

Portfolio Commentary

Market Update

U.S. equities were mixed in the third quarter, with modest index gains but weak participation beneath the surface. The Russell 3000 returned 1.4%, but the average S&P 500 stock declined and Small Caps fell sharply. Strong earnings and improving PMIs supported Large Caps, while the breakdown of U.S.-Iran peace efforts sent oil sharply higher and reignited inflation concerns. The Fed raised rates 25 basis points in September, its first hike since 2023. Treasury yields rose across the curve, with the 10-year at its highest level since 2002. Higher oil and rates compressed valuations and weighed on consumer confidence.

Equity leadership shifted sharply during the quarter. The high-beta and the momentum rally that peaked in late June reversed, and Large Caps were the only size segment to post gains as the Russell 2000 fell 7.2%. Breadth was weak, with the Equal-Weight S&P 500 trailing its cap-weighted counterpart by more than four percentage points. Energy led all sectors as oil surged, and Technology advanced as a software rebound offset weakness in semiconductors. Utilities and Industrials lagged. From a factor perspective, Value, Quality, Size and Yield were all positive. Momentum and Volatility were negative, while Growth factors were mixed.

Key Performance Takeaways

The London Company Small-Mid Cap portfolio declined 3.9% (-4.1% net) during the quarter vs. a 6.4% decline in the Russell 2500 Index. Stock selection was a tailwind to performance, partially offset by sector allocation.

The SMID portfolio outperformed the Russell 2500 in each month of a down quarter, holding up better than our 75-80% downside capture expectations. Rising rates and a return to quality cooled the speculative rally in smaller stocks over the summer, and the portfolio's lower-volatility profile held its ground amid the selloff in September. With credit spreads on the lowest-rated corporate debt widening sharply, we believe our focus on durable businesses with strong balance sheets positions the portfolio well should higher rates strain more leveraged companies.

Top 3 Contributors to Relative Performance

Qualys, Inc. (QLYS) – QLYS was a top contributor after a strong quarter, with accelerating billings and a raised outlook. AI has shifted from a perceived disruption risk to a cybersecurity tailwind, increasing the importance of QLYS' integrated platform, durable position, and strong cash generation.

Zebra Technologies Corporation (ZBRA) – ZBRA outperformed after sales growth came in ahead of expectations and management raised its outlook. Demand improved across retail, healthcare, and manufacturing, while pricing helped offset higher memory costs without disrupting demand. We remain confident in ZBRA's pricing discipline, supply chain resilience, and strong cash generation.

CCC Intelligent Solutions Holdings Inc. (CCC) – CCC was a top contributor as shares rebounded on reports the company is exploring a sale, while results showed accelerating growth and meaningful contribution from AI-based products. The quarter supported our view that AI is more additive than disruptive to the platform. We remain confident in CCC's embedded position, proprietary data, and mission-critical role in insurance workflows.

Top 3 Detractors from Relative Performance

Element Solutions (ESI) – ESI underperformed as investors had mixed reactions to a large acquisition, which was approved and then mutually terminated. As a standalone company, ESI maintains attractive growth prospects, has improved the quality of its portfolio, and is investing cash in high-returning organic projects to compound earnings.

Entegris, Inc. (ENTG) – ENTG declined as semiconductor stocks pulled back after a very large run, despite a strong quarter with accelerating customer spending. We remain attracted to ENTG's competitive position, high barriers to entry, and rising free cash flow as its investment cycle winds down.

Deckers Outdoor Corporation (DECK) – DECK declined as higher tariffs, freight costs, and lower consumer confidence weighed on the near-term outlook, despite better-than-expected quarterly results. HOKA and UGG both continued to grow, and management remained active on repurchases. We remain confident in the strength of its brands, full-price selling, and cash generation.

Sector Influence

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

- What Helped: Overweight Information Technology (a better performing sector) & underweight Utilities (a weaker performing sector)
- What Hurt: Underweight Energy & Health Care (better performing sectors)

Trades During the Quarter

- Exited: **UniFirst Corporation (UNF)** – Sold following the announced acquisition by Cintas (CTAS). The stock was trading near the deal price. In addition, because CTAS' market cap is well outside our small-cap investable universe, we chose to exit the position before closing rather than receive CTAS shares.
- Initiated: **Primo Brands Corporation (PRMB)** – PRMB is North America's largest bottled water company and the leading provider of home and office water delivery. Formed through the combination of Primo Water and BlueTriton, the company owns well-known brands including Poland Spring and Saratoga. Most of its business comes from delivering and refilling large water jugs, a market it leads by a wide margin. Its recurring customer base and dense delivery network are difficult to replicate, and adding customers to existing routes is highly efficient. After the merger, an overly rapid integration disrupted service and cost the company customers. We believe new management is addressing these issues, which should improve service, profitability, and cash flow as merger costs fade and debt declines. Dependable demand provides downside protection, and with an attractive valuation and room for improvement, we believe PRMB fits our Quality-at-a-Reasonable-Price approach.
- Increased: **Somnigroup International Inc. (SGI)** – Added to SGI as the mattress industry remains depressed and the stock has pulled back. We continue to believe SGI can gain market share, realize synergies from the Leggett & Platt acquisition, and benefit from an eventual recovery in mattress demand. Recent insider buying by the CEO also supports our confidence in the long-term outlook.
- Exited: **Lamb Weston Holdings, Inc. (LW)** – Sold following the stock's recovery this year. The position was relatively small and we were unlikely to add to it, so we used the strength to move capital into higher-conviction holdings.

- Increased: **Primo Brands Corporation (PRMB)** – Added to PRMB, making it a full position. We continue to like the company's leading position in North American bottled water, particularly its higher-margin 5-gallon delivery, exchange, and refill business. We believe better execution following the BlueTriton merger should improve customer service, margins, cash flow, and leverage over time.

Looking Ahead

The economic backdrop remains supportive in many respects. Growth is solid, manufacturing and services activity are improving, and corporate earnings continue to exceed elevated expectations. At the same time, the headwinds have grown more pronounced. The Fed has begun tightening, energy prices and Treasury yields are elevated, and higher borrowing and living costs are weighing on consumers, particularly at the lower end of the income spectrum. The AI investment cycle remains a powerful engine of growth. Yet, its scale invites comparisons to past infrastructure booms, where investors who were right about the buildout still endured significant drawdowns along the way. Early signs of stress have also emerged in the lowest tiers of credit. While we do not attempt to predict the path of rates or the economy, we believe these crosscurrents argue for discipline.

From an equity market perspective, headline index strength continues to mask a narrower reality. A concentrated group of AI-linked companies has driven a disproportionate share of returns, while many stocks have moved independently of, or opposite to, the index. Passive flows have reinforced that concentration, and benchmarks once considered defensive now carry more technology exposure and higher beta than their labels suggest. Quality has historically lagged when rates rise, but if higher rates begin to pressure corporate balance sheets, the attributes we emphasize should matter more: strong returns on capital, conservative leverage, durable dividends, and reasonable valuations. We view these attributes as important ballast and a complement to more concentrated growth exposures. 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	5Y	10Y	ITD
SMID Cap (Gross)	-3.9%	4.1%	6.4%	7.4%	4.8%	9.1%	13.1%
SMID Cap (Net)	-4.1%	3.3%	5.3%	6.3%	3.8%	8.1%	12.0%
Russell 2500	-6.4%	14.9%	17.5%	17.7%	7.5%	10.8%	13.9%

Inception date: 3/31/2009. 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 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: March 31, 2009

Composite Definition: The Small-Mid Cap strategy is an extension of our Small Cap strategy with weighted market capitalization higher than our Small Cap portfolio, and is within the market capitalization ranges of the major domestic small to mid-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 2500 Index and has a creation and inception date of March 31, 2009. 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 dual contract relationships and any potentially bundled fee scenarios. This policy is not retroactive, but will continue to apply going forward.

Benchmark Description: Primary: 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 2500 of the smallest securities based on a combination of their market cap and current index membership. Secondary: Russell 2500 Value Index measures the performance of the small to mid-cap segment of the U.S equity universe. It includes those Russell 2500 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. 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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