

To clients and friends of The London Company

Keeping Time in a Noisy Market

Executive Summary

U.S. equities posted a 3rd straight year of double-digit gains, led by a narrow group of mega-cap tech stocks.

Our portfolios demonstrated resilience during market drawdowns, but our Quality-at-a-Reasonable-Price (QARP) approach was out of favor in a year dominated by Volatility, Growth, & Momentum market factors.

In our view, this is a market where discipline matters more than bold forecasts. We believe our focus on Quality and valuation helps prepare our portfolios for a wider range of possible outcomes.

If 2025 reminded us of anything, it’s how quickly markets can move, and how easily short-term signals can drown out long-term fundamentals. Much of the year felt governed by the minute hand: rapid news cycles, shifting narratives, and sharp factor rotations. Our investment process, by contrast, is guided by the hour hand. It’s steadier, slower-moving, and focused on what compounds value over time.

Broad Market Performance	Q4	YTD
Russell 3000	2.4%	17.2%

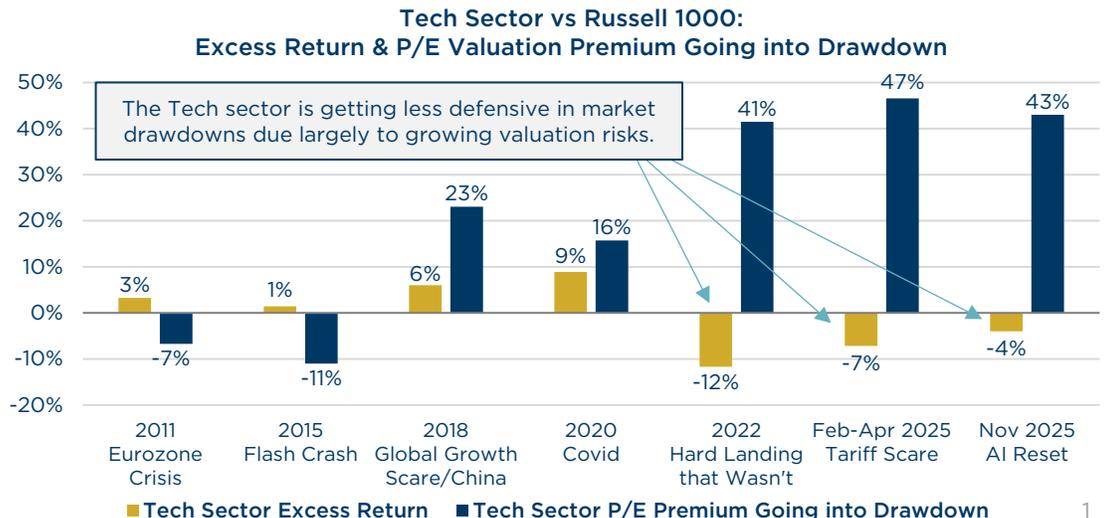
U.S. equities finished higher for a third consecutive quarter in Q4, supported by resilient earnings growth, 50 basis points of additional Federal Reserve rate cuts, and easing trade tensions. At the same time, investors weighed growing scrutiny around AI investment returns, a softening labor market, and heightened political uncertainty. Despite these crosscurrents, the S&P 500 returned 17.9% in 2025—its 3rd straight year of double-digit gains— though market breadth remained narrow, with fewer than one-third of constituents outperforming the index.

As we close the year, we believe it is a useful moment to step back from the second-by-second movements and reflect on key themes from our 2025 writings that carry relevance and investment implications heading into 2026.

Lessons from 2025

One defining feature of 2025 was historic concentration within U.S. Large Cap indices, a resurgence of speculative behavior down the capitalization spectrum, and a massive wave of AI-driven capital spending. This backdrop challenged our approach, which emphasizes durable business models, strong balance sheets, and reasonable valuations.

In our CIO piece, “What Have I Become”, we discussed how technology sector concentration reached extreme levels at the same time valuations became increasingly elevated relative to the broader market. While premium valuations are often justified by strong growth prospects, one notable consequence has been a reduction in the sector’s defensive characteristics during market drawdowns.



Source: FactSet. Data from 4/30/2011-11/20/2025. *Please see important disclosures for full details.

We witnessed evidence of this early in 2025 and then again in Q4, as AI scrutiny mounted. Simply put, price still matters, especially when optimism runs ahead of durability.

We also highlighted the deterioration in quality across many Small- and Mid-Cap indices, where the share of unprofitable, highly leveraged, and expensive companies has risen meaningfully over the past decade. While periods of index concentration have historically preceded market broadening, we believe today's speculative tilt reinforces the importance of selectivity and active management in these segments.

A third theme, explored in "It's Déjà Vu All Over Again", centered on the surge in AI-related capital expenditures. While technological innovation can drive real economic progress, history reminds us that capital cycles rarely produce uniform winners. High returns tend to attract competition, often leading to overcapacity and diminished shareholder outcomes. In that sense, enthusiasm alone is not a sufficient investment thesis, and capital allocation discipline remains critical.

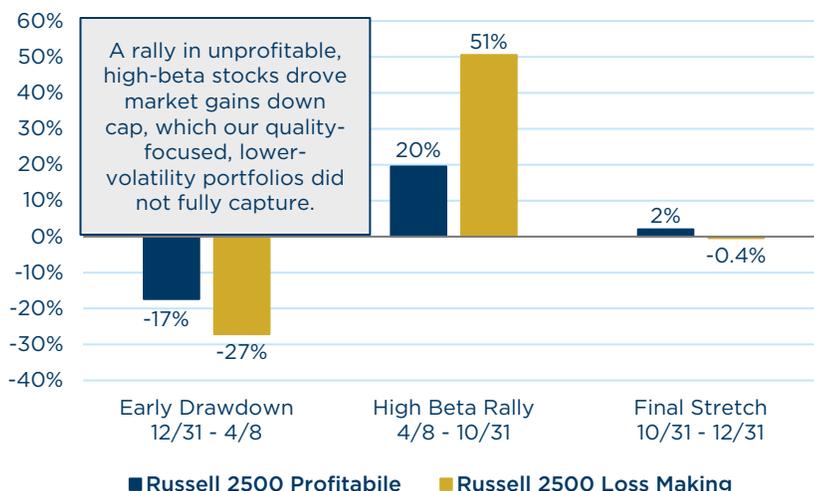
Strategy Recap

Our portfolios began 2025 with strong relative performance, but that advantage faded following the April market bottom as risk appetite accelerated and leadership narrowed. For the full year, our QARP-oriented strategies lagged benchmarks, including our International Equity portfolio. Globally, Quality and Lower-Volatility factors experienced one of their most challenging periods in decades, as markets favored high-beta and speculative exposures.

These dynamics were most pronounced in our Mid Cap, SMID, and Small Cap strategies, where volatility spikes were largest. Our Income Equity strategy stood out for much of the year, with strong stock selection offsetting factor struggles, though that advantage diminished late in the year as leadership re-narrowed and Yield headwinds mounted. Upside capture remained broadly in line with expectations, but underexposure to the Top 10 mega caps was the primary source of relative detractor.

While humbling, there were encouraging signs toward year-end. Our Mid Cap, SMID, and Small Cap portfolios outperformed in Q4, as the high-beta rally showed signs of fatigue. As the saying goes, even a broken watch is right twice a day, and history suggests high-beta rallies tend to be fleeting. The last two months of 2025 may mark the beginning of the mean reversion process we've seen play out historically time and again.

**Profitable vs Loss-Making Mid & Small Caps
Select Periods 2025**



Source: FactSet. Data from 12/31/2024-12/31/2025.

Importantly, our portfolios continued to demonstrate downside resilience during 2025's periods of market stress. As we discussed in "The Anatomy of a Long-Term Investor", compounding is rarely linear. Reflecting on Warren Buffett's storied career, we highlighted how Berkshire Hathaway's stock trounced the S&P 500 over the last 30 years, yet the ride was anything but smooth. Even Berkshire underperformed the S&P 500 in nearly half of the rolling 12-month periods. Patience, discipline, and independent thinking are often tested in the short run, but they are essential over full market cycles.

Looking Ahead

It may be crystal ball season, but we don't pretend to know what 2026 will bring. On the positive side, earnings trends remain constructive, consumers have 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 visible. Trade and tariff policy remain fluid, geopolitical risks are mounting, and elevated complacency leaves markets vulnerable to surprise. Further, a top-heavy market raises the stakes that company-specific issues could have broader market implications.

We're positioned for more than one outcome. With the large cap indexes increasingly concentrated and tech proving less defensive, we believe valuation and true active share—not index-like diversification—will be critical ballasts for portfolios. Our Quality-at-a-Reasonable-Price approach is well positioned for upside participation while providing the differentiation that may matter most if volatility increases or leadership shifts.

As we look ahead, successful investing requires knowing which hand of the clock to watch. The second hand will continue its frenetic pace, the minute hand will swing with sentiment and headlines, but the hour hand of fundamental value moves with patient purpose. In a market calibrated to digital speed and instant feedback, we remain committed to the analog virtues: quality, discipline, and time-tested principles.

As always, we appreciate and highly value the trust you have placed in us.

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Important Disclosures:

Performance is preliminary and subject to change. Past performance is no guarantee of future results. This report is for informational purposes only. 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 loss of principal. Referenced strategies may not be suitable for all investors. The appropriateness of a certain 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. All data references are as of December 31, 2025 unless noted otherwise.

The London Company of Virginia is a registered investment advisor. More information about the advisor, including its investment strategies, fees and objectives, are fully described in the firm's Form ADV Part 2, which is available by calling 804.775.0317, or can be found by visiting www.tlccadvisory.com.

*Dates for drawdown episodes are as follows: 2011 Eurozone Crisis 4/30/2011-9/30/2011. 2015 Flash Crash 8/1/2015-9/30/2015. 2018 Global Growth Scare/China 1/1/2018-12/31/2018. 2020 Covid 1/1/2020-3/31/2020. 2022 Hard Landing that Wasn't 1/1/2022-12/31/2022. Feb-Apr 2025 Tariff Scare 2/19/2025-4/8/2025. Nov 2025 AI reset 10/28/2025-11/20/2025.

Index Definitions

Inclusion of these indices is for illustrative purposes only. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. The **Russell 3000 Index** measures the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S. incorporated equity securities. The Russell 3000 Index serves as the basis for a broad range of market indices, such as the Russell 1000 and the Russell 2000 index. The **S&P 500 Index** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. **Russell 1000 Index** measures the performance of the large-cap segment of the U.S. equity universe. The Russell 1000 is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. **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 2,500 of the smallest securities based on a combination of their market cap and current index membership.

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