

Large Cap Value Equity

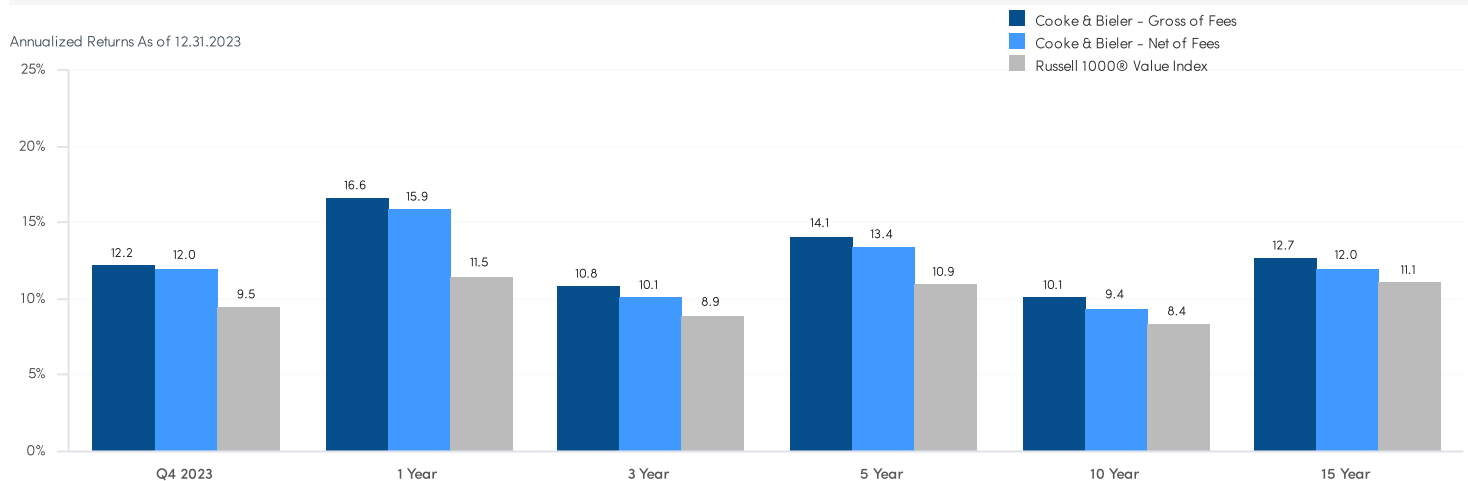
Overview

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 Large Cap Value Strategy generated strong absolute and relative results in the final quarter of the year, returning 12.18% gross of fees (12.02% net of fees) against a 9.50% return for the Russell 1000® 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. Energy and Communication Services holdings also contributed to results. Conversely, the portfolio's Consumer Discretionary holdings such as Hasbro and Whirlpool 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 Health Care and Industrials as well as an underweight to Utilities were the most notable tailwinds. Stock selection within Communication Services and Consumer Discretionary was the largest offset to these positive results.

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)
Brookfield Corporation	3.3	28.5	91
AerCap	3.3	18.5	64
Open Text	2.9	20.4	61
Fidelity Nat'l Fin.	2.4	24.7	59
CBRE Group	2.1	26.0	56

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Hasbro	1.8	-21.7	-57
Whirlpool	1.1	-7.6	-15
Becton Dickinson	2.0	-5.4	-13
ConocoPhillips	2.2	-2.7	-8
EOG Resources	2.0	-2.9	-7

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 11.98% net of fees and 12.16% 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

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.

AerCap (AER), the largest independent aircraft lessor, was the second-largest contributor. AER received \$645 million in insurance proceeds for aircraft stranded in Russia as a result of the war in Ukraine. The share repurchases enabled by these proceeds, along with strong operating results, fueled investor optimism.

Open Text (OTEX), an enterprise software company, was the third-largest contributor. OTEX reported that its integration of Micro Focus, acquired in February 2023, remained on track, which fueled investor optimism.

Largest Detractors

Hasbro (HAS), a leading global play and entertainment company with a broad and deep portfolio of brands and entertainment properties, was the largest detractor. Investor sentiment soured during the quarter when management lowered guidance for the important holiday season due to weak retail demand trends.

Whirlpool (WHR), a global manufacturer and marketer of home appliances, was the second-largest detractor. WHR posted disappointing results during the quarter, but the company is beginning to post modest improvement on all fronts, albeit more slowly than anticipated. WHR grew market share in North America while posting consolidated revenue growth and operating margin expansion. This progress should persist into 2024 and demand should improve with higher homebuilder activity.

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

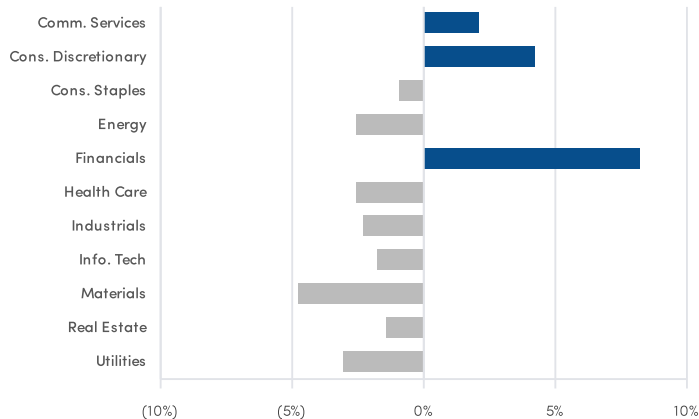
Sector Positioning

Sector allocation effect was positive for the quarter, with the majority of sectors contributing to the strategy's outperformance. 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 Information Technology and Real Estate generated a partial negative offset.

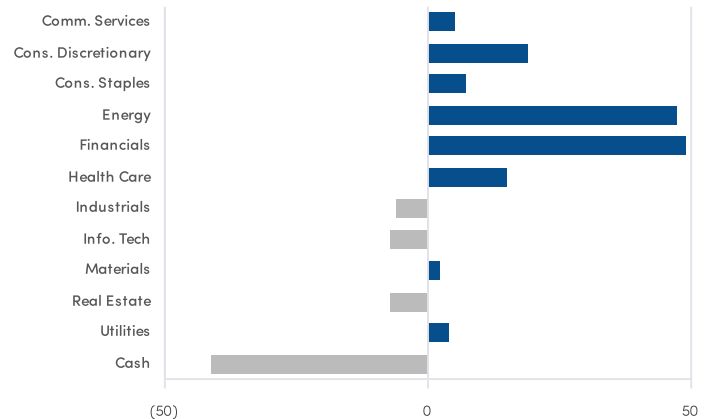


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Avg Wt Relative to RLV Index (%)



Allocation Effect (bps)



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.

RenaissanceRe (RNR) is a best-in-class reinsurer with superior human capital, underwriting tools, and customer relationships. In addition, they are a leading outsourced underwriter for third-party capital, generating accretive and growing fee income. Having managed well through a difficult reinsurance market over the last 5+ years, they were positioned to opportunistically deploy capital into a very attractive underwriting environment over the past year. Their recently announced acquisition of Validus further improves their market position and operating leverage in a very favorable environment. Having sold RNR as it approached fair value in the second quarter of 2019, we were able to re-initiate the position during the quarter as RNR lagged the market rally.

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 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 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 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.

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