

Portfolio Commentary

Market Update

U.S. equities continued their advance in Q3, fueled by a Fed rate cut, solid corporate earnings and enthusiasm around AI. Economic data released throughout the third quarter was mixed, but the economy retained most of its momentum from the second quarter. Expectations for additional interest rate cuts by the Federal Reserve also drove more optimism in the market. Volatile, high beta stocks extended their sharp rebound off April 8th lows, notching the strongest high beta rally since the bounce off the Global Financial Crisis trough in 2009. For the quarter, the broader market, as measured by the Russell 3000 Index, increased 8.2%, and the S&P 500 and small-cap Russell 2000 both hit all-time record highs. Stylistically, Growth outperformed Value, and Small Cap stocks led Large Caps. Turning to market factors, Volatility and Yield factors posted the strongest returns. Value and Growth factors were mixed. Quality factors, which our portfolios tilt towards, were mostly headwinds.

Key Performance Takeaways

The London Company SMID Cap portfolio increased 1.1% gross (0.8% net) during the quarter vs. a 9.0% increase in the Russell 2500 Index. Both stock selection & sector exposure were headwinds to relative performance.

The SMID portfolio trailed the benchmark and came up short of our 85-90% upside capture expectations. There have been pockets of idiosyncratic weakness across the SMID portfolio, but ultimately our high Quality, low Volatility positioning has been out of favor since the April 8th market low. Quality factors, a tailwind during the drawdown earlier in the year, turned into a headwind as Volatility surged. The high beta rally has been driven by low quality, negative earning companies which have rallied on hopes of further Fed rate cuts. The recent weakness by Quality factors is consistent with historical patterns. In the aftermath of recessions or policy shifts, markets often reward speed and speculation over stability. We remain confident in our holdings: durable advantages, strong balance sheets, and steady free cash flow underpin long-term value.

Top 3 Contributors to Relative Performance

Armstrong World Industries, Inc. (AWI) – AWI shares outperformed in the quarter due to beating expectations, driven by favorable positioning in key verticals and strong operating leverage. We continue to like AWI for its consistent execution, strong financials, leading market share and persistent moats through its exclusivity agreements and warranties.

Somnigroup International Inc. (SGI) – SGI was a top performer as it continues to gain incremental share in the bedding market, despite the weakness in the endmarket. The integration of Mattress Firm is progressing ahead of schedule, causing an improvement in the outlook. We believe the business combination has the potential to unlock meaningful value. Our investment thesis is supported by robust free cash flow generation, strong brand equity, and solid management execution.

NewMarket Corporation (NEU) – NEU was a strong performer in the quarter, mainly due to three factors. First, low oil prices cut input costs faster than revenue, driving improved profitability. Second, a timely defense acquisition allowed NEU to ramp up production amid global conflicts. Finally, the market is positively viewing the company's use of cash flow to repay debt.

Top 3 Detractors from Relative Performance

Waters Corporation (WAT) – WAT underperformed on the announcement that it will acquire Becton Dickinson's Biosciences and Diagnostics divisions. While we take a skeptical view toward transformational M&A, we do see the strategic logic of the deal, and we have confidence in management's ability to execute on commercial improvements and cost synergies. We continue to have a favorable view of WAT's core business and the management team.

Casella Waste Systems, Inc. (CWST) – CWST was an underperformer after reporting continued weakness in construction and demolition volumes, plus temporarily slower synergies from the recent larger acquisition. CWST continues to get pricing above inflation. We continue to be attracted to the scarce assets of the landfills, pricing power, and the consolidated nature of the industry at a local level.

Jack Henry & Associates, Inc. (JKHY) – JKHY was an underperformer this quarter after reporting a more conservative outlook and temporary margin pressures due to new client onboarding. Overall, results were strong with JKHY winning new business by leveraging its cloud platform and best-in-class technology. We remain attracted to the asset light business model, sticky contracts with long duration, and a clean balance sheet.

Sector Influence

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

- **What Helped:** Overweight in Information Technology (a better performing sector) & overweight Materials (a better performing sector)
- **What Hurt:** Overweight Consumer Staples (a weaker performing sector) & underweight Health Care (a better performing sector)

Trades During the Quarter

- **Initiated: ACI Worldwide, Inc. (ACIW)** – ACIW’s core payments software enables banks, processors, networks, fintechs, and retailers to handle payments regardless of the channel. ACIW doesn’t move or process money, they sell the software to facilitate money movement. ACIW’s software is mission critical to financial institutions and competition is limited. Margins are attractive and capital spending needs are light. At 11x EV/EBITDA, we believe the stock is attractive and trades at a discount to intrinsic value. We have owned ACIW for years in the Small Cap portfolio. Fundamentals remain attractive and the market cap is now roughly \$5B.
- **Exited: Reynolds Consumer Products Inc (REYN)** – We sold the remaining position in REYN as the company continues to face stiff competition and may face greater headwinds from tariffs. Sale reflects diminished conviction following several years of inconsistent results, challenges from private label products and limited pricing power.
- **Increased: Deckers Outdoor Corporation (DECK)** – We added to DECK following recent weakness in the shares. While there have been concerns about the HOKA brand, recent results point to the strength and sustainability of both the UGG and HOKA brands. We believe DECK can continue to generate strong revenue growth with higher margins. The balance sheet is strong with \$1.7B in net cash (10% of the company’s market cap). With shares now at a much more attractive valuation, we elected to increase our position.
- **Reduced: Armstrong World Industries, Inc. (AWI)** – We trimmed the existing position in AWI following recent strength. We maintain an optimistic outlook for the ceiling tile business and AWI’s leading position in an oligopoly.
- **Exited: Broadridge Financial Solutions, Inc. (BR)** – We sold

the remaining position in BR following recent strength in the shares. The market cap of BR now exceeds \$30B, which is too large for the SMID portfolio.

Looking Ahead

Despite the twists and turns of uncertainty, the U.S. economy has displayed impressive resilience this year. Housing, the impact of recent tariffs, and the labor market continue to be areas of concern. That said, the past six months were filled with powerful catalysts—including tax reform, Fed easing, lower long-term rates, tariff clarity, and record capital spending—which gave new life to risk-taking and economic optimism. Still, sticky inflationary pressures combined with a weakening labor market have complicated the Fed’s dual mandate.

Turning to equities, the markets remain concentrated and expensive, potentially limiting room for multiple expansion and raising the prospect of muted returns with higher volatility. Expectations are being partly driven by productivity gains, broadening of earnings growth, and less restricted monetary policy. Yet, the momentum and sustainability of AI and the capex behind it have been questioned more frequently. High beta rallies, like the past 6 months, are rare, short-lived and historically mean-reverting. In the aftermath of recessions or policy shifts, markets often reward speed and speculation over stability. Quality factors usually lag in these circumstances, then regain leadership when fundamentals reassert themselves. With valuations stretched & speculation abundant, we believe focusing on resilient, attractively valued businesses remains the best path to compounding wealth across full cycles. Our Quality-at-a-Reasonable-Price discipline is designed to protect capital during frothy periods and deliver steadier results when the cycle turns.

Annualized Returns

As of 9/30/2025

	QTD	YTD	1Y	3Y	5Y	10Y	ITD
SMID Cap (Gross)	1.1%	-5.9%	-4.1%	10.5%	8.9%	9.5%	13.5%
SMID Cap (Net)	0.8%	-6.6%	-5.1%	9.4%	7.8%	8.4%	12.4%
Russell 2500	9.0%	9.5%	10.2%	15.7%	12.1%	10.5%	13.7%

Inception date: 3/31/2009. 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.

Disclosure Notes

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

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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 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. 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 or 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.

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