

Portfolio Commentary

Market Update

U.S. equities finished higher for a third consecutive quarter in Q4, with the Russell 3000 Index rising 2.4% and the S&P 500 posting similar gains. The quarter was supported by strong earnings growth, 50 basis points of additional Fed rate cuts, and an extension of the US-China trade truce. However, headwinds emerged from AI investment scrutiny, labor market softening with unemployment reaching a four-year high of 4.6%, and a prolonged government shutdown. The quarter reflected investors navigating between optimism around earnings strength and concerns about AI returns and macroeconomic softening.

Equity market performance was again characterized by uneven leadership beneath strong headline returns. Performance among the Magnificent 7 companies displayed growing divergence, while the high beta rally that began in April showed signs of exhaustion beginning in November. Stylistically, Value outperformed Growth across the market cap spectrum, but performance between Large and Small Cap equities was more balanced. Sector leadership was mixed. Health Care and Communication Services were the most positive, while the other Defensive sectors (Real Estate, Utilities & Consumer Staples) were negative for the quarter. Looking at market factors, Value factors were the primary driver of returns, led by stocks trading at lower prices relative to sales and book value, while cash-flow-based measures were more muted. Quality factors, which our portfolios tilt toward, were headwinds. Momentum and Volatility factors provided support; meanwhile, Growth & Yield factors were mixed.

Key Performance Takeaways

The London Company Income Equity portfolio declined 1.4% (-1.6% net) during the quarter vs. a 2.4% increase in the Russell 1000 Index. Both stock selection and sector exposure were headwinds to relative performance.

The Income Equity portfolio trailed the Core benchmark in Q4 and came up short of our 85-90% upside capture expectations. Most of the headwind for Q4 was in October, on better CPI data and rate cut expectations. Dividend Yield factors were particularly weak in October, which weighed on relative and absolute performance for Q4. Moreover, as market leadership re-narrowed, the opportunity cost from underexposure to the Top 10 mega caps was a material detraction.

In a market defined by elevated valuations and concentration risk, we see growing value in true active share and diversified exposure to high-quality businesses.

Top 3 Contributors to Relative Performance

Cummins Inc. (CMI) – CMI reported strong results, driven by Power Systems strength tied to data center demand, while the

on-highway truck market remains weak. There are some signs that Class 8 deliveries are nearing a bottom. CMI remains one of the few global suppliers capable of supporting large-scale data center backup power requirements. As the market leader in heavy-duty diesel engines, CMI's diversified business mix, strong competitive positions across its portfolio, and high-margin aftermarket exposure provide a durable foundation for long-term growth.

Cisco Systems, Inc. (CSCO) – CSCO was a top performer this quarter following a beat and raise, driven by strong Networking growth and accelerating AI momentum. Strength in core Networking more than offsets near-term weakness in Security, which is transitioning toward a more recurring revenue model. Early signs of a campus refresh cycle were also positive. We think that the company's leadership position in Networking, product breadth, and balance sheet flexibility will continue to drive growth and shareholder value over time.

Johnson & Johnson (JNJ) – JNJ was a stronger performer this quarter following a solid beat and raise, supported by accelerating pharmaceutical growth and improving MedTech trends. The planned spin-off of the lower-growth Ortho business improves the core business and enhances margin potential. We continue to favor JNJ for its high-quality pharmaceutical portfolio, durable cash flows, strong balance sheet, and attractive long-term growth profile.

Top 3 Detractors from Relative Performance

Nintendo Co., Ltd. ADR (NTDOY) – After a strong start, NTDOY was a bottom performer this quarter due to volatility at the beginning of the console cycles and rising cost due to external factors, as the cost of memory chips has increased. All of these are short term rather than any deterioration in the underlying business. The market is underappreciating NTDOY's evolving platform. There are external offsets to rising costs. We remain attracted to NTDOY's integrated hardware-software model, brand franchises, and the strength of its balance sheet.

Fastenal Company (FAST) – FAST underperformed during the quarter as elevated expectations reset and industrial demand recovered more slowly than expected. Sales growth from new customer sites remained. Strong cash generation, a healthy balance sheet, and disciplined capital allocation continue to provide downside support.

BlackRock, Inc. (BLK) – BLK was a bottom performer during the quarter as investor sentiment was pressured by concerns around private market liquidity, return durability, and higher expenses tied to recent acquisitions. Despite this, fundamentals remain solid, with record AUM, healthy flows, and organic base fee growth well above long-term targets, driven by active ETFs, digital assets, and alternatives. We continue to view BLK as a long-term share gainer, and we appreciate the strong balance sheet and steady capital return.

Sector Influence

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

- What Helped: Underweight both Consumer Discretionary & Information Technology (two weaker performing sectors)
- What Hurt: Underweight both Communication Services & Health Care (two better performing sectors)

Trades During the Quarter

- There were no trades this quarter.

Looking Ahead

As we move into 2026, the economic and policy backdrop remains characterized by a mix of support and uncertainty. On the positive side, corporate earnings trends have remained better than expected, consumer activity has shown resilience, and ongoing Fed rate cuts combined with fiscal stimulus measures may continue to support growth. At the same time, late-cycle dynamics are becoming more evident. Labor market softening, affordability pressures, and persistent housing weakness underscore the uneven nature of growth. Trade and tariff policy remain fluid, and elevated complacency leaves markets vulnerable to adverse surprises. Against this backdrop, economic and inflation data may remain volatile, increasing the likelihood of episodic market dislocations. Despite resilient earnings trends and elevated hyperscaler capital spending, we believe caution is prudent given these crosscurrents.

From an equity market perspective, strong headline returns have masked growing dispersion beneath the surface. Leadership has remained narrow and valuation risk increasingly concentrated, raising the possibility that company-specific risks could take on broader significance. Periodic risk-on rallies, particularly among high-beta and lower-quality segments, have contributed meaningfully to recent performance, but history suggests such episodes are rarely durable. We believe the environment is becoming more conducive to broader leadership and a return to fundamentals, where earnings growth, dividends, and balance-sheet strength matter more than valuation multiple expansion. As volatility rises, downside protection is likely to be driven by companies with high and stable returns on invested capital, conservative leverage, and reasonable valuations. Our portfolios remain anchored in these attributes, which we believe offer a more resilient path through shifting market regimes and help clients participate in long-term wealth creation while managing downside risk.

Annualized Returns

As of 12/31/2025

	QTD	1Y	3Y	5Y	10Y	ITD
Income Equity (Gross)	-1.4%	14.4%	10.8%	8.9%	10.3%	9.3%
Income Equity (Net)	-1.6%	13.5%	10.0%	8.1%	9.5%	8.5%
Russell 1000	2.4%	17.4%	22.7%	13.6%	14.6%	8.2%

Inception date: 12/31/1999. Performance is preliminary. Subject to change. Performance results shown should, under no circumstances, be construed as an indication of future performance. Net of fee returns are calculated net of an annual model management fee of 0.75%. Please see the disclosure notes found on the last page. The Income Equity product is typically compared to the Russell 1000 Value Index. Any comparison to the Russell 1000, S&P 500 or their corresponding ETFs, is for illustrative purposes only.

Disclosure Notes

The London Company's performances are size weighted and annualized based on calculations for the period ending December 31, 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: December 31, 1999

Composite Definition: The Income Equity strategy invests mainly in common equities with a focus on higher overall dividend yield orientation, which may be supplemented with primarily investment grade, preferred equities. This strategy has a more conservative orientation, with a focus on capital preservation, income and growth, in order to provide greater yield and downside protection relative to our Large and Mid Cap strategies. Our Income Equity strategy is designed to generate above-average, absolute returns over full market cycles. Accounts in this product composite are fully discretionary taxable and tax-exempt portfolios with no minimum dollar amount of assets. The product is measured against the Russell 1000 Value Index and has a creation and inception date of December 31, 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 relationships and any potentially bundled fee scenarios. This policy is not retroactive, but will continue to apply going forward.

Benchmark Description: The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. Benchmark returns are not covered by the report of independent verifiers. The Income Equity product is typically compared to the Russell 1000 Value Index. Any comparison to the Russell 1000, S&P 500 or their corresponding ETFs, is for illustrative purposes only.

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 an annual model fee of 0.75% and transaction cost and gross of custodian and other fees. The 0.75% 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 0.0625% per month. Actual investment advisory fees incurred by clients may vary. 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. Some of the accounts in this composite pay a bundled fee, which includes custodian, consultant and management fees. Because of this fee arrangement, composite actual net of fee returns prior to January 1, 2009, could have an undervalued net performance. 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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