Portfolio Commentary

Market Update

Global markets performance was bifurcated during 4Q, with the U.S. markets positive while major international markets were solidly in the red. The MSCI All Country World Index declined -1.0% during 4Q. U.S. markets led developed markets with a 2.4% gain in the S&P 500 while developed international markets struggled, as measured by the MSCI EAFE, posting an -8.1% decline.

While economic indicators were stable across Europe and Asia, stock market returns in U.S. Dollar terms were negatively impacted by Trump's rising election prospects and a strong dollar. MSCI Europe fell -9.7%, led by MSCI France at -10.3%, while China declined -7.7%. Both regions reacted poorly to Trump's increasing likelihood of victory and the actual result in November. Sectors targeted in his rhetoric saw outsized losses. MSCI Japan declined -3.6% but was viewed as less exposed to potential U.S. policy shifts.

From a sector perspective, Materials, Health Care, and Consumer Staples led declines. Interest rate-sensitive sectors like Real Estate and Utilities also struggled with higher yield expectations, reversing prior gains. Financials was the strongest performing sector, led by Banks, the only positive industry in MSCI EAFE. Growth, Size, and Momentum factors contributed positively in Q4 while Volatility faced headwinds and Value, Yield, and Quality showed mixed results.

Key Performance Takeaways

The London Company International Equity portfolio returned -4.4% gross (-4.6% net) during the quarter vs a return of -8.1% for the MSCI EAFE index. Stock selection was a tailwind for relative performance, partially offset by sector exposure.

We were pleased to see the International Equity portfolio exceeded our 85-90% downside capture expectations. Stock selection was the major tailwind for relative performance, with positive contributions broadly spread across Materials, Information Technology, Consumer Staples, and Communication Services. Our underweight to Financials was a detractor to performance but our underweights to Utilities and Real Estate were a contributor.

Top 3 Contributors to Relative Performance

Nintendo Ltd. (7944 JP) – As the current Switch cycle winds down, Nintendo'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. We can expect these improvements to carry over into the next cycle. Management intends to make an announcement regarding the next-gen console before March 31, 2025. We remain convicted in our long-term thesis on Nintendo.

Taiwan Semiconductor Manufacturing Co., Ltd. (TSM) – TSM reported strong results with raising its full-year sales outlook to +30% driven on AI and stabilization in non-AI end markets. While other large foundries have faltered in 2024, TSM has expanded its leadership at the leading edge and is now benefiting from a near monopoly position as an AI accelerator. A net cash balance sheet supports downside protection while the company's dominant competitive position, high returns on capital, and favorable exposure to structural growth offer attractive upside potential over the long-term.

Compass Group PLC (CPG LN) – CPG shares were positive in a tough quarter for the market. CPG again reported strong results growth with robust top-and bottom-line growth driven by new client wins and high customer retention. Management is seeing an accelerated trend in outsourcing as organizations battle food and labor inflation. With advantaged cost position and better customer retention than peers, CPG is advantaged to take share while still delivering profitable growth. CPG is reasonably priced with upside to profit margins still running below pre-COVID levels and a long runway of growth in outsourcing.

Top 3 Detractors from Relative Performance

Akzo Nobel (AKZA NA) – AKZA again reported soft results during the quarter and hasn't tracked to our original thesis. Despite multiple restructurings, the company hasn't delivered the sustained volume or profit growth we would have expected at this point. While the valuation appears optically cheap, we decided to exit the position and reallocate the capital to opportunities where we have more confidence.

Kone OYJ (KNEBV FH) – KNEBV underperformed during 4Q with its China exposure negatively impacting results. While its China exposure weighs on sentiment in the short-term, we maintain our confidence in the long-term. As the Service and Modernization revenues continue to grow, operating margins and returns should increase close to management's medium-term targets. At a reasonable valuation and unlevered balance sheet, we view the shares favorably.

ICON, PLC (ICLR US) – ICLR is a leading provider of clinical research services to the pharmaceutical industry. ICLR shares declined approximately -27% in the quarter after a confluence of challenges including trial cancellations, delays, and ongoing budget cuts at two of its largest customers led to a revenue shortfall, causing a guidance reduction. Outside of idiosyncratic challenges faced by these two customers, the company is growing in line with our expectations and continues to win market share. We believe the underpinnings of our thesis remain intact and we are encouraged by management actions including an acceleration of its share repurchase program given the pullback. The company remains attractive as a low-capital intensity, high returns business with a compelling valuation and strong balance sheet.

Sector Influence

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

- What Helped: Underweight Health Care & Utilities (weaker performing sectors) & Overweight Industrials (a better performing sector)

- What Hurt: Underweight Financials (a better performing sector) & Overweight Materials (weaker performing sector)

Trades During the Quarter

- **Reduced: Taiwan Semiconductor (TSM)** – Trimmed on strength and reallocated the capital to better risk/reward opportunities.
- **Exited: Akzo Nobel (AKZA NA)** – Elected to exit as AKZA has not tracked to our original thesis. After multiple restructurings under different management teams, AKZA has failed to deliver the underlying growth and profitability we would have expected. In addition, recent management comments about large-scale M&A increases the risk on what we view as shaky underlying fundamentals.
- **Initiated: Universal Music Group (UMG NA)** – UMG is the largest of three major record labels in an attractive oligopoly with strong secular growth trends. We believe the business is well-positioned to benefit from increasing monetization of its best-in-class music rights catalog, an intellectual property asset that supports sustainable growth in a defensive sector. We were able to establish a position in the business at an attractive valuation when the stock traded down due to overblown fears of a near-term slowdown in streaming subscriber and revenue growth.
- **Initiated: Air Liquide (AI FP)** – AI is a leading industrial gas company based in France. The industrial gas industry has attractive characteristics with oligopolistic structure, high returns on capital, and structural growth. Significant sector consolidation with Air Liquide/Airgas in 2016 and Linde/Praxair in 2018 has improved forward prospects for pricing and returns. Additionally, AI's conservative balance sheet at 1.4x net debt/EBITDA provides downside protection and flexibility. During the quarter, general market weakness, especially in materials stocks, provided an attractive entry point, with additional upside as management narrows the EBITDA margin gap to peers.

Looking Ahead

From an economic perspective, we expect a generally positive direction in economic data points with global inflation easing along with policy rates globally in most developed market economies, outside of Japan. While the general backdrop is positive, populist movements in the U.S. and abroad bears close attention due to increased risk of cross-border trade skirmishes and change in the global inflation trajectory. As we stated in our last update and worth repeating, 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, while the U.S. market valuation is stretched, we observe that valuations outside U.S. are more reasonable compared to history and should be broadly supportive of equity returns going forward. The companies we own are high-quality businesses run by good management teams with conservative balance sheets at attractive valuations. We believe the resulting portfolio will serve our investors well through a full market cycle. We continue to expect that our quality value approach will lead to strong risk-adjusted returns protecting in the inevitable down markets while participating in up markets.

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

Annualized Returns
As of 12/31/2024

	QTD	YTD	ITD
International Equity (Gross)	-4.4%	11.6%	19.4%
International Equity (Net)	-4.6%	10.8%	18.7%
MSCI EAFE	-8.1%	3.8%	11.5%

Inception date: 9/30/2023. 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 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 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: 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 $500,000 in assets. Prior to 7/1/2024 the minimum portfolio size was $100,000. The composite is measured against the MSCI EAFE Index (Net) and has a creation/inception date of September 30, 2023. 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. 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.

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