Cooke & Bieler

Q4 2023

All Cap Value Equity

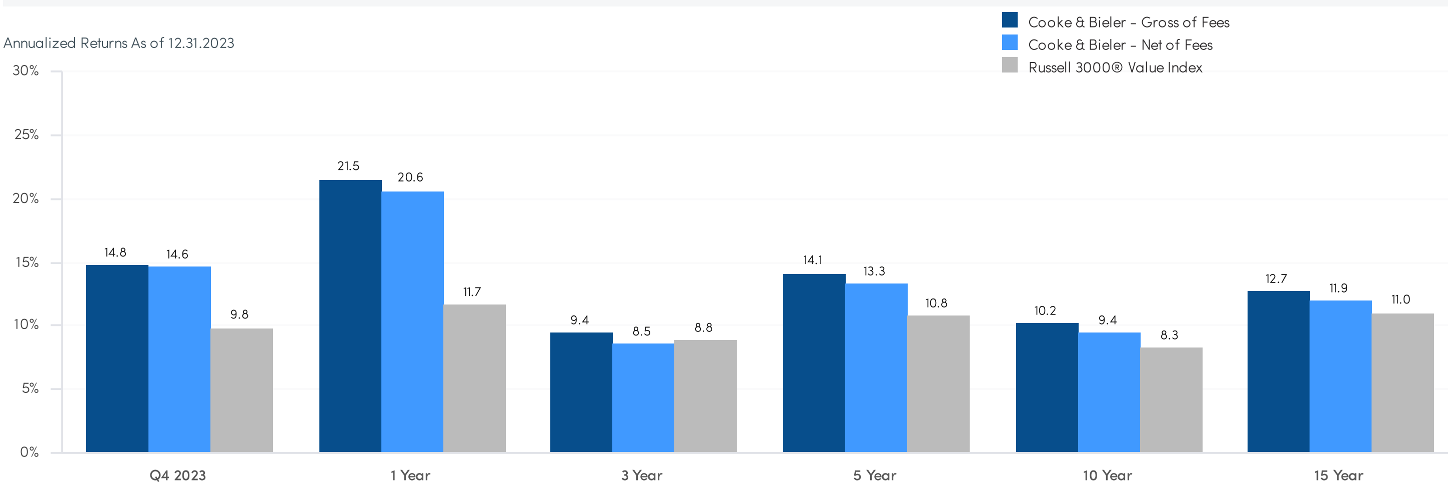
Overview

The U.S. stock market advanced sharply during the fourth quarter with all major indices posting double-digit returns. After a weak start to the quarter, sentiment improved markedly in early November following initial indications that the Fed's tightening cycle could be over. The rally strengthened and broadened from there, fueled by continuing economic momentum, encouraging signs of disinflation, and declining interest rates. Dovish Fed commentary in December further emboldened investors with the prospect of interest rate cuts in 2024. Aside from the Energy sector which struggled due to lower oil prices, the Q4 rally was all encompassing, favoring stocks of smaller, less profitable, and more financially levered companies. Growth outperformed value outside of the small end of the market cap spectrum. Relative performance among economic sectors generally reflected the increasing likelihood of continuing economic growth and lower interest rates, as evidenced by the outperformance of Financials and Real Estate.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy generated strong absolute and relative results in the final quarter of the year, returning 14.78% gross of fees (14.59% net of fees) against a 9.83% return for the Russell 3000® Value Index. Positive stock selection effect was the primary driver of the portfolio's outperformance, though sector allocation effect was also a tailwind. The portfolio's Financials and Industrials holdings, particularly Brookfield Corporation and PGT Innovations, were the most notable contributors to stock selection. Communication Services holdings also contributed to results. Conversely, the portfolio's Information Technology and Consumer Discretionary holdings such as Arrow Electronics and Helen of Troy were the most significant drag on selection effect. For the full year period, the portfolio significantly outperformed the Index, with both stock selection and sector allocation effect contributing meaningfully to results – stock selection within Industrials and Financials as well as an underweight to Energy and Utilities were the most notable tailwinds. Stock selection within Communication Services and Information Technology were the largest offsets to these positive results.

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)
PGT Innovations	2.6	46.5	108
Brookfield	3.3	28.4	89
Winnebago	2.9	22.4	65
AerCap	3.0	18.4	60
Fidelity Nat'l Fin.	2.3	24.6	57

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Becton Dickinson	2.3	-5.4	-17
ConocoPhillips	2.2	-2.8	-8
Arrow Electronics	2.2	-2.5	-7
Unilever	2.0	-1.1	-4
Johnson & Johnson	1.8	1.3	1

Source: FactSet

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Largest Contributors

PGT Innovations (PGTI), a leading manufacturer of impact-resistant windows, was the largest contributor. PGTI's shares benefited from competing takeout offers as well as broadly improving sentiment surrounding residential new construction.

Brookfield Corporation (BN), a global investor, operator, and asset manager of real assets, was the second-largest contributor. The combination of lower interest rates, continued fundraising success, and a successful investor day improved investor sentiment.

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the third-largest contributor. WGO reported encouraging market share trends in a weak environment. Additionally, some early signs of retail recovery have emerged for certain WGO brands, and the dealer destocking cycle appears to have bottomed, paving the way for a return to wholesale shipment growth.

Largest Detractors

Becton Dickinson (BDX), a developer, manufacturer, and seller of a broad range of medical supplies, devices, and diagnostics, was the largest detractor. Management's near-term outlook led to negative earnings revisions, disappointing investors.

ConocoPhillips (COP), one of the largest international E&P companies with a scaled and well-diversified portfolio of assets, was the second-largest detractor. COP suffered largely due to lower crude oil and natural gas prices.

Arrow Electronics (ARW), a distributor of electronic components and a solution provider to value added technology resellers, was the third-largest detractor. After a period of strong growth in the semiconductor capital equipment space, ARW has reached the other side of the cycle, with demand for ARW's products coming back down to more normal levels. Investors are uncertain and somewhat concerned about the magnitude of the down cycle as well as the increase in ARW's debt levels due to aggressive share buybacks.

Sector Positioning

Sector allocation effect was positive for the quarter, with the majority of sectors contributing to the strategy's outperformance. The most significant tailwind to results came from the portfolio's underweight to Energy, the only benchmark sector to post a negative absolute fourth quarter return. An overweight to Financials and Consumer Discretionary also benefited relative results. Conversely, the portfolio's underweight to Real Estate – the best performing sector within the Index – detracted from relative performance.

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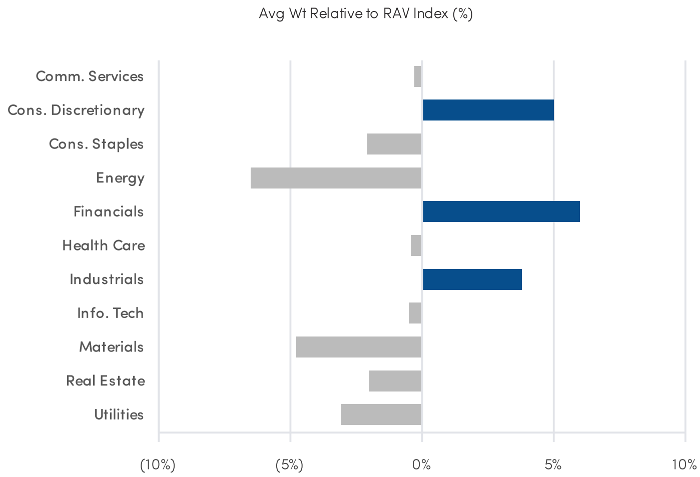

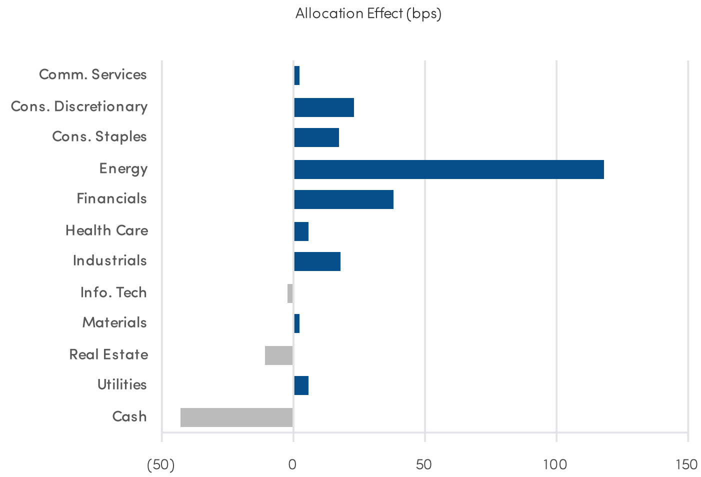

Source: FactSet

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Initiations

Ashtead (ASHTY) is the second largest construction and industrial equipment rental company in North America, with leading positions in Canada and the United Kingdom as well. The rental equipment industry is consolidating, but still fragmented, and scaled companies like ASHTY have a significant moat relative to their smaller peers. Scale advantages drive better network density, improved cross-selling opportunities, and an ability to leverage logistics and service maintenance costs. Scale also provides significant procurement advantages with OEMs. Separately, an increase in rental versus ownership is a secular tailwind for the industry, driving further opportunity for growth. This all creates a reinforcing flywheel – scale allows ASHTY to generate better growth in cash flow and higher returns on capital, much of which is reinvested for growth, which feeds back to improved scale. We were able to find an attractive entry point with this compounder.

Crown Castle (CCI) is a telecommunications REIT that operates exclusively in the United States, leasing both cell towers and small cells to wireless carriers. The cell tower business exhibits enviable economic characteristics, enjoying high incremental margins from each additional tenant on each tower, while it is increasingly difficult to build new towers due to zoning concerns. The small cell business involves owning fiber assets to support small cells, while leasing excess capacity to enterprise customers. The demand for small cells is expected to rise as wireless bandwidth needs exceed the ability of the cell tower footprint to adequately cover cities and denser suburbs. Elevated interest rates, concerns with the small cell strategy, and the drag of T-Mobile rationalizing their cell tower leases following their Sprint acquisition gave us the opportunity to initiate a position.

Tecnoglass (TGLS) is a vertically integrated manufacturer and installer of architectural glass and windows used in single-family residential, multifamily, and commercial applications. The company's primary manufacturing assets are located in Colombia, providing large structural cost and margin advantages relative to its competitors. Attractive demographic trends in its core Florida market, national expansion prospects, as well as large white space opportunities in the vinyl window category and builder channel give TGLS an attractive long-term growth profile. A nearly debt-free balance sheet and discounted valuation make this secular market share winner an attractive portfolio holding.

Eliminations

Arch Capital (ACGL) and **Alphabet (GOOGL)** reached their price targets and were eliminated.

Activision Blizzard (ATVI) was acquired by **Microsoft (MSFT)**.

U.S. Bancorp (USB) was eliminated due to a broken thesis. We had concerns over the quality of USB's commercial real estate holdings, particularly those that came from their acquisition of Union Bank. There were also concerns that efforts to raise capital might reduce earnings levels.

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Outlook

Markets enter 2024 against a promising economic backdrop. Having seemingly tamed inflation with minimal economic slowing, the Fed is expected to cut rates as early as this spring. Rate sensitive industries such as banking, housing, and real estate would clearly benefit, and the fourth quarter's strong rally anticipates some of this good news. Taking a slightly longer view, equity indices are broadly unchanged from the start of 2022 when inflation was still accelerating and central bankers were just pivoting to a more hawkish stance, suggesting there is room for further upside if macro conditions cooperate. While some high-profile growth stocks appear priced for perfection, we continue to find value in other areas where investor expectations remain more muted. That said, the market's inflation expectations have been almost uniformly wrong over the last several years, and geopolitical crises and domestic political dysfunction also remain concerns. As such, risk control is a priority, and at Cooke & Bieler it starts with our insistence on attractive valuations, strong cash flows, and conservative balance sheets. We believe this focus on downside protection combined with our emphasis on identifying businesses that can compound value across economic environments is particularly well suited to the challenges that may await in the new year.

Sources: Bloomberg, FactSet, The Wall Street Journal

Past performance is not indicative of future results. All investing involves risk, including loss of principal. The material presented represents the manager's assessment of the All Cap Value institutional portfolio and market environment at a specific point in time and should not be relied upon by the reader as research or investment advice regarding any particular security or sector. The above commentary and portfolio attribution are based on a representative All Cap Value institutional portfolio for the quarter ending 12/31/23. Certain client portfolios may or may not hold the securities identified above due to the respective account's guidelines, restrictions, required cash flows, or other relevant considerations. The performance attribution is an analysis of the portfolio's return relative to the Russell 3000® Value Index. 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.

Additional Cooke & Bieler All Cap Value Performance Disclosures