Cooke & Bieler

Q4 2023

Concentrated Value Equity

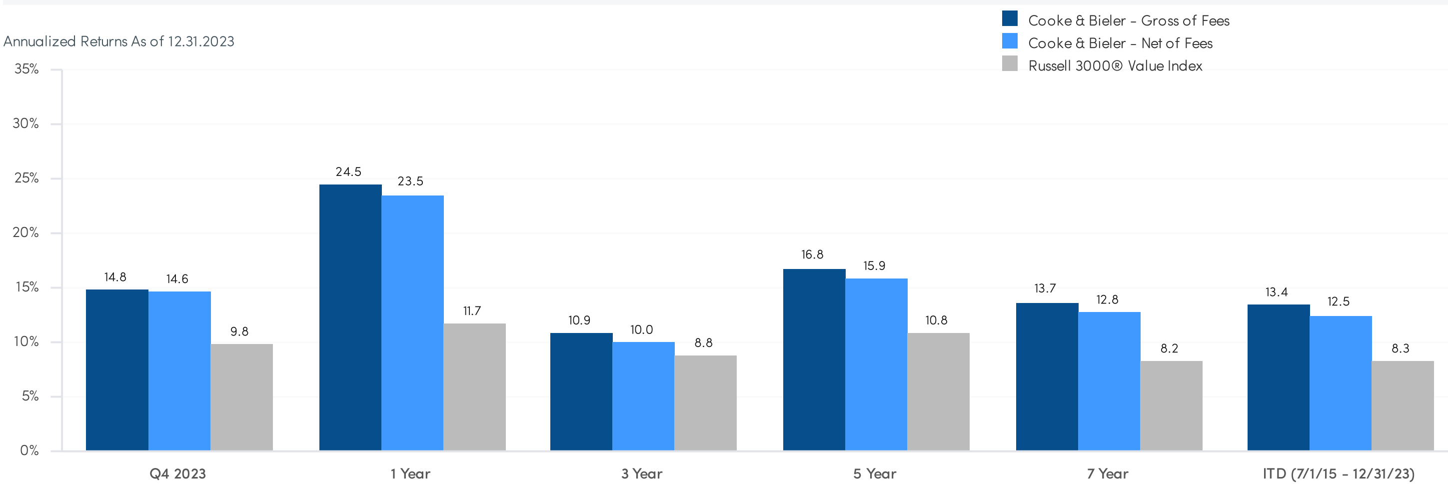
Overview

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 Concentrated Value Strategy generated strong absolute and relative results in the final quarter of the year, returning 14.84% gross of fees (14.63% 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 holdings, particularly Brookfield Corporation and Fidelity National Financial, were the most notable contributors to stock selection. Health Care and Energy holdings also contributed to results. 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 Financials and Industrials as well as an underweight to Utilities and overweight to Financials were the most notable tailwinds. The underweight to Communication Services and stock selection within Consumer Discretionary were the largest offsets to these positive results.

Concentrated 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)
Brookfield	9.0	28.5	244
Fidelity Nat'l Fin.	6.1	24.7	148
Charles Schwab	5.0	25.8	141
Teleflex	5.0	27.1	135
U.S. Bancorp	3.0	37.1	127

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
ConocoPhillips	4.3	-2.7	-18
Baxter	2.4	-2.4	-15
Helen of Troy	3.0	3.6	-1
Johnson & Johnson	4.8	1.4	2
Becton Dickinson	1.6	2.7	16

Source: FactSet

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Largest Contributors

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

Fidelity National Financial (FNF), a leading provider of title insurance and annuities, was the second-largest contributor. FNF reported strong margins in a depressed real estate environment and benefited from the expectation that lower interest rates will spur real estate activity.

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the third-largest contributor. SCHW reported a good quarter by largely completing the conversion of TD Ameritrade accounts to the Charles Schwab platform, generating solid net client inflows, and showing improved cash deposit trends. This strong operating performance combined with falling interest rates greatly boosted investor sentiment.

Largest Detractors

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

Baxter International (BAX), a developer, manufacturer, and marketer of a diverse portfolio of medically necessary products, was the second-largest detractor. BAX's valuation contracted in response to a pharmaceutical clinical trial readout suggesting the use of GLP-1 weight loss drugs could negatively impact demand for the company's kidney dialysis products.

Helen of Troy (HELE), a diversified consumer and household products company, was the third-largest detractor. HELE shares surrendered some of the gains posted earlier in the year despite better than expected quarterly results and unchanged guidance. However, their full year guidance was weighted more toward their fiscal Q4, raising concerns about achievability. Regardless, both revenue and earnings seem to be bottoming as COVID normalization has largely run its course and new products and distribution materialize. Rapid deleveraging has also put HELE in a position of strength to deploy its ample cash flow.

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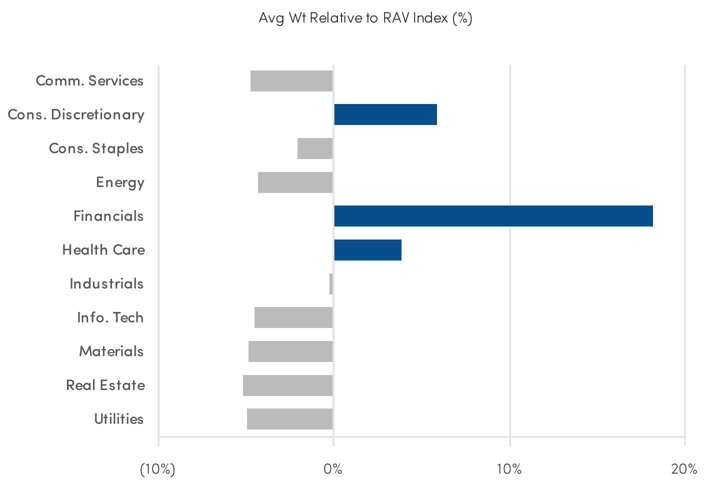
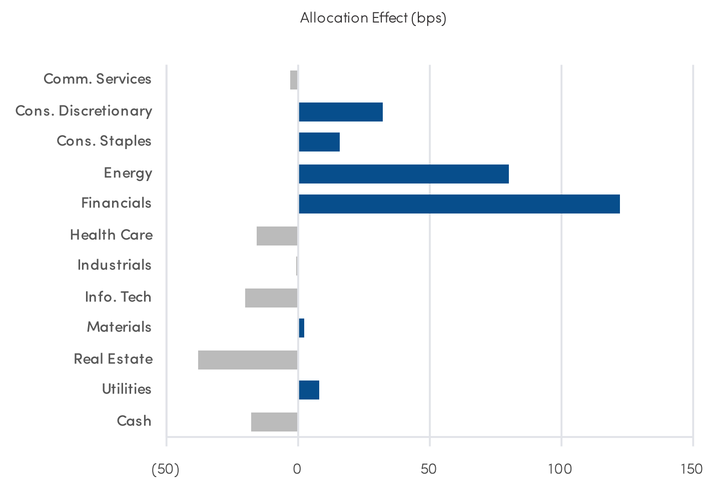
Sector Positioning

Sector allocation effect was positive for the quarter. The most significant tailwinds to results came from an overweight to Financials – one of the top performing benchmark sectors – and an underweight to Energy, the only benchmark sector to post a negative absolute fourth quarter return. The overweight to Consumer Discretionary also aided results. Conversely, the underweight to Real Estate and Information Technology generated a partial negative offset.





Source: FactSet

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Initiations

Becton Dickinson (BDX) is a leading global developer, manufacturer, and seller of a broad portfolio of medical supplies, devices, and diagnostics. The stock's recent pullback provided an opportunity to invest in a financially strong company with advantaged positions in numerous attractive end markets that should produce above average earnings and cash flow growth on a consistent basis.

Eliminations

Baxter International (BAX) and **ESAB (ESAB)** were eliminated to make room for higher conviction opportunities.

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

Additional Cooke & Bieler Concentrated Value Performance Disclosures