All Cap Value Equity

Q2 2025

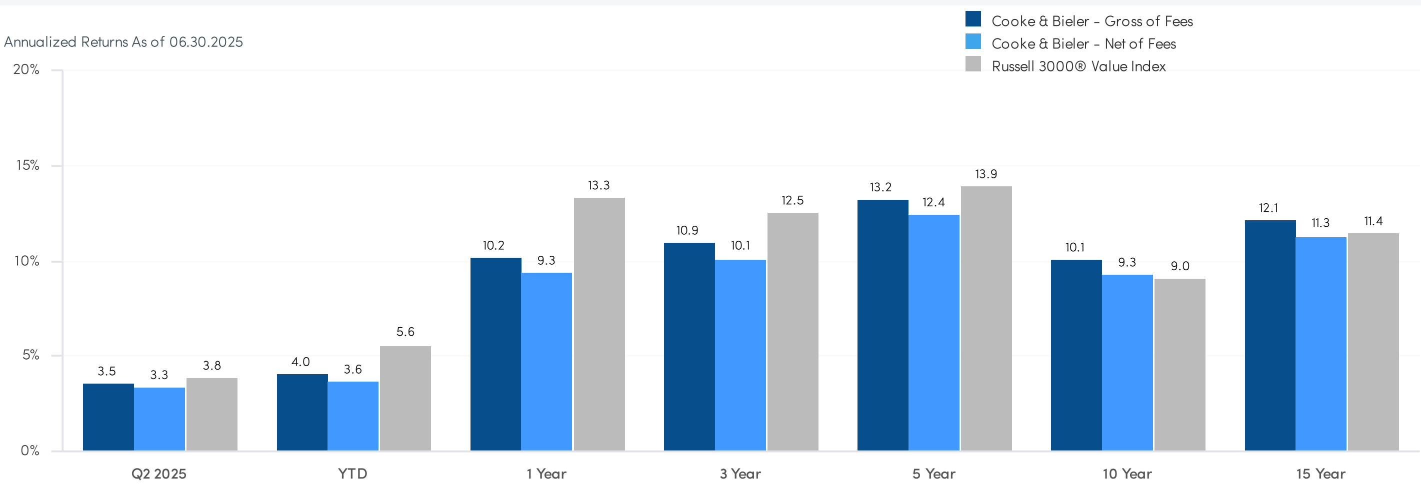
Overview

Equity markets took investors on a tumultuous ride in the second quarter. Stocks declined sharply in April on fears of an all-out global trade war stoked by the Trump Administration's newly proposed tariff rates. The S&P 500® Index declined more than 10% over the ensuing days, only to quickly and decisively reverse course in response to a tariff implementation pause. By quarter end, the S&P 500® and NASDAQ Composite Indices reached new all-time highs, overcoming considerable uncertainty associated with numerous unresolved exogenous issues, including the economic impacts of ever-changing trade policies, an ambitious budget bill, and increasing conflict in the Middle East. As the quarter progressed, investors' appetites for stocks were buoyed by signs of continued solid economic and corporate earnings growth as well as stable, if not moderating, inflation rates – the latter giving life to Fed easing narratives. Investors once again demonstrated a strong preference for larger cap growth stocks, particularly those perceived to benefit most from investments in AI capabilities. Within the value universe, investors gravitated toward smaller cap issues, presumably due to their more U.S.-centric business models. By sector, Information Technology was the overwhelming leader across most indices, accounting for two-thirds of the S&P 500® Index's total return during the quarter. Economically sensitive sectors, particularly Industrials, also tended to outperform while the bond proxies lagged. Energy and Health Care significantly underperformed as the former faced lower oil prices and the latter saw valuations pressured by tariff exposure and possible funding cuts.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy underperformed the benchmark during the volatile but ultimately strong quarter, posting a 3.50% return gross of fees (3.31% net of fees) against a 3.84% return for the Russell 3000® Value Index. Stock selection detracted from results, while sector allocation effect was a partial positive offset. Selection was weakest among Energy and Consumer Discretionary holdings such as ConocoPhillips and CarMax. Health Care holdings also underperformed the benchmark. Conversely, Real Estate and Information Technology holdings such as CBRE Group and Open Text performed well.

All Cap Value Equity Composite Performance



Source: FactSet and Russell®

Returns greater than one year are annualized. Past performance is not indicative of future results. All investing involves risk, including loss of principal. Effective at the market opening on March 24, 2025, Russell US Style Indexes have applied the RIC 22.5/45 capping methodology if index weights breached the thresholds as of the quarterly review pricing dates.

Click for additional C&B All Cap Value Performance Disclosures

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Five Largest Contributors/Detractors

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
APi Group	2.02	42.76	77
Ashtead Group	2.66	19.56	55
Charles Schwab	3.10	16.93	53
Walt Disney	2.08	26.17	53
Woodward	1.64	34.49	53

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Becton Dickinson	2.71	-24.35	-91
UnitedHealth Group	1.66	-40.01	-81
Fidelity National Financial	2.77	-13.07	-43
ConocoPhillips	2.34	-13.81	-41
Atlas Energy Solutions	1.44	-23.59	-37

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. The All Cap Value composite returned 3.31% net of fees and 3.50% 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

APi Group (APG), a business services provider with expertise in fire safety, security, elevator maintenance, and a smaller special contracting unit, was the largest contributor. In the quarter, APG reported strong results and held a well-received investor day. APG continues to execute its inspection-first strategy, leading to a greater mix of recurring and higher margin service, inspection, and monitoring sales.

Ashtead Group (ASHTY), the second-largest construction and industrial equipment rental company in North America, was the second-largest contributor. Having been a detractor in the previous two quarters, ASHTY is seeing some fundamental stabilization despite continued cyclical softness in demand. Headwinds from used equipment sales have mostly dissipated and management execution has been solid. Free cash flow is countercyclical and poised to exceed $2 billion in fiscal 2026, most of which will be returned to shareholders via share repurchase and dividends. ASHTY remains on track to move their primary listing to the U.S. in early 2026, a move we believe will be applauded by investors while providing increased liquidity in markets where most of their assets and profitability reside.

Charles Schwab (SCHW), a leading provider of financial services to retail investors and financial advisors, was the third-largest contributor. Profitability trends improved meaningfully as client cash trends stabilized and net interest margin expanded. The integration of TD Ameritrade is largely complete, and legacy TD accounts are now contributing to organic growth and positioning SCHW to continue compounding earnings in a normalized rate environment.

Largest Detractors

Becton, Dickinson & Company (BDX), a developer, manufacturer, and seller of a broad portfolio of medical supplies, devices, and diagnostics, was the largest detractor. The stock's valuation contracted significantly in response to indications of imminent tariff related earnings pressure and continuing weaker than expected revenue growth, this time stemming from changes in government research funding policies.

UnitedHealth Group (UNH), 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, was the second-largest detractor. Intensifying challenges in the company's Medicare Advantage benefits and capitated care businesses led to a CEO change and greatly diminished near-term earnings visibility.

Fidelity National Financial (FNF), the largest provider of title insurance and settlement services in the U.S., with additional operations in annuities, was the third-largest detractor. Despite reporting strong margins on an absolute basis, investors were disappointed in the lack of momentum in the title segment as high mortgage rates weigh on real estate transactions. In addition, results at its majority-owned subsidiary, F&G Annuities and Life, fell short of expectations, reinforcing concerns about the quality and sustainability of that segment's earnings.

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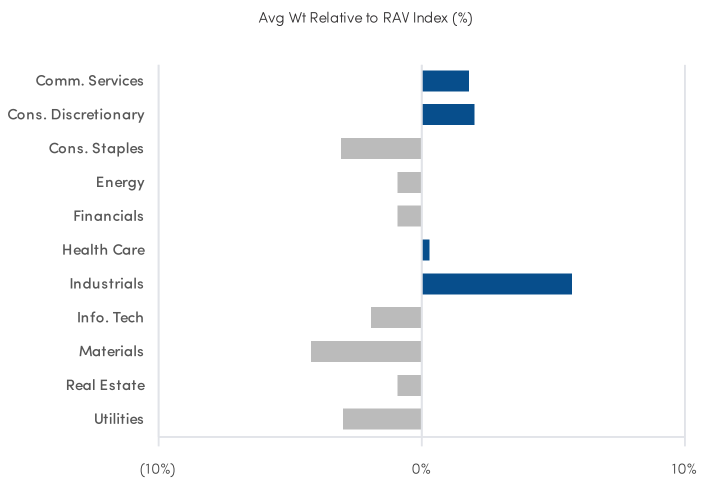
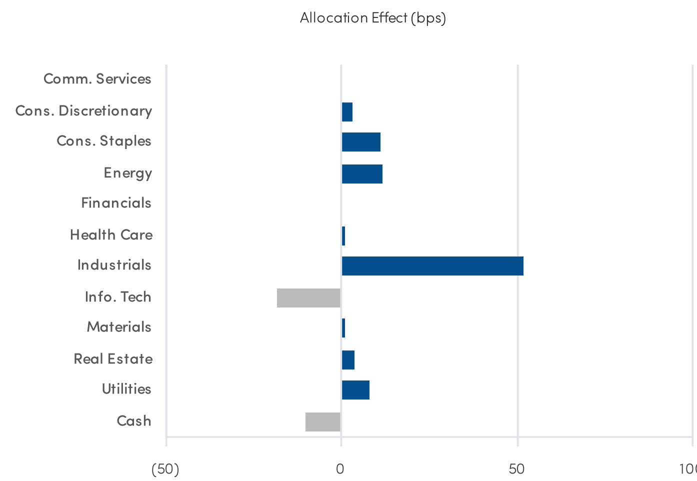
Sector Positioning

Sector allocation effect was positive during the second quarter, with the majority of sectors benefiting relative results. The portfolio's overweight to the economically sensitive Industrials sector – one of the top performers within the benchmark – contributed most. Underweight positions in Energy and Consumer Staples were also additive. Conversely, an underweight to Information Technology detracted from performance as the sector significantly outperformed the overall Index.





Source: FactSet

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Initiations

Dream Finders Homes (DFH) is a top 15 U.S. homebuilder. The company operates an asset-light homebuilding model, utilizing option contracts to secure lots. This strategy permits the company to control and develop more lots than otherwise possible, mitigates risk in the event of an industry downturn, and drives above average returns on equity. A concentration on geographies with stronger population growth should permit DFH to grow more rapidly than the overall industry. Additionally, as the company builds more scale in existing markets, its gross margin profile should expand and approach that of its peers.

MSA Safety (MSA) is the largest pure play company in the safety and protection industry. The company's consistent focus and innovative practices, along with complementary acquisitions, leads to above industry average sales growth and the ability to increasingly attach services, connectivity, and software to its physical products. MSA's strong technology and brands, close partnerships with customers, engagement with regulating authorities, and global distribution allow the company to earn attractive returns on capital, and there is a positive mix effect as new products, detection, and connectivity and service solutions typically carry higher than company average margins.

White Mountains Insurance Group (WTM) is a holding company that owns insurance and financial services related businesses. Management takes a long-term view and generates solid returns from these businesses over time. They add incremental value by opportunistically buying new businesses and selling existing businesses, often generating substantial gains on sales. Cash flow and divestiture proceeds are opportunistically allocated, often via share repurchases; shares outstanding have been reduced by approximately 75% over the last 20 years. WTM does not hold quarterly investor calls, and there is virtually no sell-side coverage. We believe the stock price is persistently cheap, despite a proven track record of compounding book value per share at healthy levels.

Eliminations

Berkshire Hathaway (BRK.B) reached its price target and was eliminated.

ESAB (ESAB) was eliminated to make room for better opportunities.

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Outlook

Investors could be forgiven if they greet the second half of 2025 with more exhaustion than excitement. After a first half packed with years' worth of domestic policy initiatives and reversals as well as global tensions flaring, particularly in the Middle East, investors find themselves facing roughly the same questions they were grappling with when the year started. Will the economy and consumer sentiment remain resilient in the face of policy shocks? Will the Fed ease aggressively to cushion any economic weakness, as in 2008 and 2020, or will the recent bout of inflation lead them to take a more cautious approach? And will geopolitical tension cascade into something more than the brushfire conflicts that erupted in the first half? As investors ponder these issues, they can take little comfort in valuation support as the market trades near all-time highs, especially in areas tied to AI or cryptocurrency.

As much as we all might wish for a respite, this environment seems more like a recipe for continued volatility, with investors oscillating between fear of being in the market and fear of missing out depending on the news cycle. In general, we believe our strategies are well positioned for this reality, outperforming in moments of stress and underperforming only during the growth inspired rally of the last six weeks. Fundamentally, our analysis suggests that the portfolio is less exposed to tariffs than the broader market and many of our companies' peers, reducing the risk posed by a potential trade war. Similarly, while our strategies are broadly overweight economically sensitive sectors, we believe the strong competitive positions, skilled management teams, and flexible balance sheets of our companies position them well to weather economic storms, and in some cases, take advantage of competitors' struggles. And of course, our rigorous focus on valuation means our portfolios are less exposed to valuation risk than the broader markets.

None of which is to say we take future outperformance for granted or expect it to be easy. We believe our philosophy – own good businesses with conservative balance sheets, run by skilled managements, at attractive valuations – provides a framework for success that is equally rooted in common sense and mathematical truth. Implementing this framework, however, requires deep knowledge and diligent, focused research conducted by Career Analysts with intellectual discipline and humility. While results this year have been disappointing, we remain confident in our people and remain relentlessly focused on improving the portfolio by uncovering new ideas as well as identifying existing holdings where fundamentals are not meeting our expectations.

Sources: Bloomberg, FactSet, Wall Street Journal

Additional Cooke & Bieler All Cap Value Performance Disclosures