Large Cap Value Equity

Q1 2025

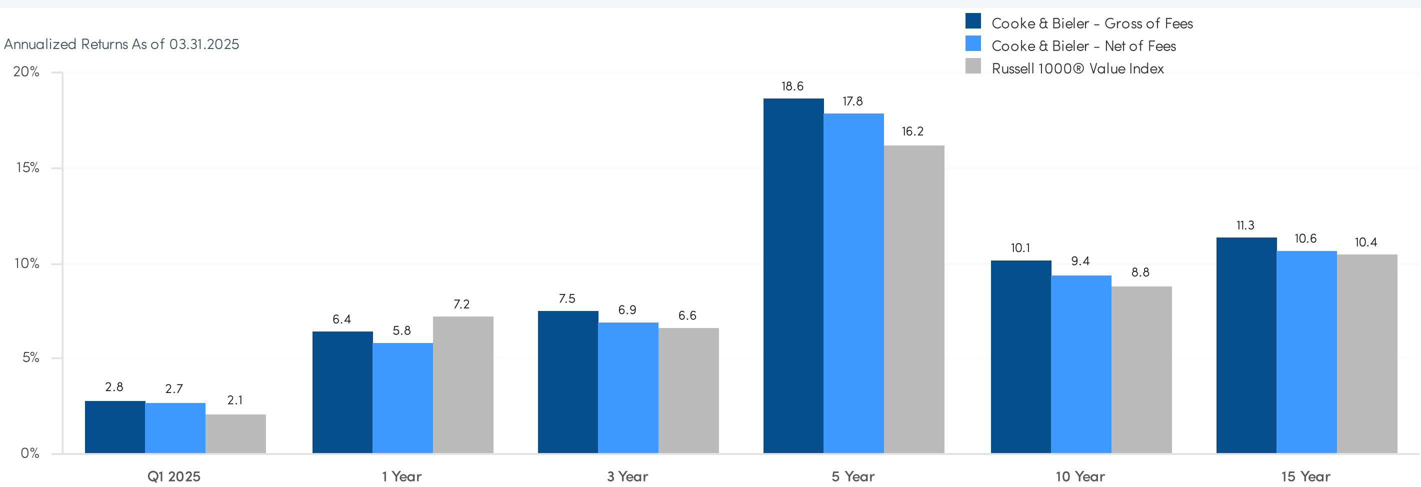
Overview

Stocks entered 2025 on a high note, following the two strongest years of equity performance this century. That momentum proved unsustainable, however, as key pillars of recent investor optimism – hopes for an AI-driven spending boom, a more favorable regulatory environment, and a more dovish monetary policy – came into question. Mega-cap technology stocks performed particularly poorly after the DeepSeek model debuted, boasting significantly lower development costs and casting doubt on both the capital investment required to develop AI and the competitive moat generated by early movers. Rising trade tensions and at times seemingly chaotic policy implementation tempered optimism for more market-friendly policies from the federal government. At the same time, hopes for looser monetary policy dwindled on higher than anticipated inflation readings, perhaps constraining the Federal Reserve's ability to cushion an economic slowdown. Markets responded negatively and, after reaching an all-time high in February, the S&P 500® Index fell nearly 10% – the popular definition of a market correction – before partially recovering to end the quarter down 4.28%. During the quarter overall, growth stocks fared worse, mired by losses among mega-cap technology stocks, with the Russell 1000® Growth Index losing 9.97%. Value performed better, aided by lower starting expectations and the perceived defensiveness of some large sectors, with the Russell 1000® Value Index gaining 2.14%. Consistent with this increasingly risk-off mindset, larger stocks generally outperformed smaller ones, while yields on the 10-year Treasury fell, reflecting fears of economic weakness but providing some relief to rate-dependent areas of the market. Oil prices were largely flat, though Energy stocks nonetheless outperformed, boosted by geopolitical turmoil and hopes for more favorable regulation.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy outperformed the Index during the volatile first quarter, posting a 2.81% return gross of fees (2.65% net of fees) against a 2.14% return for the Russell 1000® Value Index. Both stock selection effect and sector allocation effect were additive to results, with stock selection contributing slightly more. Selection was strongest within Industrials, due primarily to solid returns from RB Global, AerCap, and Woodward. Consumer Staples, Consumer Discretionary, and Real Estate holdings also aided performance. Laggards in the Communication Services and Health Care sectors such as Walt Disney and Dentsply Sirona partially offset these positive results. The portfolio's Energy holdings also underperformed the benchmark.

Large 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 Large Cap Value Performance Disclosures

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Five Largest Contributors/Detractors

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Philip Morris	2.2	33.1	62
Fidelity National Financial	2.7	16.8	43
Crown Castle	2.6	16.6	42
Verizon Communications	2.5	15.5	35
LKQ	1.9	16.6	29

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Dentsply Sirona	1.5	-20.4	-33
Ashtead Group	2.2	-13.4	-30
Hanesbrands	0.9	-29.1	-30
Open Text	2.7	-9.9	-27
Brookfield	2.7	-8.6	-23

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 gross of fees return relative to the Russell 1000® Value Index. The Large Cap Value composite returned 2.65% net of fees and 2.81% 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

Philip Morris (PM), a leading global tobacco products manufacturer, was the largest contributor. PM posted strong revenue and earnings growth as well as its fourth consecutive year of volume growth. Volume growth is likely to continue in 2025, fueled by the success of the company's reduced risk product portfolio and stable combustible cigarette consumption globally. With more muted foreign exchange headwinds and a shortage of volume growth elsewhere in the Consumer Staples sector, investor sentiment has also improved for the company.

Fidelity National Financial (FNF), the country's largest title insurer and provider of annuities through its F&G subsidiary, was the second-largest contributor. FNF reported strong fourth quarter earnings buoyed by strength in commercial real estate transactions and an uptick in refinance orders off very low levels. Sentiment was further aided by the sharp decline in mortgage rates late in the quarter, which should stimulate more real estate transactions and therefore increase demand for FNF's services.

Crown Castle (CCI), a leading operator of cell towers and small cells in the United States, was the third-largest contributor. CCI outperformed as expectations for interest rate cuts grew and it announced the sale of its small cell business, positioning it as the only pure play U.S. cell tower operator.

Largest Detractors

Dentsply Sirona (XRAY), a manufacturer of dental equipment and products, was the largest detractor. XRAY's valuation contracted further in response to weaker than expected sales and earnings results weighed down by stranded costs and some customer refunds related to the suspension of sales at Byte.

Ashtead Group (ASHTY), the second-largest construction and industrial equipment rental company in North America, was the second-largest detractor. Results during the quarter were flat, with modest growth in rentals offset by the downward normalization of post pandemic used equipment sale economics. Cyclical softness in local construction markets has also weighed on investor sentiment. With normalization headwinds largely complete and management optimizing equipment, ASHTY continues to be well positioned to drive solid growth once end market demand recovers.

Hanesbrands (HBI), a manufacturer and marketer of basic apparel, was the third-largest detractor. HBI's valuation contracted after strong performance in 2024 and possibly due to concerns over the CEO's pending resignation, which was likely the result of activist involvement.

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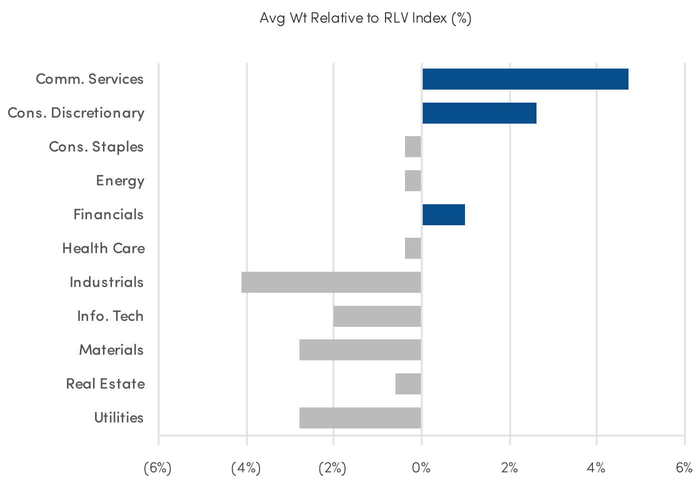
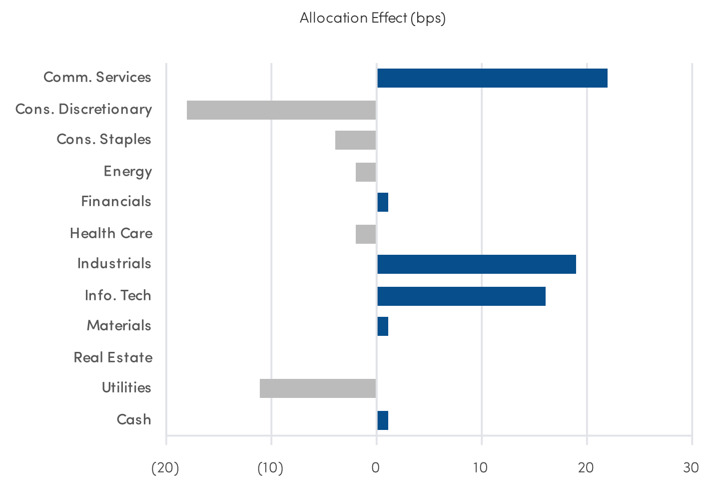
Sector Positioning

Sector allocation effect was slightly positive for the first quarter. An overweight position in Communication Services contributed most significantly as the sector posted some of the strongest results within the Index. Underweight positions in two of the weakest benchmark sectors – Industrials and Information Technology – also benefited relative performance. Conversely, an overweight to the poorly performing Consumer Discretionary sector detracted from results as investors weighed the potential impact of tariffs on consumer sentiment. An underweight to Utilities was also a headwind, with investors flocking to perceived safe havens and bond proxies as interest rates fell.





Source: FactSet

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Initiations

Allegion (ALLE) is a leading manufacturer of locks, door closers, and exit devices, largely serving commercial markets. These products are a small part of construction costs for customers but are critical for security. ALLE offers a more focused portfolio than competitors and operates predominantly in North America, making it the high margin player in the industry as a result. The company has been increasing R&D spend and should be well positioned to benefit from the increasing demand for products that are enhanced by digital lock technology.

Carlisle Companies (CSL) is the market leader in the U.S. commercial roofing market and a large, growing player in building envelope solutions for the commercial and residential markets. A successful longtime industrial conglomerate, CSL pivoted under the direction of their current CEO and divested all but their best business over the past decade. Today, it is a pure play building products company with industry leading margins in end markets that have increasingly rational competitors and good economics. The company has long been on our watchlist, and near term cyclical concerns should be overwhelmed by compounding long term fundamental returns. With an enviable balance sheet, room to grow in a still fragmented building envelope end market, and a successful track record of acquisitions, we believe CSL has a promising long term outlook.

NXP Semiconductors (NXPI) is a semiconductor company that sells processors, microcontrollers, analog products, sensors, and other products used for security and connectivity in automotive, industrial, mobile, and communication infrastructure end markets. After heavy corporate activity in preceding decades, NXPI has focused on establishing leadership positions in their markets and creating system solutions. Their success in doing such is evidenced by their much-improved margin profile (900-1000 bps over 10 years) and growth prospects. A recent slowdown in the business created an opportunity to initiate a position in what we believe to be a high-quality, strategic player in the semi-conductor space. We expect the company to continue growing its leadership positions and to benefit from secular trends in its end markets.

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Eliminations

Kenvue (KVUE) was eliminated to make room for better opportunities.

Outlook

Despite greater uncertainty and heightened volatility, the first quarter provided some encouraging signs for Cooke & Bieler's strategies as many of the forces working against them in 2024 abated. But more importantly, evidence emerged that the reunderwriting process we undertook last year is paying off. While many of the quarter's underperformers were punished for their perceived cyclicality or vulnerability to a consumer slowdown, we see little evidence of fundamental impairment and were able to add to several of these holdings. It is tempting to gravitate indiscriminately toward safe-haven sectors during periods of uncertainty, but this impulse potentially ignores longer term investment prospects. Success with this approach also hinges on a manager's ability to accurately predict the direction and timing of the economic cycle. While we are alive to the risks associated with the current backdrop and expect further volatility, we are steadfastly focused on long-term intrinsic value. We are taking what the market is giving us – within the framework of our quality criteria and diversification considerations – by adding to economically sensitive names when appropriate. However, even with the inclusion of compelling new ideas sourced from areas where the market is fearful, the portfolio is broadly no more economically sensitive today than it was at the beginning of last year. Though the backdrop remains uncertain and we are sure there are more surprises and bumps ahead, we remain confident in the portfolio's prospects, especially for results over extended horizons, but also in being able to weather near-term stress.

Sources: Bloomberg, FactSet, Nasdaq, SS&C APX

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 Large 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 Large Cap Value institutional portfolio for the quarter ending 3/31/25. 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 1000® Value Index. 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.

Additional Cooke & Bieler Large Cap Value Performance Disclosures