All Cap Value Equity

Q1 2024

Overview

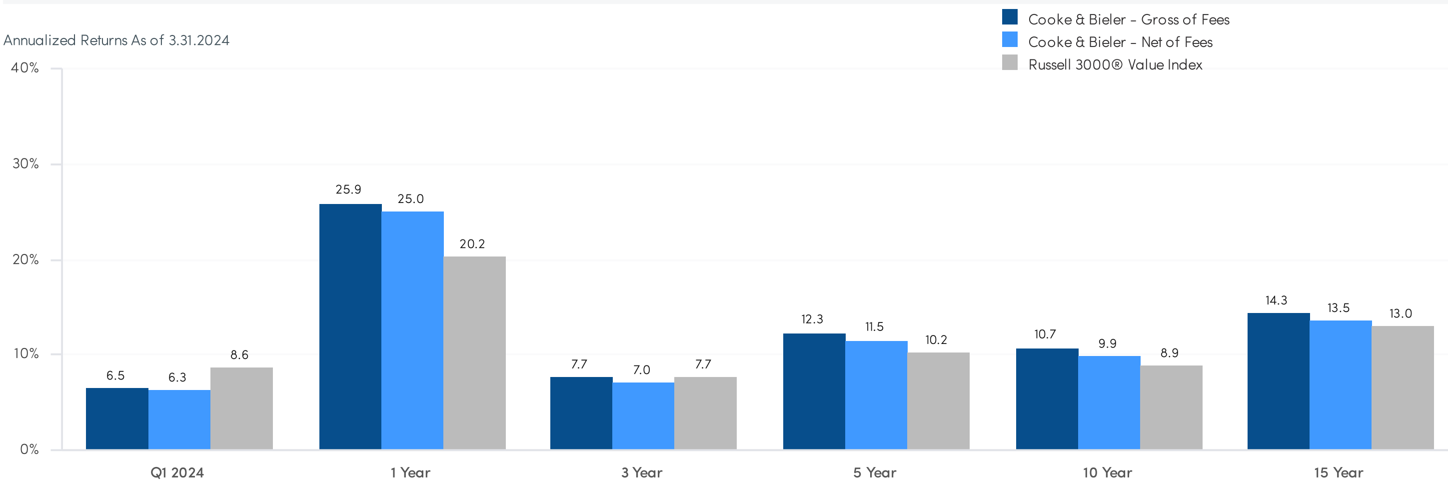
Despite incrementally less dovish signals from the Fed, U.S. equities continued to rally strongly, ending the quarter at all-time highs. Mixed inflation data caused expectations for rate cuts to be pushed out to the second half of 2024, with investors taking the news as a sign that a soft landing scenario may remain on the table. While consumer spending and the economy overall have been stronger than originally feared, the market narrative is increasingly dependent on economic performance without a monetary policy pivot.

Against this backdrop, larger cap and growth equities tended to outperform in the first quarter, as did stocks of high-quality businesses with lower levels of debt leverage. Energy performed especially well, and broad-based strength in Industrials led the value indices to overall positive results. Participation was more widespread than in 2023, though at least four of last year's Magnificent Seven continued their stunning rise. Contrary to trends witnessed last quarter, REITs and Utilities underperformed given a less accommodating interest rate outlook and higher Treasury yields. Companies with commercial real estate exposure and reliance on residential real estate transactions also lagged in an otherwise robust market.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy posted positive absolute returns but lagged the benchmark in the first quarter, generating 6.48% gross of fees (6.30% net of fees) against an 8.62% return for the Russell 3000® Value Index. Negative stock selection drove the majority of the underperformance, though sector allocation also detracted. After demonstrating strong relative results in 2023, stock selection among Financials holdings such as Globe Life and State Street posed the most significant headwind. Health Care and Consumer Staples holdings also lagged the benchmark. Conversely, stock selection within Communication Services holdings such as Omnicom Group and Verizon Communications was strongest. Industrials holdings also benefited relative performance.

All Cap Value Equity Composite Performance



Source: FactSet and Russell®

Past performance is not indicative of future results. All investing involves risk, including loss of principal.

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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
AerCap	3.3	16.7	54
MKS Instruments	1.8	29.3	48
ESAB	1.6	27.5	43
JPMorgan Chase	2.4	18.3	42
HCA Healthcare	1.7	23.3	39

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Integra LifeSciences	1.2	-18.8	-25
Teleflex	2.0	-9.4	-21
Open Text	2.7	-7.2	-19
Helen of Troy	2.7	-4.8	-13
Dentsply Sirona	1.8	-6.5	-13

Source: FactSet

Past performance is not indicative of future results. All investing involves risk, including loss of principal. The performance attribution is an analysis of a representative All Cap Value institutional portfolio's gross of fees return relative to the Russell 3000® Value Index. Security net total returns equal the security's gross return less the portfolio-level fee effect. Security net contributions to return are equal to the security's gross contribution to return less the security's average weight times the portfolio-level fee effect. The portfolio-level fee effect is the difference between the portfolio's gross and net of fee returns calculated using the highest published fee. The representative All Cap Value institutional portfolio returned 6.26% net of fees and 6.46% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's All Cap Value clients. To obtain the calculation's methodology and a list showing every holding's contribution to the overall account's performance during the quarter, contact your client service representative or email your request to contact@cooke-bieler.com.

Largest Contributors

AerCap (AER), the largest independent aircraft lessor, was the largest contributor. AER reported strong results boosted by sales of older aircraft and an insurance recovery related to planes stranded in Russia due to the Ukraine conflict. Management took advantage of the strong results and discounted valuation to aggressively repurchase shares, boosting book value per share and our estimate of intrinsic value.

MKS Instruments (MKSI), a supplier of components and subsystems to companies in the semiconductor capital equipment industry, was the second-largest contributor. Investors rewarded MKSI for navigating through the down part of the cycle and are optimistic that a recovery will occur sometime next year. The market also responded well to a recent debt refinancing which removed some covenants.

ESAB (ESAB), a global leader in welding and gas control solutions, was the third-largest contributor. Strong financial results in the quarter and year combined with a successful Analyst Day in December increased investor confidence in their long-term earnings outlook.

Largest Detractors

Integra LifeSciences (IART), an acquisitive global medical technology company, was the largest detractor. IART's results continue to be negatively impacted by last year's voluntary recall and temporary halt of manufacturing at its Boston facility. Uncertainty remains over the timing and effectiveness of a return to commercial distribution, and back-half weighted guidance has been viewed with skepticism by investors given recent execution missteps. We believe IART's valuation is attractive and their stable sales base, consistent free cash flow generation, and solid balance sheet position the company to address the current issues.

Teleflex (TFX), a global developer and manufacturer of a diverse portfolio of single-use medical devices used to diagnose and treat patients, primarily in acute care settings, was the second-largest detractor. TFX's valuation contracted in response to disappointing guidance for first quarter earnings.

Open Text (OTEX), an enterprise software company, was the third-largest detractor. OTEX underperformed on a lower full-year margin guide resulting from higher investment in AI and sales & marketing.

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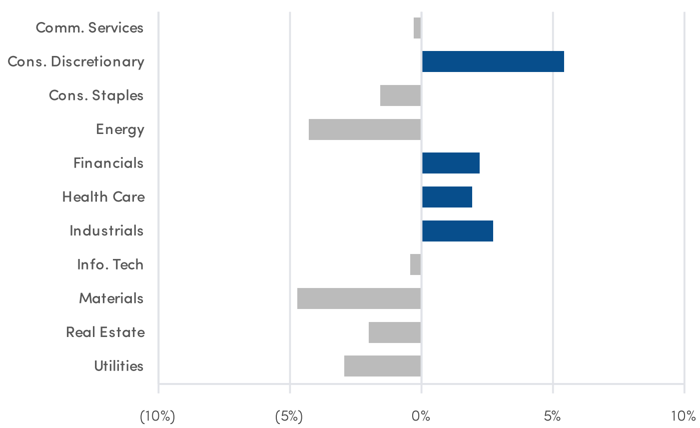
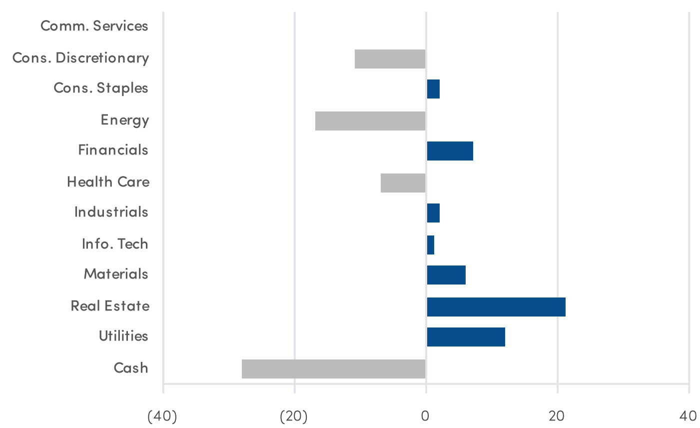
Sector Positioning

Sector allocation effect was a slight headwind to the strategy's relative results in the first quarter. The portfolio's underweight to Energy, the top performing sector within the benchmark, was the biggest drag. An overweight to Consumer Discretionary and Health Care also weighed on performance. An underweight to Real Estate and Utilities partially offset negative results, as these bond proxy sectors were the two worst performing within the Index.

Avg Wt Relative to RAV Index (%)



Allocation Effect (bps)



Source: FactSet

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Initiations

Occidental Petroleum (OXY) is a leading E&P company with a unique blend of short-cycle, high return shale assets in the Permian and the Rockies, along with lower decline, solid return conventional reservoirs in the Permian, Gulf, and Middle East. OXY has plenty of inventory in its core business, and with the current level of capital expenditure it should be able to drive mid-single digit operating income growth and better EPS growth through debt paydowns and retiring of preferred stock. Normalized earnings for the chemical business, where OXY is a top-tier producer in every product produced, should expand in 2026 as the company finishes a major capital expenditure phase. The mid-stream business should also benefit from the expiration of previous high priced minimum volume commitment contracts in 2025 and 2028.

UnitedHealth Group (UNH) is a comprehensive health care company that touches all key aspects of the U.S. health care system through its managed care, health care IT, pharmacy benefits management, primary care provider, home health, and facilities operations. In total, UNH manages nearly $300 billion of spend, giving it unmatched scale. UNH's scaled breadth of capabilities has resulted in an industry leading value-based care platform that is being used to manage ever increasing health care costs. We expect UNH to gain share in its markets and generate high returns on incremental capital invested given the company's meaningful competitive advantages, including proven integrated offerings. We view UNH as a reliable double-digit compounder of value, and the stock's recent decline on concerns about Medicare Advantage reimbursement rates created an attractive entry point.

Eliminations

Allstate (ALL) reached its price target and was eliminated.

AMETEK (AME) was eliminated to make room for better opportunities.

Notable Stock Updates

PGT Innovations (PGTI) was acquired by Miter Brands in March in an all-cash transaction.

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Outlook

Equity markets reacted positively to solid economic reports and better than expected corporate earnings during the quarter. The risk of imminent recession seems low, supply chains continue to improve, and artificial intelligence is stoking optimism about long term productivity growth, providing a promising backdrop for equity investors. The broadening of the rally across economic sectors, market caps, and styles towards the end of the quarter was also encouraging. However, market participants, in their zeal to capitalize on the situation, have pushed up valuations – not egregiously in most cases, but certainly to elevated levels relative to historical norms. Seemingly overlooked during the quarter was the Fed's acknowledgement that rate cuts will be deferred and limited until inflation has more clearly moderated, suggesting that the more favorable economic backdrop could be offset by persistently higher interest rates. Geopolitical crises and political dysfunction also remain concerning. All things considered, we believe selectivity and risk control are increasingly important in the current investing environment. At Cooke & Bieler these considerations start with our valuation discipline and rigorous process, focused on investing in well managed, financially strong companies with competitively advantaged businesses that generate attractive returns on capital and strong cash flows. With that focus in mind, typical Cooke & Bieler investments target both downside protection in protracted down markets and longer-term upside as they compound value, which we believe will bode well given the current environment.

Sources: Bloomberg, FactSet

Additional Cooke & Bieler All Cap Value Performance Disclosures