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 Mid Cap portfolio returned 7.9% (7.8% net) during the quarter vs. a 9.2% increase in the Russell Midcap Index. Both stock selection and sector exposure were modest headwinds to relative performance.

The Mid Cap portfolio trailed its benchmark, but performed in line with 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. Another challenge was having no Utilities exposure, the best-performing sector in the index. Lastly, idiosyncratic weaknesses in a few holdings were 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

CBRE Group, Inc. (CBRE) – CBRE was a top performer during 3Q as its outsourcing business units continued to show strength, and transactional businesses improved. CBRE's outsourcing business margins continue to improve due to new customer wins and cost-saving actions. CBRE has a strong balance sheet and deploys capital in efficient ways to drive long-term value. We remain attracted to its flexible cost structure, industry-leading scale, and capital allocation strategy.

Allison Transmission Holdings, Inc. (ALSN) – ALSN reported strong results in recent quarters, reflecting solid top-line growth, pricing power, and margin expansion. Segments generally performed well aside from North American off-market, which has significant energy exposure. We are also starting to see ALSN's defense end-market strategy paying off as the world readies for growing geopolitical tensions. We continue to like the company's wide moat and solid management team.

Pool Corporation (POOL) – Shares of POOL outperformed despite a challenging demand environment for new pool construction. POOL is performing well and taking market share, especially in the retail channel. Broadly, POOL continues to invest in technology, capacity, and capabilities regardless of market conditions – this approach allowed them to come out of the last housing downturn in an exceptionally strong position, and we believe it will repeat this time around.

Top 3 Detractors from Relative Performance

Entegris, Inc. (ENTG) – ENTG lagged the broader market during 3Q due to a more gradual recovery for trailing edge nodes, slower wafer starts, and delayed manufacturing capex spending. The near-term market conditions and different recovery rates throughout the industry have led to a more cautious outlook for the remainder of the year. That said, its solutions for advanced technology and incremental wafer content gains should propel a faster recovery next year. ENTG is one of the most diversified players in the semi-materials industry with its size and scale. We remain attracted to the industry's high barriers to entry, limited competitors, and high switching costs.

Dollar Tree, Inc. (DLTR) – DLTR continues to face pressures from industry-wide issues including weakness in the discretionary category and the ongoing battle with cost inflation. While dollar stores remain a defensible concept, they are not immune to a weakening consumer. In the company's 2Q report, DLTR materially reduced EPS guidance for the year, which is the main reason for stock underperformance. We believe the stock trades at an attractive valuation today given the optionality present in the business. The Dollar Tree banner is only in early innings on its multi-price point conversion, and a potential sale of the Family Dollar business would structurally improve fundamentals and returns of the company.

Lamb Weston Holdings, Inc. (LW) – LW underperformed this quarter due to the residual effect from its ERP (Enterprise Resource Planning) rollout issues, market share losses, and limited visibility on a recovery in demand. The broad-based volume slowdown and higher fixed-cost nature of the business have muted margins. Management has taken action to fix what it can control by taking out costs, increasing productivity, and removing less efficient capacity. We remain attracted to LW's market share, flexible balance sheet, and long-term industry tailwinds.

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 Industrials (a better performing sector)

- What Hurt: Overweight Cons. Staples (a weaker performing sector) & underweight Utilities (a better performing sector)

Trades During the Quarter

- Exited: **CarMax (KMX) –** Sale reflects fears of weaker consumer spending affecting sales and less conviction in the long-term story vs. other opportunities.
- Increased: **Dollar Tree (DLTR) –** Addition reflects our view that DLTR may sell the Family Dollar stores and focus on the higher return Dollar Tree stores. If not a sale, they may close Family Dollar stores at a faster pace.
- Increased: **Tempur Sealy (TPX) –** Addition reflects optimism around the potential closing of the Mattress Firm acquisition. If the deal is blocked, we believe TPX will increase its share repurchase authorization. We remain positive on the long-term outlook for the business.

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.

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.

Annualized Returns
As of 9/30/2024

	QTD	YTD	1Y	3Y	5Y	10Y	ITD
Mid Cap (Gross)	7.9%	11.4%	25.7%	9.8%	11.0%	11.9%	13.2%
Mid Cap (Net)	7.8%	11.1%	25.3%	9.4%	10.6%	11.4%	12.7%
Russell Midcap	9.2%	14.6%	29.3%	5.8%	11.3%	10.2%	11.6%

Inception date: 3/31/2012. 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.

Definition of Firm: The London Company of Virginia is a registered investment advisor. Registration does not imply a certain level of skill or training. More information about the advisor, including full descriptions of its investment strategies, fees and objectives, can be found in the firm's Form ADV Part 2, which is available upon request by calling 804.775.0317 or visiting www.TLCadvisory.com. The London Company claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Please visit www.TLCadvisory.com or contact us at 804.775.0317 to request a complete list and description of The London Company's composites and/or a GIPS® Report that adheres to the (GIPS®) standards.

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.

Past performance should not be taken as a guarantee of future results. The report is for informational purposes only. Data, while obtained from sources we believe to be reliable, cannot be guaranteed and all statistics are subject to change. The statements contained herein are solely based upon the opinions of The London Company and the data available at the time of publication of this report, and there is no assurance that any predicted results will actually occur. Information was obtained from third-party sources, which we believe to be reliable but are not guaranteed as to their accuracy or completeness. This report contains no recommendations to buy or sell any specific securities and should not be considered investment advice of any kind. An investment in a London Company strategy is subject to risks, including the loss of principal. Referenced strategies may not be suitable for all investors. The appropriateness of a particular strategy will depend on individual circumstances and objectives. In making an investment decision, individuals should utilize other information sources and the advice of their investment advisor.

The London Company of Virginia, LLC

1800 Bayberry Court, Suite 301
Richmond, VA 23226

Tel: 804.775.0317
info@TLCadvisory.com

www.TLCadvisory.com