

# Portfolio Commentary

## Market Update

U.S. equities were mostly lower in the first quarter of 2026. The Russell 3000 declined 4%, and the S&P 500 posted its first quarterly decline in a year. The year began on a constructive note as declining yields, improving leading indicators, and rising mortgage applications supported a broadening rally. However, sentiment reversed sharply in March following the Iran conflict escalation. The near-blockage of the Strait of Hormuz sent crude oil surging over 75%, reigniting inflation fears and shifting the Fed narrative from rate cuts to potential hikes.

Equity market leadership changed sharply as the quarter progressed. Early cyclical broadening gave way to a narrow, commodity-driven market that benefited energy, agriculture, and hard-asset industries. Large-cap Growth was the only style box to post double-digit losses, hampered by Big Tech weakness and AI displacement concerns in software. Conversely, Small Caps proved resilient; the Russell 2000 finished higher while the Equal-Weight S&P 500 remained flat. Sector dispersion was extreme in the S&P 500, with Energy surging over 35% while Technology fell over 9%. From a factor perspective, Value, Momentum, and Yield drove returns. Quality was mixed, while Growth and Volatility factors detracted.

## Key Performance Takeaways

The London Company Income Equity portfolio returned 4.4% (4.2% net) during the quarter vs. a 4.2% decrease in the Russell 1000 Index. Both stock selection and sector exposure were tailwinds to relative performance.

The Income Equity portfolio produced positive absolute returns in a down quarter for the Russell 1000, exceeding our 75-80% downside capture expectations. Our portfolio thrived as the market broadened away from the Magnificent 7 and Large Cap Growth. Even with pockets of opportunity cost, as deep value and commodity-linked industries moved sharply higher, the strategy's combination of quality, high active share, dividends, and downside resilience proved to be well suited to an unsettled market. We were encouraged to see the portfolio play strong defense amidst the volatility with compelling participation as the market broadened.

## Top 3 Contributors to Relative Performance

**Corning Inc (GLW)** – GLW continues to outperform, driven by strong demand in Optical Communications, particularly for GenAI-related products. This demand is supporting higher pricing and margins while accelerating progress toward its medium-term outlook. The scale of hyperscaler partnerships is also enhancing longer-term visibility. We believe GLW's diversified portfolio of innovative, value-added products is well positioned to capitalize on secular growth trends across its end markets.

**Chevron Corporation (CVX)** – CVX delivered exceptional returns as the price of crude increased to over \$100 in response to escalating conflict in Iran. We do not speculate on the direction of commodity prices, and we generally do not favor commodity businesses given that the primary driver of results is outside their control. That said, we have a high degree of confidence in the management team at CVX. We appreciate the discipline and conservatism with which they run the business and the focus they place on shareholder returns.

**Air Products and Chemicals, Inc. (APD)** – APD benefited from industrial gas demand improving and rising helium prices tied to the Iran conflict. Helium represents a low-teens percentage of earnings and has weighed on results in recent years due to a weak pricing environment. The current pricing tailwind should provide some near-term relief. Our long-term thesis continues to track against improved execution under new management.

## Top 3 Detractors from Relative Performance

**Nintendo Co., Ltd. ADR (NTDOY)** – NTDOY was pressured this quarter by rising memory chip prices, a key input of its hardware, and concerns around increased competition in gaming from AI. Management does not expect memory prices to impact financials over the next year materially. Regarding the AI risk, we believe NTDOY's IP and integrated hardware-software ecosystem will become more valuable in a market saturated with low-cost content. We also see the upcoming new Mario Bros. movie as a potential catalyst for the stock and the Switch 2 ecosystem.

**UnitedHealth Group (UNH)** – UNH detracted during the period after an initial government rate update for 2027 came in lower than expected, pressuring managed care stocks. This surprised investors and weighed on sentiment. However, further analysis suggested the initial rates were based on imperfect data, and final rates announced in April were meaningfully improved. We remain constructive on UNH given its scale, diversified earnings base, and disciplined underwriting, which position it to navigate rate cycles and support long-term earnings growth.

**Paychex, Inc. (PAYX)** – PAYX's multiple compressed this quarter due to concerns that AI-native software could increase competition and pressure pricing plus margins for incumbents in the human capital management market. However, the earnings report showed accelerating revenue growth, continued pricing power, and record-high retention rates. We believe trusted providers with access to human support will remain in demand for critical business functions such as payroll, tax, and benefits administration. PAYX trades at a 4.9% dividend yield, which is well covered by free cash flow and provides a cushion to an attractive earnings growth profile.

## Sector Influence

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

- What Helped: Overweight Industrials (a better performing sector) & underweight Information Technology (a weaker performing sector)
- What Hurt: Overweight Financials (a weaker performing sector) & underweight Real Estate (a better performing sector)

## Trades During the Quarter

- Increased: **Dominion Energy Inc (D)** – Used additional cash to add to our D position. It continues to generate consistent, regulated earnings and should benefit from long-term demand growth from data center expansion. The dividend payout remains attractive and it is a defensive name.
- Initiated: **Restaurant Brands International Inc (QSR)** – QSR is one of the world’s largest restaurant franchisors operating Burger King, Tim Hortons, Popeyes, and Firehouse Subs. The company earns steady royalty and fee income from thousands of franchise locations worldwide, producing naturally high profit margins and strong, predictable cash flow. QSR trades at a meaningful discount to peers like McDonald’s and Yum! Brands, largely due to concerns around Burger King’s U.S. performance. However, management has laid out a clear plan to simplify the business and improve restaurant quality, targeting a nearly fully franchised model by 2028. We see this as a classic “self-help” story where the company’s own actions drive improvement— not reliance on a strong economy. With durable global demand, growing international presence, an attractive dividend, and a clear path to closing the valuation gap with peers, we believe QSR is a strong long-term investment and fits well within our Quality-at-a-Reasonable-Price framework.
- Increased: **Berkshire Hathaway Inc. Class B (BRK.B)** – We added to BRK.B on relative weakness and the news around the resumption of its buyback program, signaling that the stock is trading under its intrinsic value. BRK.B offers defensive positioning with over \$370B in cash, providing optionality in an uncertain macro environment. It maintains several quality characteristics with its capital allocation

strategy and diversified earnings across insurance, rails, utilities, and other operating businesses.

- Reduced: **Corning Inc (GLW)** – We trimmed GLW following the strength in shares, and the position had grown to an oversized weighting. The fundamentals remain intact around optical fiber demand and stable glass content growth. We still have conviction in the long-term thesis.

## Looking Ahead

The situation in Iran and the broader macro backdrop remain very fluid. The coming months should provide greater clarity on whether recent events prove more inflationary, more demand-destructive, or some combination of both. Despite the many risks to the near-term outlook, we believe there are reasons for optimism as well. Economic data is generally positive with solid corporate earnings, rising GDP, as well as low unemployment. While we do not attempt to forecast the path of geopolitics or the broader economy, we recognize that macro-driven disruptions can overwhelm fundamentals in the short run. Even so, history suggests that supply shocks and geopolitical events, while meaningful in the near term, rarely redefine the long-term earnings power of advantaged businesses.

From an equity market perspective, breadth and leadership may remain uneven as markets digest shifting macro narratives. We continue to view the recent setback as a pause in a multi-year broadening cycle rather than a lasting reversal. Prior broadening episodes have often been choppy, but also durable, unfolding over years rather than quarters. In that environment, we believe portfolios emphasizing high-quality businesses with durable competitive advantages, strong returns on capital, pricing power, flexible balance sheets, and reasonable valuations are well positioned. In a market where breadth and leadership can shift quickly, we believe those characteristics position our portfolios to participate when fundamentals reassert themselves while helping to manage downside if volatility persists.

## Annualized Returns

As of 3/31/2026

	QTD	1Y	3Y	5Y	10Y	ITD
<b>Income Equity (Gross)</b>	4.4%	14.1%	11.9%	8.3%	10.5%	9.4%
<b>Income Equity (Net)</b>	4.2%	13.3%	11.0%	7.5%	9.7%	8.6%
<b>Russell 1000</b>	-4.2%	17.7%	18.1%	11.3%	14.0%	7.9%

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 March 31, 2026. 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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