, and unclear inflation trends. Equity returns in the near term may be modest, with shareholder yield (dividends, share repurchases, debt reduction) comprising a significant percentage of the total return from equities. We believe our high-Quality, low-Volatility orientation positions us well for an environment of elevated policy risks and fragile global growth. We remain rooted to our long-term, fundamental investment approach, focusing on company quality, sustainable returns on capital, and resilience across economic scenarios.

## Annualized Returns

As of 6/30/2025

	QTD	YTD	1Y	3 Y	5 Y	10 Y	ITD
<b>Small Cap (Gross)</b>	2.7%	-4.4%	5.0%	12.7%	13.8%	7.0%	12.0%
<b>Small Cap (Net)</b>	2.4%	-4.9%	3.9%	11.6%	12.7%	5.9%	11.2%
<b>Russell 2000</b>	8.5%	-1.8%	7.7%	10.0%	10.0%	7.1%	8.0%

Inception date: 9/30/1999. Performance is preliminary. Subject to change. Past performance should not be taken as a guarantee of future results. Net of fee returns are calculated net of a model management fee of 1.00%. Please see the disclosure notes found on the last page.

TT PC SC 20250630

## Disclosure Notes

The London Company's performances are size weighted and annualized based on calculations for the period ending June 30, 2025. 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](http://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](http://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:** 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.

**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 a model fee of 1.00% and transaction cost and gross of custodian and other fees. The 1.00% model London Company management fee applied is the highest tier of the current composite fee schedule. This fee is applied monthly to the gross return at 1/12th the annual rate, which is 0.0833% per month. Net of fee returns prior to January 1, 2009 are calculated net of actual London Company management fees and transaction costs and gross of custodian and other fees. Actual investment advisory fees incurred by clients may vary. 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 of gross of foreign withholding taxes on dividends and interest income dependent on custodian data. Dividends are reinvested. 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.