Portfolio Commentary

Market Update

U.S. equities traded higher during 4Q, with most of the major indices posting positive gains. Economic data released during the quarter were positive, but choppy. The Fed's monetary policy continued on a less restrictive path, but shifted a bit more hawkish in December reflecting higher than desired inflation, a strong labor market and better-than-expected GDP growth in recent quarters. The more hawkish view from the Fed led investors to assume fewer rate cuts in the months ahead. The broader market, measured by the Russell 3000 Index, rose 2.6%. Similar to earlier in the year, larger companies with attractive growth profiles led the market. Looking at market factors, Growth, Volatility, and Momentum posted the strongest returns, while Value, Yield, and most Quality factors presented headwinds.

Key Performance Takeaways

The London Company Income Equity portfolio declined 2.2% (-2.3% net) during the quarter vs. a 2.8% increase in the Russell 1000 Index. Sector exposure and stock selection were both headwinds to relative performance.

The Income Equity portfolio trailed its benchmark and lagged our expectations of 85-90% upside capture. Having limited exposure to Growth, Volatility, and Momentum factors and greater exposure to Quality and Yield factors were headwinds to relative performance. The concentration of the Index in a handful of companies was an additional headwind. The Magnificent 7 companies (representing over 30% of the Index) contributed over 120% of the return of the Russell 1000 Index for 4Q. Our portfolios often lag during risk-on environments or when stocks compound at double-digit annual rates.

We continue to believe that Quality factors will add value over full cycles. Our focus on high returns on capital, balance sheet strength, attractive shareholder yield and valuation helps to reinforce our margin of safety and positions our Income Equity portfolio for success in this uncertain climate.

Top 3 Contributors to Relative Performance

Charles Schwab Corporation (SCHW) – Shares of SCHW outperformed as cash sorting continues to normalize. Core net new assets also improved/normalized, following the end of the Ameritrade migration. We have conviction that the stock has further room to run over the next 12-18 months as the company's real earnings power and growth potential become evident.

BlackRock, Inc. (BLK) – BLK shares outperformed in 4Q reflecting improving organic base fee growth as well as positive market performance. We continue to believe that BLK is positioned well for long-term market share growth through its iShares ETF business and its growing presence in private markets. We also continue to view BLK as a strong fit to our process with its low leverage, growing dividend, and steady repurchase of shares.

Nintendo Co., Ltd (NTDOY) – As the current Switch cycle winds down, NTDOY's stock is increasingly valued on the prospect of the next-generation console. In November, management released a thorough presentation highlighting how changes to the console strategy in the most recent cycle led to structural improvements in the business. These include improved profitability levels, less volatile earnings, stronger third-party relationships, more consumer touchpoints, and a record number of annual playing users. We can expect these improvements to carry over into the next cycle. Management intends to announce the next-gen console in 1Q25. We remain convicted in our long-term thesis on NTDOY.

Top 3 Detractors from Relative Performance

Crown Castle, Inc. (CCI) – CCI underperformed this quarter driven by the lower-than-expected rumored valuation for a potential sale of the fiber/small cell businesses and slower interest rate cuts in 2025. CCI continues to report positive tower activity but canceled some low-return small cell projects, which was viewed as a negative this quarter. The new management team has taken action to improve the return profile of the business and margins have already shown improvements. CCI is in a good position for future growth given its tower locations and U.S.-focused portfolio. We like CCI's stable revenue stream, long-term tailwinds on growth in data consumption, and its ability to return cash to shareholders through its dividend policy.

Texas Instruments Incorporated (TXN) – Shares of TXN underperformed during 4Q. While TXN continues to execute on its long-term capital investment plan and is seeing stabilizing end markets, the market continues to focus on gross margins that are depressed by near-term investment ahead of revenue. Additionally, the market is currently rewarding other parts of the technology sector. Our confidence in TXN and its ability to grow shareholder value is undeterred.

Nestle S.A. (NSRGY) – NSRGY shares underperformed the broader market all year. Sentiment across the packaged food space is weak as we emerge from two years of unprecedented food price inflation. NSRGY's latest earnings report did not suggest an acceleration in organic growth from current subdued trends. NSRGY's portfolio is attractively positioned in categories that have stable, long-term volume tailwinds such as coffee, pet food, and nutritional health. Barring further executional missteps, we believe the downside to the current stock price is low.

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 Financials (a better performing sector)
- What Hurt: Overweight Materials (a weaker performing sector) & underweight Consumer Discretionary (a better performing sector)

Trades During the Quarter

- Increased: **Dominion Energy (D) –** Addition reflects our growing confidence in the stability of future earnings following negotiations with some of the state Utilities commissions, as well as the sale of some of the non-regulated utilities businesses.

Looking Ahead

As we enter 2025, we believe the market faces an inflection point where sustaining momentum becomes increasingly difficult. Across the real economy, demand still seems sluggish and clear late-cycle signals persist. Revenue growth and corporate profits have leaned on inflationary pricing, but margins face growing headwinds as inflationary pricing fades, input costs rise, and demand softens. The Fed cut rates during 2024, but the yields on longer-dated treasuries actually rose as the year ended. Stubbornly high borrowing costs continue to plague rate-sensitive areas of the economy, like housing. Employment and inflation data may be volatile in 2025 and could affect changes in monetary policy and lead to greater volatility across equity markets.

Despite resilient economic data and limited signs of credit risk, we believe vigilance is warranted. Our cautious posture persists due to high valuations, market concentration, looming debt challenges, and fraying consumer health. We anticipate lower expected returns in the near term, based on slowing growth (function of restrictive monetary policy) and high valuations. Valuation multiple expansion can only take the market so far (particularly late in a market cycle). We expect a reversion to the mean whereby earnings growth & dividends drive returns going forward. While optimism remains high, the vulnerabilities of momentum-driven leadership highlight the need for discipline. Markets may reward risk-taking in the short term, but lasting wealth is built through patience, real income, and fundamentals.

Our focus on high returns on capital, balance sheet strength, and valuation helps to reinforce our margin of safety and positions the Income Equity portfolio for success in this uncertain climate.

Annualized Returns
As of 12/31/2024

	QTD	1Y	3Y	5Y	10Y	ITD
Income Equity (Gross)	-2.2%	12.3%	1.9%	7.8%	8.8%	9.1%
Income Equity (Net)	-2.3%	11.9%	1.5%	7.4%	8.4%	8.5%
Russell 1000	2.8%	24.5%	8.4%	14.3%	12.9%	7.8%

Inception date: 12/31/1999.
Performance is preliminary. Subject to change. Past performance should not be taken as a guarantee of future results.

Disclosure Notes

The London Company's performances are size weighted and annualized based on calculations for the period ending December 31, 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 Adviser, 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: December 31, 1999

Composite Definition: The Income Equity strategy invests mainly in common equities with a focus on higher overall dividend yield orientation, which may be supplemented with primarily investment grade, preferred equities. This strategy has a more conservative orientation, with a focus on capital preservation, income and growth, in order to provide greater yield and downside protection relative to our Large and Mid Cap strategies. Our Income Equity strategy is designed to generate above-average, absolute returns over full market cycles. Accounts in this product composite are fully discretionary taxable and tax-exempt portfolios with no minimum dollar amount of assets. The product is measured against the Russell 1000 Value Index and has a creation and inception date of December 31, 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 relationships and any potentially bundled fee scenarios. This policy is not retroactive, but will continue to apply going forward.

Benchmark Description: The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. Benchmark returns are not covered by the report of independent verifiers. The Income Equity product is typically compared to the Russell 1000 Value Index. Any comparison to the Russell 1000, S&P 500 or their corresponding ETFs, is for illustrative purposes only.

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