Q1 2024

Large Cap Value Equity

Overview

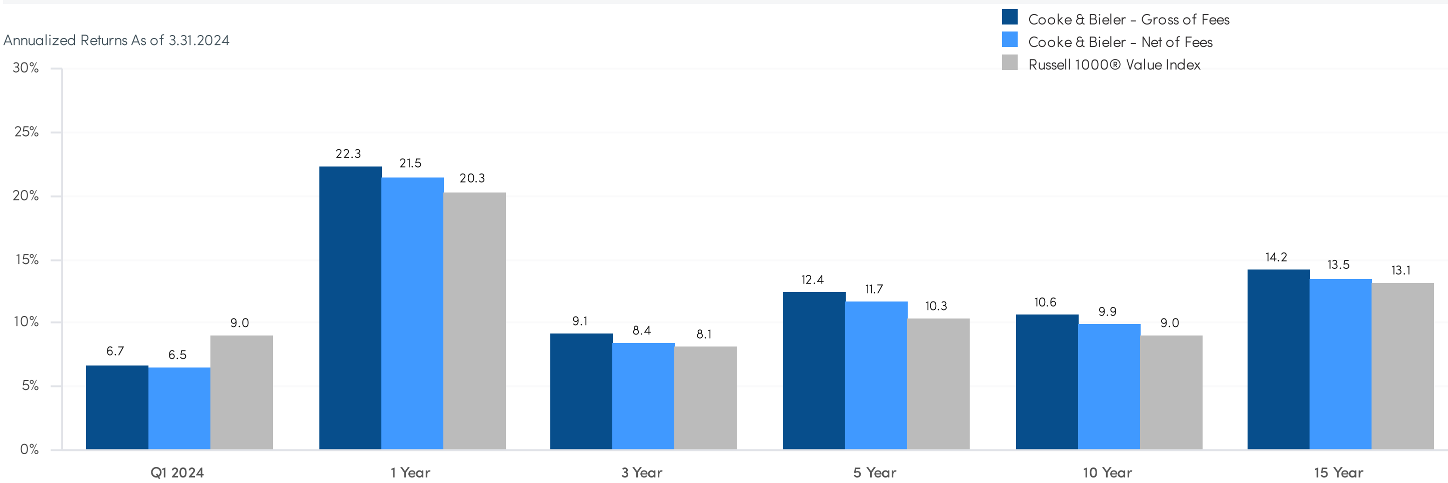
Despite incrementally less dovish signals from the Fed, U.S. equities continued to rally strongly, ending the quarter at all-time highs. Mixed inflation data caused expectations for rate cuts to be pushed out to the second half of 2024, with investors taking the news as a sign that a soft landing scenario 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 Large Cap Value Strategy posted positive absolute returns but lagged the benchmark in the first quarter, generating 6.68% gross of fees (6.52% net of fees) against an 8.99% return for the Russell 1000® Value Index. Negative stock selection drove more than all of the underperformance, while sector allocation provided a partial positive offset. After a strong showing in Q4 2023, stock selection among Financials holdings such as Globe Life and State Street posed the most significant headwind to relative results. The portfolio's Information Technology and Health Care holdings also lagged the benchmark. Marking another reversal from last quarter, stock selection within Consumer Discretionary was strongest, particularly Gildan Activewear and CarMax.

Large 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	3.5	16.8	59
JPMorgan Chase	2.5	18.3	44
HCA Healthcare	1.7	23.3	39
RenaissanceRe	2.0	20.0	37
Chubb	2.4	14.9	35

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Open Text	3.0	-7.1	-22
Warner Music	2.3	-7.4	-18
Dentsply Sirona	2.0	-6.4	-14
Whirlpool	0.5	-8.1	-13
Crown Castle	1.6	-6.9	-11

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 Large Cap Value institutional portfolio's net of fees return relative to the Russell 1000® 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 Large Cap Value institutional portfolio returned 6.51% net of fees and 6.68% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large 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.

JPMorgan Chase (JPM), a large commercial and investment bank, was the second-largest contributor. JPM benefited from strong earnings in the quarter, as well as from their favorable position as a well scaled bank with strong management.

HCA Healthcare (HCA), a leading owner and operator of health care networks, was the third-largest contributor. HCA benefited from strong fourth quarter results and management's optimistic outlook for 2024.

Largest Detractors

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

Warner Music Group (WMG), the world's third-largest record label, was the second-largest detractor. WMG sold off following confirmation they had approached European music company Believe SA about an acquisition. While Believe's technology-led distribution model and strength outside the U.S. make it a good strategic fit for WMG, Believe had already agreed to be taken private by a consortium led by its co-founder and CEO. The prospect of a bidding war and potential integration issues caused investors to react negatively.

Dentsply Sirona (XRAY), a manufacturer of dental equipment and products, was the third-largest detractor. XRAY reported quarterly results and provided guidance consistent with preannounced expectations, but the market was disappointed by a sluggish and back-half driven revenue growth guide for 2024. Despite macro related headwinds, XRAY anticipates improving profitability, double digit EPS growth, and continued healthy free cash flow generation that will be predominantly used for share repurchases.

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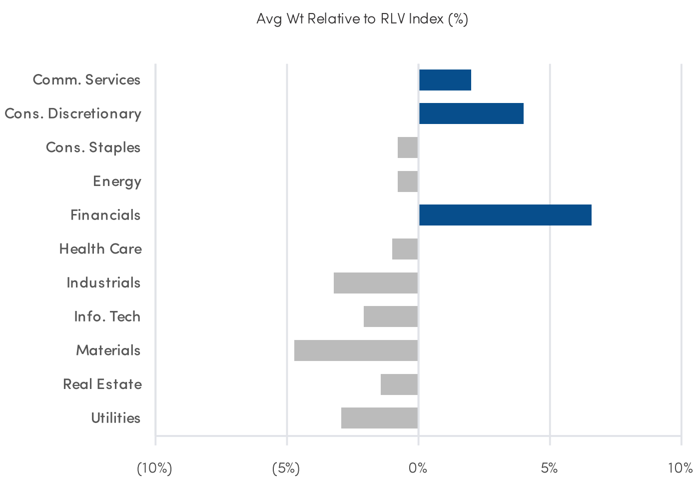
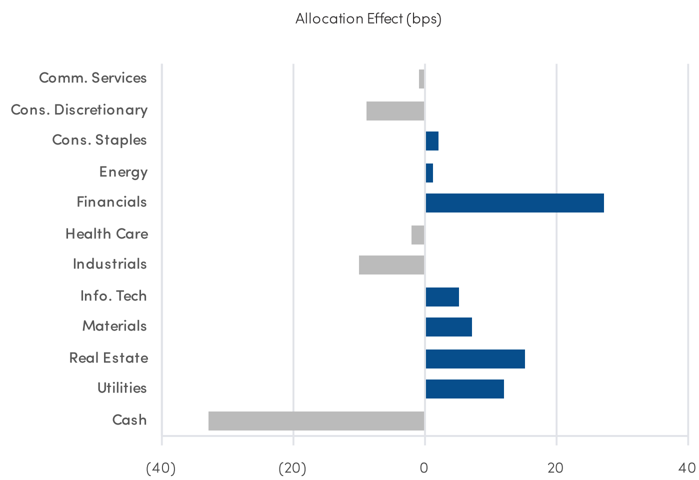
Sector Positioning

Sector allocation effect was a slight tailwind to the strategy's relative results in the first quarter, with most sectors generating positive contributions. An overweight to Financials, one of the best performing sectors within the benchmark, was the most notable tailwind. An underweight to Real Estate and Utilities also benefited comparative results as these bond proxy sectors were the two worst performing within the Index. Partially offsetting these positive results were the portfolio's underweight to Industrials and overweight to Consumer Discretionary.





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.

Whirlpool (WHR) was eliminated due to a broken thesis, specifically over their balance sheet.

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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 Large Cap Value Performance Disclosures