

# 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 Small Cap portfolio increased 2.7% (2.5% net) during the quarter vs. a 2.2% increase in the Russell 2000 Index. Outperformance was driven by stock selection, partially offset by sector exposure.

The Small Cap portfolio finished 2025 on a high note, outperforming the benchmark and exceeding our 85-90% upside capture expectations in Q4. The high beta rally that drove much of the index's 2025 gains showed signs of exhaustion in Q4. After a challenging year, the Small Cap portfolio improved its relative performance with strong stock selection, as low quality & high volatility stocks lost traction.

Patience, discipline, and independent thinking are often tested in the short run, but they are essential over full market cycles.

## Top 3 Contributors to Relative Performance

**White Mountains Insurance Group Ltd (WTM)** – WTM was a top performer after announcing the sale of a controlling stake in its retail brokerage platform, Bamboo, generating a roughly 4x return in just two years. The transaction, alongside a concurrent share buyback, drove a meaningful increase in

book value per share and reinforced confidence in management's disciplined capital allocation and ability to compound shareholder capital.

**Revolve Group Inc. (RVLV)** – RVLV was a positive contributor this quarter as shares rallied nearly 40%, reversing much of the year-to-date decline after earnings alleviated concerns around tariffs and margin pressure. Management demonstrated the ability to fully offset tariff impacts while maintaining demand, highlighting strong pricing power and brand resilience. We continue to see a long runway for market share gains and structural margin improvement over the medium term.

**Haemonetics Corporation (HAE)** – HAE entered the quarter with very low expectations, which helped drive a strong stock reaction following earnings. Guidance increased due to improving margins from initiatives. HAE will likely reach its long-term margin targets outlined at its prior investor day. While some parts of the business are still improving, strength in other areas has helped offset those challenges. Buybacks increased at these depressed valuation prices, enhancing shareholder value. Overall, we believe the setup remains attractive, supported by the company's underlying quality.

## Top 3 Detractors from Relative Performance

**NewMarket Corporation (NEU)** – NEU was a weaker performer as a softer global environment (mostly China's slowdown) pressured Petroleum Additives volumes and margins. The Specialty Materials business had lumpy demand, which weighed on results. Lower oil prices reduced operating leverage. Despite near-term pressure, we continue to view NEU as a strong business with disciplined capital allocation, balance sheet flexibility, and strong cash flow generation.

**Certara, Inc. (CERT)** – CERT was a bottom performer as the stock sold off on softer top line and bookings results, despite improving profitability and higher EPS guidance. While organic software growth has fallen short of expectations, margins, cash flow, and software mix continue to trend positively. We continue to like CERT for its dominant market position, low capital intensity, strong cash flow generation, and a long-term growth opportunity as computer simulation adoption expands over traditional methods.

**Gates Industrial Corporation plc (GTES)** – GTES reacted negatively to the announced restructuring and footprint optimization actions, along with ERP implementation headwinds. These factors are expected to pressure margins in early 2026 and delay the EBITDA margin target to 2027. Despite near-term challenges, the underlying business is performing well amid weak industrial activity, and management remains disciplined in driving operational improvements. We believe GTES is well positioned for strong earnings growth, supported by secular tailwinds such as electrification and chain-to-belt retrofitting, and continued productivity gains.

## Sector Influence

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

- **What Helped:** Underweight Utilities (a weaker performing sector) & overweight Materials (a better performing sector)
- **What Hurt:** Underweight Health Care (the best performing sector) & overweight Consumer Staples (a weaker performing sector)

## Trades During the Quarter

- **Initiated: CCC Intelligent Solutions Holdings Inc (CCC) -** CCC operates a vertically integrated, mission-critical software platform for the automotive insurance ecosystem. CCC commands a monopoly like position, handling over 80% of U.S. auto claims, and leverages scale, network effects, and high customer retention to maintain its competitive edge. This enables durable high-single-digit organic growth driven by product upsells and new customer wins in a fragmented repair market. The company is also benefiting from the digitalization of more complex auto claims. We own CCC in our SMID portfolio, and we believe the market is discounting a high-quality company amid short term concerns of slower growth from new product rollouts and AI risks. In reality, CCC's AI-powered offerings have helped its core business by enhancing claims automation, accuracy, and speed. CCC implemented an accelerated share repurchase program and insiders have been buying shares in the open market to show conviction in the business. We believe the margin of safety is supported by the business's stability and a management team with a strong track record of innovation.
- **Exited: DoubleVerify Holdings, Inc. (DV) -** We elected to exit DV given it was a stub position and we had higher conviction elsewhere. Over time, the business demonstrated greater earnings variability and less visibility than anticipated, with results increasingly influenced by cyclical brand advertising budgets. At the same time, execution shortfalls reduced our confidence in management, and our assessment of ad verification evolved, particularly in a tighter spending environment, where it proved less mission-critical than initially expected.

- **Trimmed: Armstrong World Industries, Inc. (AWI) -** Trimmed AWI on strength to help fund our CCC purchase. There is no change to the underlying view on the business.

## 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
<b>Small Cap (Gross)</b>	2.7%	0.0%	11.0%	8.5%	9.1%	12.0%
<b>Small Cap (Net)</b>	2.5%	-1.0%	9.9%	7.4%	8.0%	11.2%
<b>Russell 2000</b>	2.2%	12.8%	13.7%	6.1%	9.6%	8.4%

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 an annual 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 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:** 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 an annual 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. 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 paid a bundled fee, which included custodian, consultant and management fees. In addition, the total percentage of non-fee paying accounts in the composite was 100% from inception through 2005, 19.4% in 2006, 4.1% in 2007, and 1.5% in 2008. 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.

**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.