Q1 2024

Mid Cap Value Equity

Overview

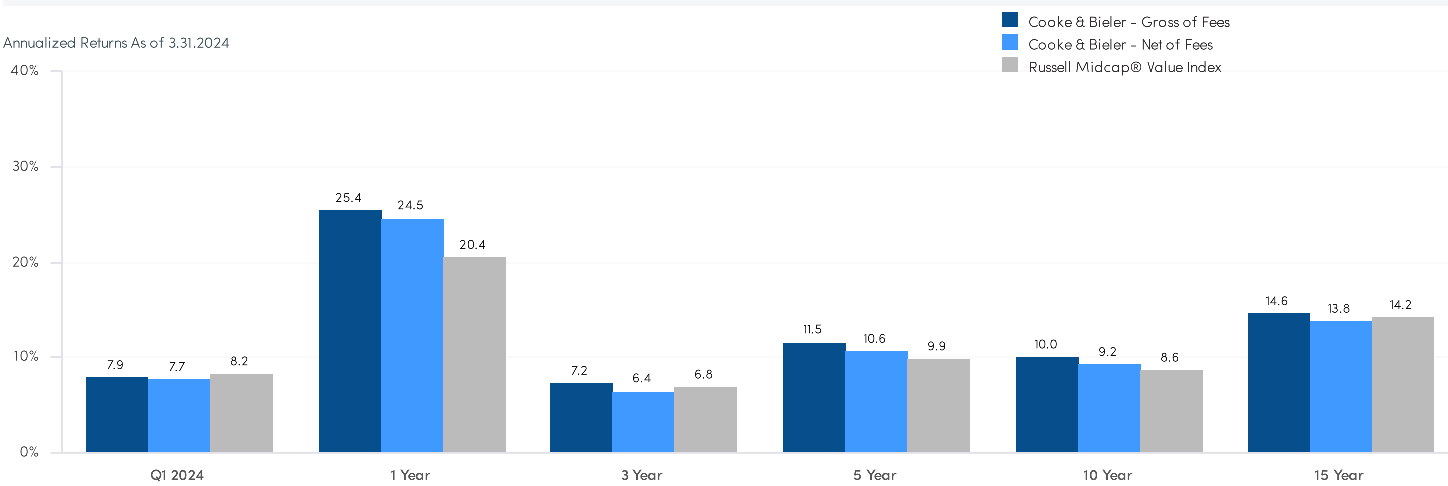
Despite incrementally less dovish signals from the Fed, U.S. equities continued to rally strongly, ending the quarter at all-time highs. Mixed inflation data caused expectations for rate cuts to be pushed out to the second half of 2024, with investors taking the news as a sign that a soft landing scenario 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 Mid Cap Value Strategy posted positive absolute returns but lagged the benchmark in the first quarter, generating 7.90% gross of fees (7.70% net of fees) against an 8.23% return for the Russell Midcap® Value Index. Both negative stock selection and allocation effect drove the underperformance. After demonstrating strong relative results in 2023, stock selection among Financials holdings such as Globe Life and Glacier Bancorp posed the most significant headwind. Health Care holdings also meaningfully lagged the benchmark. Conversely, stock selection within Industrials was strongest, particularly BWX Technologies and AerCap. Communications Services holdings also benefited relative performance.

Mid 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.

Click for additional C&B Mid Cap Value Performance Disclosures

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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
BWX Technologies	1.7	33.8	59
AerCap	3.5	16.7	53
Armstrong World	2.0	26.4	51
American Eagle	2.2	22.4	47
RenaissanceRe	2.5	19.9	47

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Integra LifeSciences	1.8	-18.8	-39
Open Text	2.9	-7.2	-22
Teleflex	2.2	-9.4	-21
Dentsply Sirona	2.0	-6.5	-14
Helen of Troy	2.8	-4.8	-14

Source: FactSet

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Largest Contributors

BWX Technologies (BWXT), a provider of nuclear reactors for submarines and aircraft carrier propulsion, was the largest contributor. Years of elevated organic and inorganic investment are beginning to bear fruit, leading to improved diversification, organic growth, and free cash flow. In the quarter, BWXT held a well-received investor day where management provided positive additional detail on its core naval offering, BWX Medical, microreactors, and small modular reactors.

AerCap (AER), the largest independent aircraft lessor, was the second-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.

Armstrong World Industries (AWI), the leading North American manufacturer of non-residential ceiling systems, was the third-largest contributor. AWI's sales and earnings reached new highs despite a challenging backdrop for non-residential construction. Following a year of rapidly rising natural gas prices, AWI's robust pricing power is now more clearly translating into bottom line results, putting normalized margins within sight for the first time since before the pandemic.

Largest Detractors

Integra LifeSciences (IART), an acquisitive global medical technology company, was the largest detractor. IART's results continue to be negatively impacted by last year's voluntary recall and temporary halt of manufacturing at its Boston facility. Uncertainty remains over the timing and effectiveness of a return to commercial distribution, and back-half weighted guidance has been viewed with skepticism by investors given recent execution missteps. We believe IART's valuation is attractive and their stable sales base, consistent free cash flow generation, and solid balance sheet position the company to address the current issues.

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

Teleflex (TFX), a global developer and manufacturer of a diverse portfolio of single-use medical devices used to diagnose and treat patients, primarily in acute care settings, was the third-largest detractor. TFX's valuation contracted in response to disappointing guidance for first quarter earnings.

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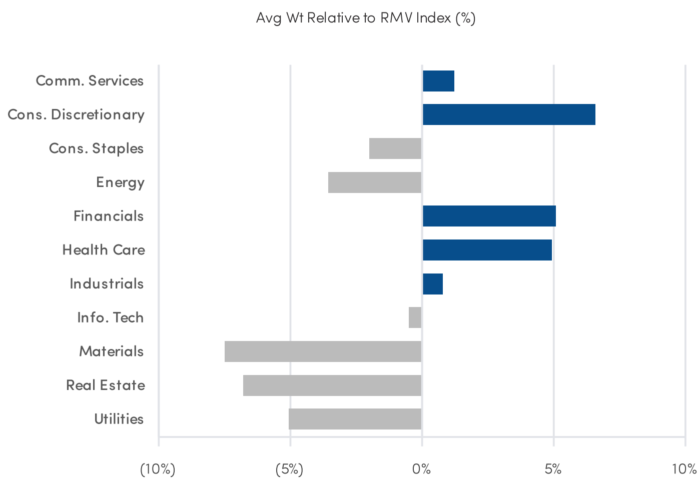
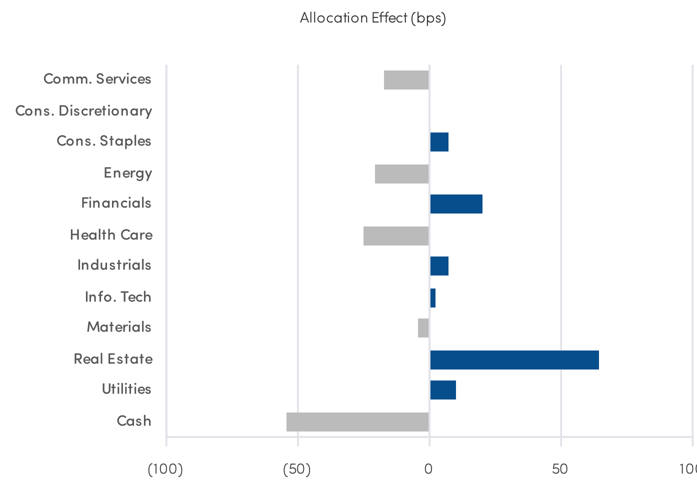
Sector Positioning

Sector allocation effect was a slight headwind to the strategy's relative results in the first quarter. An overweight to Health Care, one of the benchmark's worst performing sectors, was the biggest drag. The portfolio's underweight to Energy and overweight to Communication Services also weighed on performance. An underweight to Real Estate and Utilities partially offset negative results, as these bond proxy sectors were two of the worst performing within the Index. The strategy's overweight to Financials also contributed positively to relative performance.





Source: FactSet

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Initiations

Flowers Foods (FLO) is North America's second-largest packaged bread manufacturer, with 17% branded market share and a portfolio that includes the number one bread, number one organic loaf bread, and number one gluten-free loaf bread. The company has benefited from a decades-long wave of industry consolidation and has now sufficiently scaled its national distribution network. Innovation and brand strength matter in the retail packaged bread industry and we believe the company's earnings over the next several years should benefit from a shift toward higher margin categories.

Kraft Heinz (KHC) is a multinational owner and operator of several leading packaged food brands that generate stable product demand and consistent above average profitability. In addition, the company has significantly improved its balance sheet over the past several quarters. Fears about the long term health of the packaged food industry due to newly launched weight loss drugs allowed us to initiate a position.

Eliminations

Acuity Brands (AYI) and **Allstate (ALL)** reached their price targets and were eliminated.

Whirlpool (WHR) was eliminated due to a broken thesis, specifically concerns 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

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 Mid 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 Mid Cap Value institutional portfolio for the quarter ending 3/31/24. 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 Midcap® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Mid 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 Mid Cap Value Performance Disclosures