

Portfolio Commentary

Market Update

Global equity markets posted modest gains in the third quarter, but the strong momentum of the second quarter faded. Progress toward a lasting resolution in the Middle East stalled, pushing oil prices higher, while the AI and semiconductor trade paused after a powerful run. The MSCI ACWI Index gained 1.6%, while the S&P 500 rose 2.3%. The MSCI EAFE Index returned 0.8%, again trailing the U.S., as Japan rose 6.0% and Europe declined 1.6%. Emerging Markets slipped 0.4% after last quarter's surge.

Renewed energy-driven inflation broadened the hawkish shift among central banks. The Federal Reserve raised rates in September for the first time since 2023, the ECB delivered its second hike of the year, and the Bank of Japan lifted its policy rate to the highest level since 1995.

Within the MSCI EAFE, sector leadership rotated sharply once again. Energy rose 20%, while Financials gained 6% on higher rates. Information Technology fell 8% after surging 55% last quarter, and rate-sensitive and defensive sectors lagged. Among factors, Value and Yield were positive contributors, Size, Volatility, and Momentum were headwinds, and Growth and Quality had mixed results.

Key Performance Takeaways

The London Company International Equity portfolio declined 1.7% gross (-1.9% net) vs. a gain of 0.8% for the MSCI EAFE Index. Both sector exposure and stock selection were headwinds.

The International Equity portfolio trailed the benchmark and came up short of our 85-90% upside capture expectations. Index returns were unusually narrow, as Banks and Energy, where the strategy holds no positions, accounted for more than the MSCI EAFE's entire gain. Returns in both tend to be driven more by rates and commodity prices than by the durable competitive advantages we seek. Stock-specific weakness in a few holdings also weighed on results, but we view these as temporary dislocations.

The portfolio's valuation premium to the benchmark has narrowed meaningfully over the past year, even as our holdings generate far higher returns on capital with considerably less leverage. We believe this combination positions the portfolio well over a full market cycle.

Top 3 Contributors to Relative Performance

SAP SE (SAP GY) – SAP GY rallied during the quarter, recovering sharply from earlier weakness tied to AI disruption concerns. Second-quarter results showed the current cloud backlog accelerating to 26% growth, which supports our on-prem to cloud conversion thesis. We remain attracted to SAP GY's high switching costs, sticky recurring revenue, attractive valuation, and solid balance sheet.

Nintendo Ltd. (7974 JP) – 7974 JP shares rose during the quarter as demand held up better than feared despite higher console prices and memory costs. Digital sales grew 90%, and management maintained its full-year forecast of 16.5 million Switch 2 consoles. We believe long-term value will be driven by software, digital monetization, and its intellectual property ecosystem, while its large cash balance provides downside protection.

Willis Towers Watson, PLC (WTW) – WTW gained during the quarter on strong organic growth and operating leverage. Second-quarter organic revenue grew 5%, adjusted operating margin expanded 100 basis points, and adjusted EPS rose 17%. The company also introduced enterprise margin targets of approximately 30% by 2028, which we believe are achievable, and sentiment around AI disintermediation risk improved.

Top 3 Detractors from Relative Performance

Universal Music Group (UMG NA) – UMG NA declined during the quarter after second-quarter results missed expectations due to elevated costs and muted subscription growth, while fears of AI disruption remained an overhang. We believe the margin compression reflects temporary headwinds and expect UMG NA to benefit from DSP price increases and improved cost discipline. We see AI as more of an opportunity than a risk for UMG NA's unrivaled catalog. Valuation is attractive and supports downside protection.

CRH PLC (CRH) – CRH declined during the quarter even though the company reported a record second quarter, with earnings ahead of expectations, and reaffirmed its 2026 guidance. Concerns around cost inflation, subdued residential demand, and uncertain infrastructure spending weighed on the construction materials sector, concerns we view as temporary. CRH's vertical integration, leading positions in diverse end markets, strong balance sheet, and prudent capital allocation support our conviction.

DSV A/S (DSV DC) – DSV DC declined during the quarter on fears of earnings downgrades tied to the integration of DB Schenker. In our view, the market's reaction to transitory integration challenges is overly punitive, and the combined entity underpins an attractive margin expansion opportunity. Valuation is compelling and supports downside protection.

Sector Influence

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

- **What Helped:** Underweight Utilities (one of the weakest performing sectors). Overweight Communication Services (a better performing sector).
- **What Hurt:** Underweight Energy & Financials (better performing sectors).

Trades During the Quarter

- **Initiated: DSV A/S (DSV DC)** – DSV is the world’s largest freight forwarder with leading positions in Air & Sea and European road freight and a top five position in contract logistics. DSV’s asset-light model generates attractive returns on capital and its ability to aggregate customer demand and leverage purchasing power across a fragmented, asset-heavy transportation industry underpins its durable competitive position. Combined with a proven track record of value-accretive M&A, these attributes have driven consistent margin improvement and market share gains. We believe the market is underappreciating the earnings potential from the DB Schenker integration, as temporary integration costs distract from the opportunity for further margin expansion. We see attractive upside as margins recover and the company’s earnings power is better reflected in the share price, supported by an experienced management team and disciplined, shareholder-aligned capital allocation.
- **Reduced: Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR (TSM), ASML Holding NV (ASML NA), and Safran SA (SAF FP)** – We trimmed these positions to reallocate capital to opportunities with better risk/reward.

Looking Ahead

As we approach year-end, the policy response we described last quarter has evolved into a broad, synchronized tightening cycle. With progress in the Middle East stalled and energy prices elevated, the Federal Reserve, the ECB, and the Bank of Japan are now raising rates together, while inflation remains above target in the U.S., Europe, and the UK. Growth has held up, but tighter financial conditions and higher energy costs are likely to weigh on activity over time. We would not be surprised to see continued volatility as markets adjust to what appears to be a later stage of the business cycle. As always, our strategy remains unchanged. We continue to look past short-term noise, focusing on long-term fundamentals and assuming modest economic growth as we select companies from the bottom up.

Market leadership has swung sharply again this year, from energy and defensive names at the outbreak of the conflict, to AI and semiconductors on de-escalation, and back to energy and banks this quarter. These rotations have been driven largely by interest rates and commodity prices rather than company fundamentals. We do not view this leadership as sustainable, and we do not need it to collapse, only to normalize. Historically, equities have often struggled early in tightening cycles before recovering where earnings held up, favoring companies with pricing power, durable cash flows, and strong balance sheets. Share price weakness in several high-quality businesses with intact fundamentals has created attractive opportunities at significant discounts to the U.S. While timing a leadership shift is impossible, we remain confident that our portfolios are well positioned to participate as fundamentals reassert themselves while helping to manage downside risk.

Annualized Returns

As of 9/30/2026

	QTD	YTD	1Y	3Y	ITD
International Equity (Gross)	-1.7%	1.2%	0.8%	14.1%	14.1%
International Equity (Net)	-1.9%	0.6%	0.0%	13.3%	13.3%
MSCI EAFE	0.8%	10.3%	15.7%	18.4%	18.4%

Inception date: 9/30/2023. 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 0.75%. 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, 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: September 30, 2023

Composite Definition: The International Equity strategy invests mainly in conservative, low-beta international equities with a focus on above-average downside protection. Primarily, we seek profitable, financially stable companies that consistently generate free cash flow, sustain 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, international indices. Accounts in this product composite are fully discretionary taxable and tax-exempt portfolios with a minimum of \$500,000 in assets. Prior to 7/1/2024 the minimum portfolio size was \$100,000. The product is measured against the MSCI EAFE Index (Net) and has a creation and inception date of September 30, 2023. 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. Investing in global/international markets involves risks not associated with U.S. markets, including economic, political, and currency fluctuation risks. The TLC International Equity product may contain companies domiciled in the U.S., but have a business mix that is predominantly international.

Benchmark Description: The MSCI EAFE Index (Net) measures performance of large and mid-cap securities across developed markets around the world, including countries in Europe, Australia, Asia, and the Far East, excluding the U.S. and Canada. It includes over 900 securities, and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries. Benchmark returns are shown net of withholding taxes. Benchmark returns are not covered by the report of independent verifiers. Any referenced international index is presented net of foreign withholding tax, unless stated otherwise.

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. 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. Composite 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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