



Mid Cap Value Equity

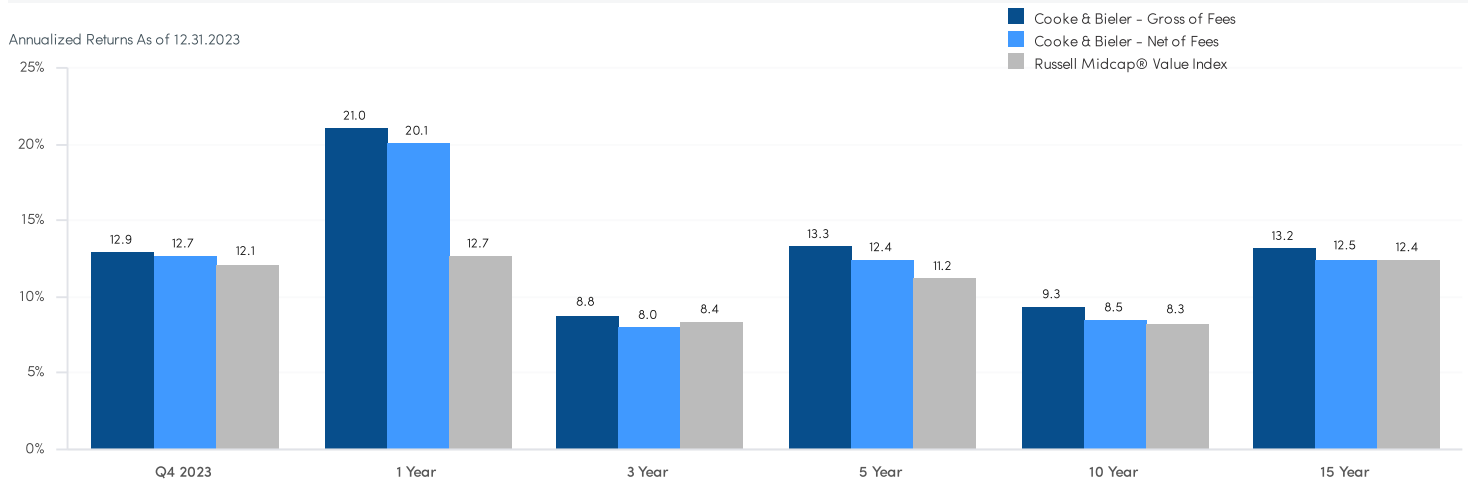
Overview

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 Mid Cap Value Strategy generated strong absolute and relative results in the final quarter of the year, returning 12.94% gross of fees (12.74% net of fees) against a 12.11% return for the Russell Midcap® Value Index. Positive sector allocation effect was the primary driver of the portfolio’s outperformance, though stock selection was a slight tailwind as well. The portfolio’s Industrials holdings, particularly AerCap and Armstrong World Industries, were the most notable contributors to stock selection. Health Care and Financials 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 Financials and Industrials as well as an underweight to Utilities were the most notable tailwinds. Stock selection within Consumer Discretionary and the overweight to Health Care were the largest offsets to these positive results.

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.
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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)		Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
AerCap	3.9	18.5	76	Hasbro	1.8	-21.7	-58
Armstrong World	1.8	36.9	65	Whirlpool	1.1	-7.6	-17
Fidelity Nat'l Fin.	2.6	24.6	64	Markel	1.9	-3.7	-9
Open Text	2.9	20.3	61	Arrow Electronics	2.2	-2.5	-7
Teleflex	2.2	27.0	58	Gentex	2.2	0.6	-5

Source: FactSet

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Largest Contributors

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

Armstrong World Industries (AWI), the leading North American manufacturer of non-residential ceiling systems, was the second-largest contributor. AWI saw sales and earnings reach 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 prior to the pandemic.

Fidelity National Financial (FNF), a leading provider of title insurance and annuities, was the third-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.

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.

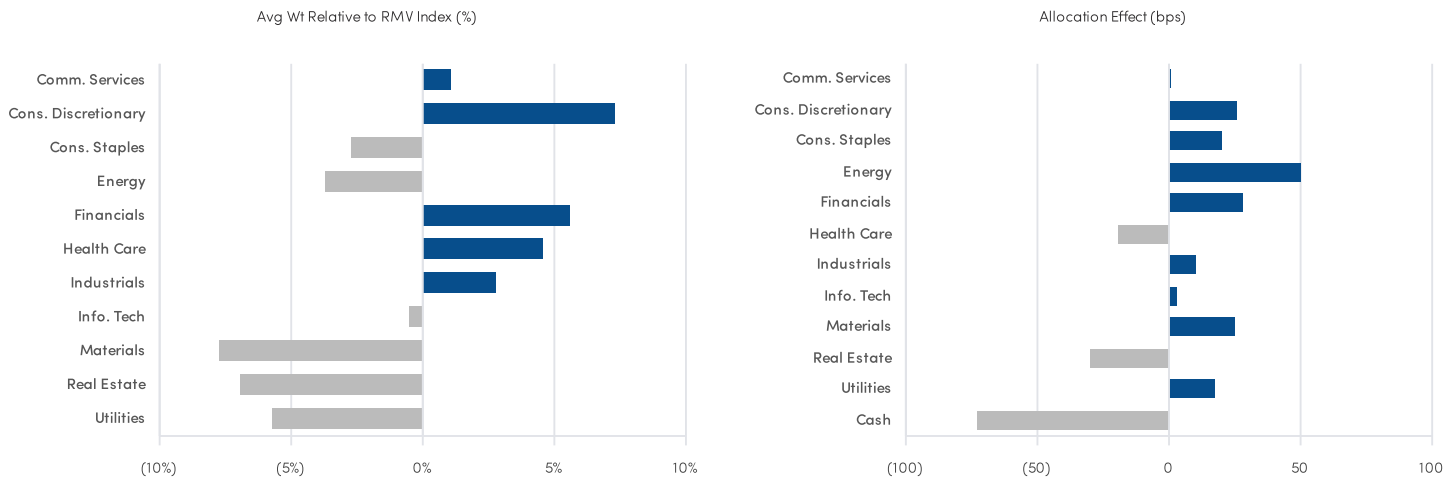
Markel (MKL), a P&C specialty lines insurer, was the third-largest detractor. Lower reserve releases during the quarter increased investor concerns that their pre-2020 casualty book might not develop as favorably as expected. Importantly, loss costs for these policies remain better than management's original underwriting expectations, and we do not believe the quarter imperils our long-term thesis.



Mid Cap Value Equity

Sector Positioning

Sector allocation effect was positive for the quarter, with the majority of sectors contributing to the strategy’s outperformance. The most significant tailwind to results came from an underweight to Energy, the worst performing benchmark sector during the quarter. The portfolio’s overweight to Financials and Consumer Discretionary also benefited relative results. Conversely, an underweight to Real Estate – one of the best performing sectors within the Index – detracted from relative results, as did an overweight to Health Care.



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.

Eliminations

Arch Capital (ACGL) and **Cboe Global Markets (CBOE)** reached their price targets and were eliminated.

Activision Blizzard (ATVI) was acquired by **Microsoft (MSFT)**.





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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 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 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 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.

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