

Portfolio Commentary

Market Update

U.S. equities entered correction territory in 1Q25 after notching two robust years of strong gains. Macro risks returned to the forefront of investors' minds as tariff and austerity uncertainties compounded stubbornly weak economic growth and a return of the inflation specter. Broader market weakness was driven by negative earnings revisions, declining consumer and business confidence, and no change in monetary policy from the Federal Reserve. For the quarter, the broader market, as measured by the Russell 3000 Index, declined 4.7%. A faltering Artificial Intelligence growth narrative allowed for a broadening of market leadership. Value styles led Growth, and Large Caps outperformed Small Caps. Turning to market factors, Value and Yield factors posted the strongest returns. Most of the Quality factors outperformed as well. Growth, Volatility (high beta), and Momentum factors had a negative impact.

Key Performance Takeaways

The London Company Large Cap portfolio returned 2.4% (2.3% net) during the quarter vs. a 2.1% increase in the Russell 1000 Value Index. Relative outperformance was driven by positive stock selection, partially offset by sector exposure headwinds.

The Large Cap portfolio outperformed the Russell 1000 Value in Q1, and exceeded our expectations of 85-90% upside capture. Our exposure to Lower Volatility & Quality factors shined as high beta and momentum driven equities sharply corrected.

Top 3 Contributors to Relative Performance

Progressive Corporation (PGR) – PGR outperformed during the quarter, driven by improved margins, faster growth than the industry, and a rise in policies in force. PGR's superior underwriting risk segmentation continues to translate to industry-leading accident frequency outcomes. We remain confident in PGR's ability to execute in all environments, competitive advantages, and capital allocation strategies.

Republic Services, Inc. (RSG) – RSG outperformed the index due to stronger-than-expected earnings and consistent performance, even with flat volume growth expectations. RSG continues to expand margins through improved customer mix, strategic pricing, and cost management. We remain attracted to the steady free cash flow growth, annuity-like revenues, and high market share of U.S. landfill capacity.

Berkshire Hathaway Inc. Class B (BRK.B) – BRK.B stock outperformed in the quarter, which we believe is attributable to a broader flight to safety amidst the turbulence and uncertainty of executive actions from President Trump. We like the company for its diversified operations, conservative underwriting, strong balance sheet, and prudent management team.

Top 3 Detractors from Relative Performance

Bruker Corporation (BRKR) – BRKR shares lagged this quarter due to uncertainties over NIH funding and tariffs. The CEO stepped up and bought more shares amid the weakness. We remain optimistic about BRKR for its vital role in life sciences research, a global economic priority, supported by its robust competitive stance, innovative products, strategic capital allocation, and capable leadership.

Apple Inc. (AAPL) – AAPL underperformed after reporting lower iPhone sales, particularly in China, and its tariff exposure. Its large installed base and services are an important long term driver of the business. We remain attracted to its strong balance sheet, R&D spending, and capital allocation philosophy.

Alphabet Inc. (GOOG) – GOOG was a bottom performer this quarter despite strong results from its ad business, Cloud growth, and margin enhancements. Unexpectedly high capex guidance and AI search alternatives pressured the stock. GOOG has a solid balance sheet, significant market share, and generates strong returns on invested capital.

Sector Influence

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

- What Helped: Underweight Industrials (a weaker performing sector) & overweight Communication Services (a better performing sector)
- What Hurt: Overweight in Information Technology (a weaker performing sector) & underweight Health Care (a better performing sector)

Trades During the Quarter

- Reduced: **BlackRock, Inc. (BLK)** – Trim reflects some concerns around potential fee pressures due to lower prices at Vanguard and our large exposure to the Financials sector.
- Initiated: **Entegris, Inc. (ENTG)** - ENTG produces specialty materials for microelectronics industry, and is a semiconductor spending play that is well positioned for future growth. The company sells chemicals (gases), filters, and containers for handling chemicals and chips. Capital spending in the semiconductor industry has significantly increased over the years as chip manufacturing is more closely tied with semi-chip acreage growth and consumer demand trends i.e. IoT, mobility, big data, telematics, etc. The industry has high barriers to entry, few competitors, and high switching costs. Compared to its competition, ENTG is well diversified across products and clients. ENTG is a high margin, high ROIC business that is managed by a seasoned, transparent management team. We own ENTG in other TLC portfolios.
- Increased: **Entegris, Inc. (ENTG)** – Added to the position making ENTG roughly 3% of the portfolio. Addition reflects our optimistic outlook for semiconductor spending longer term. Growth in wafer starts and higher content per wafer are positives for ENTG.
- Exited: **Home Depot, Inc. (HD)** – Sale reflects a relatively high valuation (18.6x trailing EBITDA) along with a mixed outlook for consumer spending and housing activity. While the aging housing base and stable housing values are a positive for home improvement spending, we note that we already have exposure via Lowe's and didn't feel the need to own both companies.

- Increased: **Old Dominion Freight Line, Inc. (ODFL)** – We used excess cash to add to ODFL. The company has been under pressure due to the prolonged freight environment, but is positioned strongly for an eventual recovery. It is worth noting, the CFO purchased over \$400K recently.

Looking Ahead

There is elevated uncertainty as we start the second quarter with a high likelihood of greater tariffs being announced in the weeks ahead. Consumer confidence has declined recently due to the risks of additional tariffs, but the broader economic data still supports growth in the near term, but growth is decelerating. While we are not predicting a recession, the odds of a recession have increased. In terms of monetary policy, the Fed appears to be on a steady course for two or three rate cuts later in the year. The effect of tariffs on both inflation and the broader economy could change those plans though.

Despite the recent correction, the market concentration and valuations remain elevated. History shows that transitions following peak market concentration (e.g. the Nifty Fifty or the Tech Bubble) tend to play out over multiple years—not quarters. The cap-weighted indices may continue to face pressure as investors reassess stretched valuations and excessive positioning. 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. Defensive portfolios such as ours should be favored areas for investors if recession concerns remain or materialize. Importantly, Quality factors have historically posted their best relative returns during periods of decelerating growth and through recessions. Quality factors typically lag in the early days of a recovery and keep pace during the mid-cycle years. We may be late in the economic cycle now. If that is correct, it bodes well for the relative performance of Quality factors over the next few years and for our portfolios.

Annualized Returns

As of 3/31/2025

	QTD	1Y	3Y	5Y	10Y	ITD
Large Cap (Gross)	2.4%	9.5%	7.6%	16.2%	9.8%	11.4%
Large Cap (Net)	2.3%	8.7%	6.8%	15.3%	8.9%	10.6%
Russell 1000 Value	2.1%	7.2%	6.6%	16.2%	8.8%	9.7%

Inception date: 6/30/1994. Performance is preliminary. Subject to change. Past performance should not be taken as a guarantee of future results. Net of fee returns are calculated net of a model management fee of 0.75%. Please see the disclosure notes found on the last page.

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Disclosure Notes

The London Company's performances are size weighted and annualized based on calculations for the period ending March 31, 2025. 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: June 30, 1994

Composite Definition: The Large Cap strategy invests mainly in conservative, low-beta, large-cap equities with a focus on above-average downside protection. Primarily we seek profitable, financially stable, quality large-cap companies, which consistently generate free cash flow, high returns on unleveraged operating capital, trade at rational valuations, and are run by shareholder-oriented management. Positions are generally in the market capitalization range of the major domestic large-cap indices. Accounts included in this product composite are fully discretionary taxable and tax-exempt portfolios with a minimum of \$1 million in assets. The product is measured against the Russell 1000 Index and has a creation and inception date of June 30, 1994. 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: Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. The Russell 1000 is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. Benchmark returns are not covered by the report of independent verifiers. The Large Cap product is typically compared to the Russell 1000 Index. Any comparison to the Russell 1000 Value 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 a model fee of 0.75% and transaction cost and gross of custodian and other fees. The 0.75% model London Company management fee applied is the highest tier of the current composite fee schedule. This fee is applied monthly to the gross return at 1/12th the annual rate, which is 0.0625% per month. Actual investment advisory fees incurred by clients may vary. Net of fee returns prior to January 1, 2009 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. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

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