

# 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 Small Cap portfolio increased 7.1% (7.0% net) during the quarter vs. a 9.3% increase in the Russell 2000 Index. Sector exposure had a positive impact on relative performance offset by stock selection.

The Small Cap portfolio trailed its benchmark and came up short of our 85-90% upside capture expectations during 3Q. The portfolio didn't fully benefit from the rotation away from mega-cap growth stocks. The areas of the market that rallied the most were lower-quality, highly leveraged companies, which stand to benefit the most from rate reprieve. Our focus on balance sheet strength, which typically benefits us, became a temporary headwind. Further, weakness in a few holdings was a drag on performance in a robust return environment. While the short-term report card hasn't been as favorable this year as the prior two, the longer term performance remains strong.

## Top 3 Contributors to Relative Performance

**Revolve Group, Inc. (RVLV)** – RVLV appreciated over 50% in 3Q after reporting resilient quarterly earnings. RVLV returned to positive sales growth for the first time since 2022, in what is still a challenged consumer market. Margins continued to benefit from efforts to make RVLV's operations structurally more profitable. The company is staying abreast of industry developments and thoughtfully chasing reinvestment opportunities with an eye to the long-term. Our conversation with management in August confirmed this thesis.

**ACI Worldwide, Inc. (ACIW)** – ACIW continues to report fundamentally better results that leave us increasingly convinced in management's ability to achieve a sustainably higher rate of organic growth. A strong Q1 and Q2 also helps to alleviate expectations in a seasonally back-half weighted business. ACIW generated more cash in the first 6 months of 2024 than in all of 2023, and cash is being returned to shareholders in the form of a buyback. Leverage is at its lowest point in 10 years.

**ePlus inc. (PLUS)** – PLUS reported solid quarterly results against tough comparisons and maintained guidance for the year. PLUS is delivering on the growth of its services businesses, which is positive for margin and stability. PLUS has an under-levered balance sheet and attractive opportunities to deploy cash into accretive tuck-ins or share repurchases.

## Top 3 Detractors from Relative Performance

**White Mountains Insurance Group Ltd. (WTM)** – Shares of WTM underperformed the market during 3Q. The company generates much of its income from P&C insurance, and the stock tends to track growth in book value over time. Separately, WTM has a good track record of creating value via capital allocation (buying and selling businesses) decisions, so transactions like the sale of NSM Insurance Group and also movements in its underlying investments can meaningfully impact shares. We remain confident in management's ability to deliver outsized growth in book value per share over time through prudent capital allocation.

**Vontier Corporation (VNT)** – VNT shares declined after the company reported weaker than expected quarterly results, reflecting a slowdown in demand across its portfolio. Short-term projects were delayed (particularly in convenience store retrofits), while macroeconomic pressures affected discretionary spending in the Repair Solutions segment. Near-term headwinds may persist as customers delay purchasing decisions due to ongoing economic uncertainty. Despite a weaker operating environment, VNT continues to advance its portfolio transformation and improve operational efficiencies. We remain confident that VNT's resilient franchises are well positioned to serve its broad customer base and capture growth opportunities in the evolving mobility market.

**Certara, Inc. (CERT)** – CERT declined in 3Q reflecting weakness in its end markets due to soft biotech funding and widespread cost-cutting across large biopharma. CERT's software business is resilient, but the services business has been weaker than expected. We still hold conviction in our long-term thesis on CERT, but appreciate that a near-term catalyst will rely on improvements in end market health. CERT owns unique software assets in an underpenetrated industry with plenty of whitespace for future growth. We are encouraged to see the company investing through the cycle to come out the other side with a larger salesforce, more cohesive software platform, and new cross-selling opportunities. These actions should further solidify their already leading and protected positioning in biosimulation.

## Sector Influence

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

- What Helped: Underweight Energy (a weaker performing sector) & overweight Real Estate (a better performing sector)
- What Hurt: Overweight Info. Technology (a weaker sector) & underweight Financials (a better performing sector)

## Trades During the Quarter

- Merger: **Dril-Quip (DRQ)** - During September, DRQ completed a merger with Innovex Downhole Solutions. The combined company is now called Innovex International (INVX). The former shareholders of DRQ now own shares of INVX. There were no buys and sells during the quarter related to this merger. However, for clients who reviewed their portfolio earlier in the year, they would see a position in DRQ, which is now Innovex International (INVX).

## 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
Small Cap (Gross)	7.1%	9.4%	22.4%	9.6%	11.5%	8.2%	12.5%
Small Cap (Net)	7.0%	8.9%	21.6%	8.9%	10.7%	7.4%	11.9%
Russell 2000	9.3%	11.2%	26.8%	1.8%	9.4%	8.8%	8.3%

Inception date: 9/30/1999. 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:** September 30, 1999

**Composite Definition:** The Small Cap strategy invests mainly in conservative, low-beta, small-cap equities with a focus on above-average downside protection. Primarily we seek profitable, financially stable small-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 small-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 2000 Index and has a creation and inception date of September 30, 1999. 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:** Primary: Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. Secondary: Russell 2000 Value Index measures the performance of the small-cap segment of the U.S. equity universe. It includes those Russell 2000 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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