

# Portfolio Commentary

## Market Update

U.S. stocks posted mixed results during 2Q24. The broader market, measured by the Russell 3000 Index, rose 3.2% with gains concentrated in large companies with ties to spending on artificial intelligence. The S&P 500 reached new all-time highs during the quarter, but market breadth (a measure of how many stocks are participating in the rally) sharply declined once again. The Russell 2000 Small Cap Index was down 3.3%. Economic data released during the quarter reflected decelerating growth, some weakening in the labor market, and lower inflation, which collectively support the notion of rate cuts beginning in the next few months. Corporate earnings were solid, but there were signs of greater caution from consumers. Investors continued to favor Large Cap, Growth and Momentum factors, consistent with trends in recent quarters. Value and Yield factors continued to face headwinds, while Quality & Volatility had a mixed impact.

## Key Performance Takeaways

The London Company Mid Cap portfolio fell 5.9% (6.0% net) during the quarter vs. a 3.4% decrease in the Russell Midcap Index. Both stock selection and sector exposure were headwinds to relative performance.

The Mid Cap portfolio came up short of our 75-80% downside capture expectations in 2Q. Our focus on high Quality and low Volatility factors faced headwinds in a market favoring Momentum and Growth factors. Having no exposure to Utilities, the best performing sector, and weakness in some of the portfolio's Consumer Staples, Healthcare, and Materials holdings were additional obstacles.

## Top 3 Contributors to Relative Performance

**Amphenol (APH)** – Shares rallied after APH reported a strong quarter and laid out a compelling case for its AI opportunities. The book-to-build ratio improved sequentially, and sales from its diversified end markets have held up. APH continues to take share via new content wins. In addition, APH continues to consolidate its fragmented market. APH is one of the few companies to have a long-term track record of successfully integrating acquisitions. As the leader in the connector industry, the company generates operating margins in the 20% range with high returns on capital.

**Churchill Downs (CHDN)** – CHDN outperformed in 2Q as recent results exceeded expectations, and the 150th Kentucky Derby delivered growth above expectations as well. Additionally, in our view the value creation from recent acquisitions is becoming clearer to the market. We continue to view CHDN as a high-quality business run by a management team with a track record of astute capital allocation and a strong pipeline of opportunities for continued growth.

**AerCap (AER)** – AER continues to benefit from tight supply/demand conditions in the commercial aircraft market.

However, we would note this is not unique to AER – companies with exposure to commercial aircraft supply chains/life cycle are generally outperforming. As a result, AER has been selling their older aircrafts at nice gains on book, only to turn around and use those proceeds to buy shares at below book value. Our conviction on AER is founded on its market strength and the stellar management team.

## Top 3 Detractors from Relative Performance

**Bruker (BRKR)** – Shares declined after the company reported weaker than expected revenue growth in its latest quarter. Additionally, the company announced the issuance of 6M shares of equity to help fund recent M&A. We believe the company has been rightfully aggressive in seizing the opportunity to pick up some distressed assets for cheap, ones that will help further progress their Project Accelerate objectives. We continue to like the company's long-term growth prospects as they pivot toward high-end proteomics/genomics/single cell research.

**Pool Corp. (POOL)** – POOL reported a weaker-than-expected quarter reflecting lower gross margins due to a mix shift in its business. Moreover, later in the quarter, the company updated guidance for worsening industrywide demand for new pool construction and pool renovation. As a result, the stock performed poorly. We believe these are near-term headwinds, though we do not think that new pool construction activity will revert to pandemic highs. In the meantime, weak demand should put more stress on subscale peers, which should allow POOL to gain share, as they have historically done during challenging conditions.

**Lamb Weston (LW)** – LW underperformed the broader market during the quarter due to headwinds from its recent ERP rollout, and a reduction in near term guidance. Investors have overcapacity concerns as volumes at QSRs have slowed. Price elasticity has remained low given the stability in fry attachment rates. Despite the short-term issues, we believe that this is one of the more attractive consumer staple companies with a clean balance sheet and industry-leading growth. We remain attracted to LW's market share, pricing power, and industry tailwinds.

## Sector Influence

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

- **What Helped:** Underweight Health Care (a weaker performing sector) & overweight Consumer Discretionary (a better performing sector)
- **What Hurt:** Overweight Consumer Staples (a weaker performing sector) & underweight Utilities (a better performing sector)

## Trades During the Quarter

- **Reduced:** **Old Dominion Freight (ODFL), Copart (CPRT), NewMarket (NEU), & Vulcan Materials (VMC)** - Each holding was trimmed on recent strength in the stocks. There is no change to our long-term thesis with each company.
- **Initiated:** **Tempur Sealy (TPX)** - TPX is the leader in the mattress industry. Mattress volume has stabilized in recent months. Stable volume along with pricing gains have led to higher revenue for TPX. In 2023, the company announced plans to acquire Mattress Firm, which has the potential to be materially accretive and strengthen the company's overall competitive position. Valuation remains attractive, and TPX's robust free cash flow generation, strong brand equity, and solid management execution support our investment thesis. We have owned the stock for many years in our Small Cap portfolio.
- **Increased:** **Churchill Downs (CHDN)** - The increase reflects our confidence in the long-term outlook for the business and our desire to reduce cash in the portfolio.

## Looking Ahead

Conditions are trending in a positive direction for the Fed to begin reducing rates. Inflation is still higher than the Fed's target, but it has continued to drift lower. The labor market remains strong, but there have been some signs of weakening. Together with signs of weakness in some recent economic data, we could see the Fed shift to a less restrictive policy and reduce rates before year-end. While the odds of a recession in the near term have declined, risks remain. Longer term, we remain positive regarding the U.S. economy and expect real annualized GDP growth in the 1.5-2% range driven by growth in the labor force and improving productivity.

In terms of equities, we note that narrow, top-heavy markets are fragile markets. The odds of a recession have come down, but our cautious posture persists due to high valuations, market concentration, looming debt challenges, and the lengthiest inversion of the yield curve in history. Continued multiple expansion in a higher rate environment is unlikely. We suspect the S&P 500 will eventually track earnings, so we would expect more volatility, especially in stocks where a lot of growth is already priced in. We believe returns in the near term may be modest, with shareholder yield (dividends, share repurchase, debt reduction) comprising a significant percentage of the total return. In our view, this uncertain economic backdrop warrants an investment approach that prioritizes consistency and stability—not excessive wagers. Owning great businesses at reasonable prices and allowing them to compound is still a winning, long-term strategy.

## Annualized Returns

As of 6/30/2024

	QTD	YTD	1Y	3Y	5Y	10Y	ITD
<b>Mid Cap (Gross)</b>	-5.9%	3.2%	13.1%	6.3%	10.7%	11.0%	12.8%
<b>Mid Cap (Net)</b>	-6.0%	3.1%	12.7%	5.9%	10.3%	10.6%	12.3%
<b>Russell Midcap</b>	-3.4%	5.0%	12.9%	2.4%	9.5%	9.0%	11.1%

## Disclosure Notes

The London Company's performances are size weighted and annualized based on calculations for the period ending June 30, 2024. 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, 2012

**Composite Definition:** The Mid Cap equity strategy invests mainly in conservative, low-beta, mid-cap equities with a focus on above-average downside protection. Primarily, we seek profitable, financially stable mid-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 mid-cap indices. Accounts in this product composite are fully discretionary taxable and tax-exempt portfolios with a minimum of \$100,000 in assets. This product is measured against the Russell Midcap Index and has a creation and inception date of March 31, 2012. 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.

**Benchmark Description:** Primary: Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. Secondary: Russell Midcap Value Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes those Russell Midcap 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 actual London Company management fees and transaction costs and gross of custodian and other fees. 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. The accounts represented in the composite reflect actual London Company fees paid on the particular account which may be different from the fee normally offered to other clients. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

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