

Portfolio Commentary

Market Update

Global markets continued the upward trend during the quarter. The MSCI All Country World Index rose 2.9% during 2Q, led by emerging market equities. U.S. markets led developed markets with a 4.3% gain in the S&P 500. Meanwhile, developed international markets, as measured by the MSCI EAFE, ended the quarter broadly unchanged after a strong 1Q, bringing the YTD return to 5.3%.

In Europe, President Macron called a surprise general assembly election in France following the far right's strong showing in the EU parliamentary elections. The timing caught markets off guard leading to a sharp selloff in French equities with the CAC declining over 7% in U.S. Dollars during the quarter. Japanese stocks were also weak in 2Q with the Topix declining about 4.4% in U.S. Dollars while gaining 1.6% in local currency.

From an industry perspective, Banks and Pharma led the market, while Autos and Luxury Goods were weak. Banks performed well on higher rates. Pharma continued to benefit from the strength of GLP-1 obesity medications. China consumer worries weighed on luxury goods companies, and the ebbing of EV production weighed on the automotive industry. Turning to market factors, Yield and larger market capitalizations were positive contributors during 2Q. Quality and Volatility factors faced headwinds, while Value, Growth and Momentum factors had mixed results.

Key Performance Takeaways

The London Company International Equity portfolio declined 0.2% (0.4% net) during the quarter vs a decline of 0.4% for the MSCI EAFE index. Stock selection was a tailwind for relative performance, partially offset by sector exposure.

While results were roughly flat during 2Q, we were pleased to see the International Equity portfolio exceeded our 75-80% downside capture expectations. Stock selection within our Information Technology holdings was the biggest tailwind to performance in 2Q, led by our semiconductor names. In our view, the characteristics of the International Equity portfolio remain attractive, and we believe the portfolio is well positioned for an uncertain future.

Top 3 Contributors to Relative Performance

Taiwan Semiconductor (TSM) – TSM posted solid quarterly results boosted by AI datacenters. Additionally, management made positive comments about pricing increases, and they expect the ramp of the latest cutting edge 2nm node to further strengthen their competitive position. We view TSM as a best-in-class, competitively advantaged compounder. TSM's net cash balance sheet, ability to self-fund growth, and dominance across leading edge nodes provides downside protection and positions the company favorably for the future.

Philip Morris International Inc. (PM) – Shares rallied in 2Q after muted performance to start the year. The smoke free category

continues to be the primary driver with notable strength from ZYN nicotine pouches. IQOS growth has been fueled by ongoing innovation and smoker conversions, while the U.S. remains a large and untapped commercialization opportunity on the horizon. Successful execution of the portfolio transition has resulted in smoke-free products now contributing to nearly 40% of total net revenues and gross profit. We believe that the growth potential of the smoke-free category combined with a resilient and profitable combustibles portfolio will lead to significant and sustainable free cash flow generation.

RELX PLC (REL LN) – REL LN rallied after the company posted strong quarterly results, highlighted by organic growth across all segments and expanded margins on improved product mix and operating leverage. We believe REL LN is well positioned to sustain structurally higher organic revenue growth and improving margins as digitalization drives ongoing acceleration in data analytics, and as print continues to decline in overall product mix

Top 3 Detractors from Relative Performance

CRH PLC (CRH) – CRH underperformed in the second quarter after gaining 50% over the prior six-month period. Macroeconomic factors adversely affected the broader construction materials space, with caution regarding residential construction data points. We believe the long-term, fundamental demand backdrop for residential construction remains supportive and that CRH's exposure to government-supported infrastructure spending should dampen the impact from demand fluctuations in the more cyclical private construction market. CRH is attractively positioned with scale, dominant market positions in high-growth markets, has a best-in-class management team with a proven track record of value creation, and conservative balance sheet providing downside support.

Canadian National Railway (CNR CN) – Shares of CNR CN underperformed the market in 2Q. Ongoing union negotiations and concerns about macroeconomic headwinds affecting execution on company-specific growth initiatives pressured the stock. We believe these short-term headwinds will fade and the market will refocus on CNR CN's 10-15% annual earnings growth and mid-teens return on incremental invested capital. We believe the stock's current valuation offers an attractive risk/reward for long-term investors and CNR CN's balance sheet supports downside protection.

Diageo PLC (DGE LN) – DGE LN underperformed QTD due to weakened demand trends and uncertainty regarding the timing of a recovery. A softer macroeconomic environment, inventory destocking, and exposure to certain product categories have adversely affected sales. Looking ahead, DGE LN maintains a strong industry position with extensive global reach across diverse product categories and regions, supported by robust distribution capabilities. With a proven track record of portfolio management, brand building, and product innovation, we are confident that management can continue to create value for shareholders over the long term.

Sector Influence

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

- What Helped: Underweight Consumer Discretionary & Real Estate (weaker performing sectors)
- What Hurt: Underweight Financials & Health Care (better performing sectors)

Trades During the Quarter

- Reduced: **Taiwan Semiconductor (TSM), SAP (SAP GY), and ASML (ASML NA)** – Reduction reflects strong performance in the shares of each company and resulting elevated valuation. No change in long-term thesis or conviction.
- Exited: **Experian PLC (EXPN LN)** – Elected to exit our position on strength after our thesis played out. The stock reached our estimate of intrinsic value after gaining more than 50% in the prior six-month period.
- Initiated: **ICON PLC (ICLR)** – ICLR provides outsourced clinical trial services for the global drug development industry. The company is a leading pure-play contract research organization. It is a competitively advantaged, scaled incumbent in an attractive, consolidating industry with improving organic growth trends. Concerns about transitory headwinds affecting the biotech funding environment enabled us to establish a position at an attractive valuation.

Conditions are trending in a positive direction as global central banks begin easing policy rates with post-COVID inflation moderating. While this should be broadly supportive to global equity markets, we are starting to see signs of a weakening consumer, albeit from a strong position, and a general softening of economic data. While we don't foresee an imminent recession and related market correction, we don't rely on predicting or timing macroeconomic outcomes. Longer-term, we operate with the expectation of modest economic growth with our focus at the individual company level.

In terms of equities, international markets, measured by the MSCI EAFE, returned about 50% from the 3Q 2022 market low, with broader participation than the U.S. market (S&P 500). While the U.S. market was powered by Tech, the MSCI EAFE's largest sector contributors were Financials and Health Care during this period. We view the international markets as attractively valued with the P/E discount widening to 30% vs. the U.S. market. The combination of a more diversified opportunity set and a wider valuation discount creates an attractive opportunity in international markets. A Quality Value approach can provide downside protection in an inevitable tough market, while providing upside participation. We focus on identifying high-quality businesses run by good management teams with conservative balance sheets at attractive valuations. We believe the resulting portfolio will serve our clients well through a full market cycle.

Looking Ahead

Annualized Returns

As of 6/30/2024

	QTD	YTD	ITD
International Equity (Gross)	-0.2%	7.9%	20.7%
International Equity (Net)	-0.4%	7.5%	20.2%
MSCI EAFE	-0.4%	5.3%	16.3%

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: 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 \$100,000 in assets. The composite is measured against the MSCI EAFE Index (Net). 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. A list of all composite and pooled fund investment strategies offered by the firm, with a description of each strategy, is available upon request. The type of portfolios in which each strategy is available (segregated account, limited distribution pooled fund, or broad distribution pooled fund) is indicated in the description of each strategy. Investing in global/international markets involves risks not associated with U.S. markets, including economic, political, and currency fluctuation risks. The TLC International 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 actual London Company management fees and transaction costs and gross of custodian and other fees. Non-fee paying accounts net performance is calculated using a hypothetical maximum annual rate of 0.75%. 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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