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 Mid Cap portfolio declined 1.8% (-1.8% net) during the quarter vs. a 0.6% increase in the Russell Midcap Index. Both stock selection and sector exposure were headwinds to relative performance.

The Mid Cap portfolio trailed its benchmark and lagged our expectations of 85-90% upside capture. Factor exposure (lack of Growth and Momentum) presented headwinds to relative performance along with some sector headwinds. 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, and valuation helps to reinforce our margin of safety and positions our Mid Cap portfolio for success in this uncertain climate.

Top 3 Contributors to Relative Performance

Allison Transmission Holdings, Inc. (ALSN) – ALSN continues to fire on all cylinders as 3Q24 results were strong. Demand remains robust, especially in their North American on-highway business. Strong infrastructure spending is also helping drive demand. Additionally, growing geopolitical tensions are fueling demand for ALSN's defense business, which is now selling more to allied militaries. ALSN also continues to price for value, which has been driving consistent margin expansion. Our conviction in the stock reflects its wide competitive moat and strong management team.

Armstrong World Industries, Inc. (AWI) – AWI shares outperformed as the company continues to exhibit strong sales and earnings growth amidst muted market conditions. Markets are beginning to stabilize and should return to low single digit growth, with the recovery led by new construction, renovation, and growth initiatives. Positive trends in transportation, education, healthcare, and data centers gives us confidence that the company will continue to execute.

BellRing Brands, Inc. (BRBR) – We inherited our BRBR position in 2022 as a spin-off from Post Holdings. Since the spin, the stock has generated a total return of 175%. We believe the outperformance reflects a mixture of (i) unrealized value coming to the surface as a standalone company, (ii) strong category tailwinds in ready-to-drink protein shakes and ready-to-mix protein powders, and (iii) a premium given to BRBR's categories due to potential future benefits from the adoption of GLP-1 drugs. Capex for BRBR is essentially zero, which makes its 20% annual growth highly cash generative. BRBR has diligently paid down debt since the spin and started to repurchase its own shares at a healthy clip.

Top 3 Detractors from Relative Performance

Crown Castle, Inc. (CCI) – CCI was a bottom performer 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.

Entegris, Inc. (ENTG) – ENTG underperformed during 4Q due to a more sluggish market recovery, particularly in mainstream and 3D NAND areas, as well as providing a cautious outlook. 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.

Steris, PLC (STE) – STE underperformed in 4Q reflecting cautious health care sentiment, modestly lower growth for medical device sterilization, and the re-emergence of litigation concerns. After a noisy few years, we believe STE is getting back onto a steady trajectory of mid-to-high single digit revenue growth and low double-digit earnings growth. Our view of STE's competitive positioning in the medical sterilization business is unchanged, and we do not expect litigation to have a material impact on the value of the company.

Sector Influence

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

- What Helped: Underweight Health Care & Utilities (two weaker performing sectors)
- What Hurt: Overweight Materials (a weaker performing sector) & underweight Energy (a better performing sector)

Trades During the Quarter

- Exited: **Hasbro (HAS) -** Sold the remaining position following a rally in the shares during 2024 (up over 25%). We have lingering concerns about the long-term health of the business.
- Increased: **Ball Corp (BALL) –** Addition reflects our confidence in the long-term thesis for the company.
- Increased: **Bruker (BRKR) –** We are adding on weakness as we appreciated management's willingness to invest in the business during a downturn on drug spending. We believe recent investments will allow BRKR to become more diversified and aligned with recent trends in science. BRKR is also diversifying into more consumables and fewer big ticket items, which may reduce volatility in results.

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.

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Annualized Returns
As of 12/31/2024

	QTD	1Y	3Y	5Y	10Y	ITD
Mid Cap (Gross)	-1.8%	9.4%	6.2%	9.4%	11.0%	12.7%
Mid Cap (Net)	-1.8%	9.1%	5.9%	9.1%	10.6%	12.3%
Russell Midcap	0.6%	15.3%	3.8%	9.9%	9.6%	11.4%

Inception date: 3/31/2012.
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 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: 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.

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