Portfolio Commentary

Market Update

U.S. equities traded higher during Q3 with most of the major indices posting mid-single digit gains. The quarter was marked by significant market shifts, including inflation cooling, employment weakening, volatility spiking, and a larger-than-expected Federal Reserve rate cut, yet the stock market ended on a high note. The broader market, measured by the Russell 3000 Index, rose 6.2%. There was a notable rotation to small cap and value styles away from large cap growth. This fostered broader market participation, with a wider range of sectors participating, especially the rate sensitive areas. Looking at market factors, Yield and most Value factors posted the strongest returns while most of the Growth, Volatility, and Momentum factors presented headwinds. Quality factors had a mixed impact.

Key Performance Takeaways

The London Company Large Cap portfolio returned 8.2% (8.1% net) during the quarter vs. a 6.1% increase in the Russell 1000 Index. Both sector exposure and stock selection were tailwinds to relative performance.

After several quarters of weak relative returns, the Large Cap portfolio solidly outperformed its benchmark and our expectations 85-90% upside capture expectations in a robust return environment. Factors like increased volatility and surging market breadth favored our portfolios. Greater exposure to Value factors, as well as less exposure to Volatility and Momentum factors aided relative performance. We were encouraged to see the Large Cap portfolio protect on the downside amidst the volatility and market drawdown while staying ahead of its benchmark during the market's sharp recovery.

Top 3 Contributors to Relative Performance

Progressive Corporation (PGR) – PGR was a top performer as the company continued to gain market share from competitors and improved its margins by effectively segmenting underwriting risks and implementing strategic pricing. PGR has achieved its profitability target by lowering advertising costs and focusing on acquiring preferred customers. We remain confident in PGR's ability to execute in all environments, competitive advantages, and capital allocation strategy.

BlackRock, Inc. (BLK) – Shares of BLK rallied during 3Q as organic growth improved sequentially. Our long-term view of BLK has not changed. In the near-term, strong equity market performance is supportive of AUM and fee growth, and visibility on declining interest rates is a potential tailwind to the fixed income ETF business. We continue to view BLK as a long-term share gainer with a broad spectrum of solutions, and we appreciate the strong balance sheet and steady capital return.

Fiserv, Inc. (FI) – FI delivered another strong quarter with both Merchant and Financial Solutions segments outperforming, driven by solid execution of company initiatives. Their product offerings continue to resonate in the market, and management is effectively leveraging a flexible go-to-market strategy by cross-selling core platforms and point solutions to increase customer share across both segments. Free cash flow generation remains strong with management prioritizing organic reinvestment and capital returns. We are confident in FI's ability to generate sustainable earnings growth through its robust product portfolio and disciplined capital allocation.

Top 3 Detractors from Relative Performance

Alphabet Inc. (GOOG) – GOOG underperformed the broader market in 3Q despite strong results from its advertising and Cloud businesses. Much of the underperformance was due to antitrust scrutiny for its dominance in search and advertising. Expected outcomes, remedies, and timelines from these cases remain uncertain. The core and Cloud businesses delivered promising growth. Management has executed its expense control plans, and margins have expanded through better product and process organization. GOOG has a solid balance sheet, significant market share, and generates strong returns on invested capital.

Charles Schwab Corporation (SCHW) – SCHW underperformed the broader market as the company reported an optically bad quarter, though with little implications on company fundamentals. Cash sorting from consumers continued in the latest quarter and has persisted longer than we anticipated. We believe that an end to SCHW's headwinds are near, especially as the Federal Reserve shifts to cutting rates, and consequently, we expect a strong rebound in earnings power within the next 18 months. Longer term, we believe SCHW is well positioned to continue capturing market share and driving sustainable earnings growth.

FedEx Corporation (FDX) – Due to a post-earnings swoon in late September, FDX underperformed the market. FDX has been successful in cutting costs over the past year, but weaker revenue has been a headwind in recent quarters. Both United Parcel Service (UPS) and FDX have experienced customers trading down to cheaper, less time sensitive shipping options. Separately, little news regarding the possible spin-off of FedEx Freight to shareholders limited any gains in the shares. We continue to own shares as we believe FDX owns a network that is almost impossible to duplicate, and a source of competitive advantage.

Sector Influence

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

- What Helped: Underweight Info. Technology (a weaker performing sector) & overweight Financials (a better performing sector)

- What Hurt: Underweight Utilities & Real Estate (the two best performing sectors)

Trades During the Quarter

- Exited: **Cisco (CSCO) –** Sale reflects slowing growth prospects and risk of value-destroying M&A. Valuation of the shares is attractive, and CSCO offers a 3.3% dividend yield at the current price, which makes it a more attractive holding for our Income Equity portfolio.
- Reduced: **O'Reilly (ORLY) –** Trimmed position following strength in the shares in recent years and a valuation of 18.5x EBITDA. We remain attracted to the long-term fundamentals, but felt a smaller position was prudent.
- Initiated: **Chubb (CB) –** CB engages in the provision of commercial and personal property and casualty insurance, personal accident and health (A&H), reinsurance, and life insurance. While the company is headquartered outside the U.S., roughly 2/3 of its profits are generated in the U.S. with Asian markets representing another 20% of earnings. CB has a portfolio of top-performing, multibillion-dollar businesses that have substantial scale and yet potential for growth. CB has a culture of superior underwriting discipline, and management has a strong track record of expense control. CB also has a well-balanced mix of business by customer and product, with extensive distribution channels. We are attracted to CB's globally diversified business model, superior underwriting and expense management, consistent and best-in-class profitability, upside potential from growth in Asia, and the potential to benefit from higher interest rates in its investment portfolio.
- Reduced: **Berkshire Hathaway (BRK.B) & Altria (MO) –** Trimmed both holdings on recent strength, but maintain a favorable view on each company.
- Increased: **TE Connectivity (TEL) –** We initiated our position in TEL during Q2, and this recent addition brought the position size close to the 3% weighting that we often target for new positions.

Looking Ahead

Stocks enter 4Q in good form, but challenges remain. The market appears priced for near perfection, with expectations of a soft landing and healthy earnings growth driving the S&P 500 to a lofty valuation that leaves little room for error. The Fed's recent rate cut may sow the seeds for a cyclical recovery, but whether the economic impact arrives in time to avoid a downturn is uncertain. Lower rates tend to support market sentiment and multiples in the short term, but it can take up to two years for policy changes to impact economic and earnings data. Meanwhile, rates remain in restrictive territory. Therefore, the impact of restrictive policy may continue to affect the economy in the months ahead. While we believe that the odds of a near term recession are low, we note the difficulty in navigating a soft landing.

In terms of the equity market, valuations based on near term earnings are elevated in the context of moderate GDP growth. We believe that equity returns in the near term may be modest, with shareholder yield (dividends, share repurchase, debt reduction) comprising a significant percentage of the total return from equities. Moreover, as a large corporate debt maturity wall approaches, balance sheet strength will likely become a differentiator and an advantage for investors focused on fundamentals. We believe our focus on quality, diversification, and valuation will continue to reinforce our margin of safety, positioning our portfolios for success in this uncertain climate.

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Annualized Returns
As of 9/30/2024

	QTD	YTD	1Y	3Y	5Y	10Y	ITD
Large Cap (Gross)	8.2%	14.9%	23.7%	8.4%	11.4%	10.3%	11.4%
Large Cap (Net)	8.1%	14.6%	23.2%	7.9%	11.0%	9.8%	10.8%
Russell 1000	6.1%	21.2%	35.7%	10.8%	15.6%	13.1%	11.0%

Inception date: 6/30/1994. Past performance should not be taken as a guarantee of future results.
Performance is preliminary. Subject to change.

Disclosure Notes

The London Company's performances are size weighted and annualized based on calculations for the period ending September 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: June 30, 1994

Composite Definition: The Large Cap strategy invests mainly in conservative, low-beta, large-cap equities with a focus on above-average downside protection. Primarily we seek profitable, financially stable, quality large-cap companies, which consistently generate free cash flow, high returns on unleveraged operating capital, trade at rational valuations, and are run by shareholder-oriented management. Positions are generally in the market capitalization range of the major domestic large-cap indices. Accounts included in this product composite are fully discretionary taxable and tax-exempt portfolios with a minimum of $1 million in assets. The product is measured against the Russell 1000 Index and has a creation and inception date of June 30, 1994. 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 relationship and any potentially bundled fee scenarios. This policy is not retroactive, but will continue to apply going forward.

Benchmark Description: Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. The Russell 1000 is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. 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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