Q4 2024

SMID Cap Value Equity

Overview

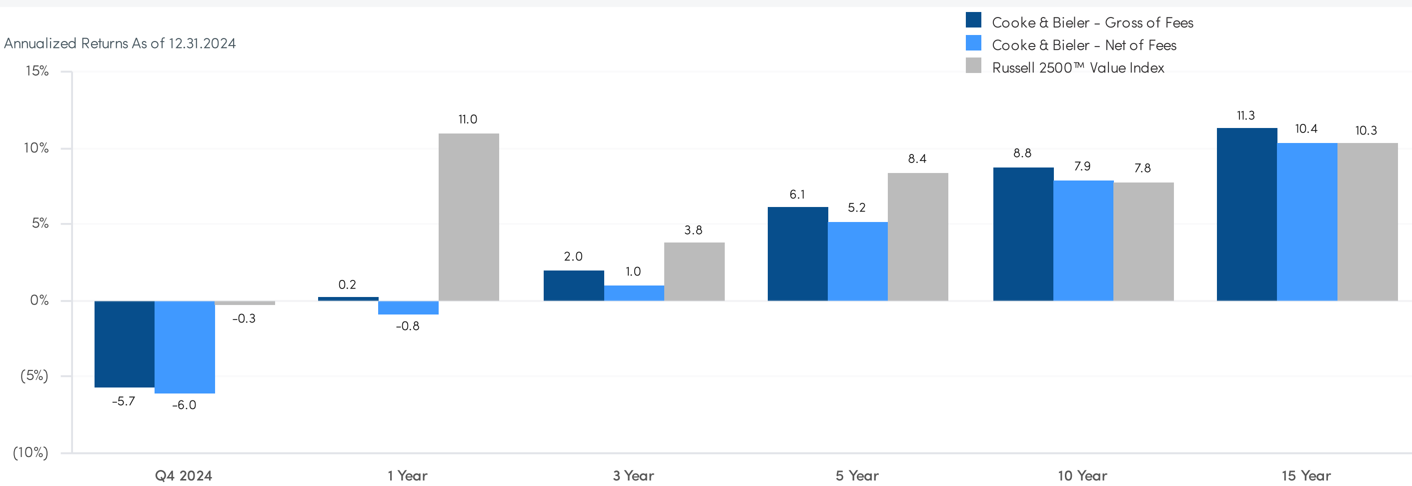
U.S. stocks were mixed in the fourth quarter – the S&P 500® returned 2.41%, while the Russell 1000® Value was down 1.98% – but performance was enough to cement another very strong year for equities overall. With the S&P 500® up for the fifth straight quarter and by 25.02% for the full year, 2024 marked the second consecutive year of 20%+ gains for the Index and the best two-year run of the century. Growth again outperformed value, as did stocks of larger cap companies for both the quarter and the year. And while the broadening strength exhibited by the market at the end of the third quarter carried into October, that trend faltered following the election and reversed forcefully in December, putting the capitalization-weighted S&P 500® Index solidly ahead of the equal-weighted Index for the quarter and the year. In general, sectors exposed to potentially lower government spending – such as Health Care – fared poorly, while mega-cap technology companies and banks performed well on a relative basis given higher 10-year Treasury yields and the potential for less regulation. While the Federal Reserve completed three rate cuts in the second half of 2024, it signaled in December that there would likely be fewer cuts in 2025 than previously expected. The optimism of investors was qualified with a degree of caution at the end of the year due to uncertainty regarding upcoming Fed moves and the incoming administration's policy agenda.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy underperformed the Russell 2500™ Value Index during the quarter, returning -5.73% gross of fees (-5.95% net of fees) against the benchmark's -0.26% return. The most notable driver of underperformance was negative stock selection, though sector allocation effect was negative as well. Consumer Discretionary holdings such as Dream Finders Homes and American Eagle Outfitters lagged the most significantly, while Financials and Information Technology holdings also posed headwinds to results. Conversely, Industrials holdings such as Tecnoglass and ESAB outperformed their respective benchmark constituents.

For the full year, relative performance lagged significantly. While negative stock selection effect was the primary driver, allocation effect was also negative. Stock selection in the Health Care and Consumer Discretionary sectors caused the most substantial drag in 2024, while stock selection in Industrials and an underweight to Materials were additive.

SMID 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.

Click for additional C&B SMID Cap Value Performance Disclosures

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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Tecnoglass	2.1	15.5	28
ESAB	1.9	12.7	28
RB Global	2.6	12.2	26
Glacier Bancorp	2.5	11.1	23
Markel Group	2.2	9.8	19

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Dream Finders Homes	2.2	-36.0	-88
Teleflex	2.7	-28.1	-85
American Eagle	2.2	-25.3	-62
Dentsply Sirona	1.8	-29.5	-53
Janus International	2.1	-27.5	-51

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 SMID Cap Value institutional portfolio's gross of fees return relative to the Russell 2500™ 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 SMID Cap Value institutional portfolio returned -5.66% net of fees and -5.44% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's SMID 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

Tecnoglass (TGLS), a vertically integrated manufacturer of residential and commercial windows, was the largest contributor. TGLS continued to post impressive growth in its single-family residential segment, along with solid backlog growth in its commercial segment. With currency headwinds fading, margins have also improved, and further progress is likely in 2025 as more favorable sourcing contracts phase in.

ESAB (ESAB), a global leader in welding fabrication technology and gas control solutions, was the second-largest contributor. Management continues to deliver strong margin performance despite somewhat muted top-line growth. With a strong balance sheet and progress toward 2028 targets that appear increasingly achievable, ESAB has benefited from valuation expansion, which we believe is well deserved.

RB Global (RBA), a leading auction marketplace for salvaged vehicles and used construction, agricultural, mining, and transportation equipment, was the third-largest contributor. Despite a sluggish industry backdrop, RBA improved its profitability and free cash flow through strong execution, enabling the company to deleverage its balance sheet and providing capital allocation optionality.

Largest Detractors

Dream Finders Homes (DFH), a top-15 U.S. homebuilder with a concentration in the Southeast, was the largest detractor. DFH's shares suffered in the quarter along with the broader homebuilding industry as incrementally less dovish Fed policy kept mortgage rates stubbornly high. DFH itself posted mixed results, as higher land and financing costs as well as elevated SG&A related to geographic expansion weighed on margins. Further pressure subsequently materialized as other homebuilders reported persistently high customer incentives. Importantly, the company reported a sequential acceleration in orders and maintained its full-year guidance for record deliveries, and we would expect them to leverage their SG&A base as they scale.

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 second-largest detractor. TFX's valuation contracted in response to modestly disappointing organic revenue growth reported for the third quarter.

American Eagle Outfitters (AEO), a leading retailer of teen and young adult apparel, was the third-largest detractor. AEO reported slower than expected sales growth for the quarter ending September 30, raising concerns of a weak holiday selling season.

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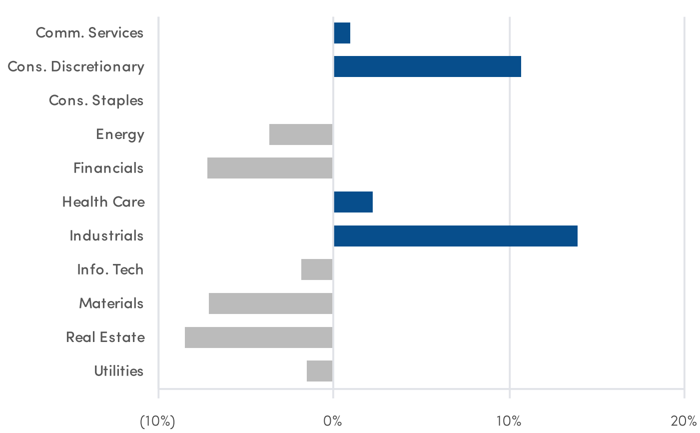
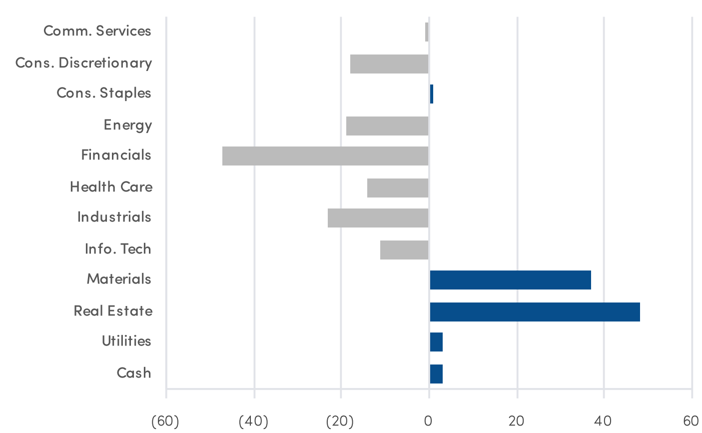
Sector Positioning

Sector allocation effect was modestly negative during the quarter. An underweight to Financials, the benchmark's top performing sector, was the largest detractor as the sector soared following the election on the potential for less regulation in the future. The overweight to Industrials and underweight to Energy also posed headwinds to results. The portfolio's underweight to Real Estate and Materials, two of the worst performing benchmark sectors, was a partial positive offset as investors grew apprehensive about continually higher interest rates and the potential effect of future tariffs.

Avg Wt Relative to R25IV Index (%)



Allocation Effect (bps)



Source: FactSet

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Initiations

Ryman Hospitality Properties (RHP) is a differentiated lodging REIT focused on the non-gaming group and conference markets. RHP's hotels are the largest non-gaming hotels by meeting space in the United States. The company also owns and operates select non-REIT assets, with a focus on country music entertainment venues. RHP has generated the highest AFFO/share growth among publicly traded hotel REITs over the past decade. This success is thanks to its focused portfolio of differentiated, "all under one roof" properties in destination locations, industry-leading room economics, high-return investment opportunities, unique entertainment and programming, and a supply constrained lodging sub-category. High-teen ROI investments should continue to drive profitability improvement over the next decade while an eventual sale of the company's higher growth Entertainment segment will provide ample flexibility to fund further Hospitality segment investment.

White Mountains Insurance Group (WTM) is a holding company that owns insurance and financial services related businesses. Management takes a long-term view and generates solid returns with these businesses over time. They add incremental value by opportunistically buying new businesses and selling existing businesses, often generating substantial gains on sales. Cash flow and divestiture proceeds are opportunistically allocated, often via share repurchases, resulting in an approximately 75% reduction in shares outstanding over the last 20 years. WTM does not hold quarterly investor calls, and has virtually no sell-side coverage. We believe valuation is persistently attractive, despite a proven track record of compounding book value per share at healthy levels.

Eliminations

Varex Imaging (VREX) was eliminated to make room for better opportunities.

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Outlook

While we enter the new year optimistic about the portfolio's prospects, we have to acknowledge 2024 was not a good year. Our stock selection results across portfolios were marred by significant declines among several holdings – a few struggling with major fundamental deterioration, and a few suffering valuation contraction as they dealt with more minor, short-term setbacks. We eliminated those we judged to be permanently impaired and increased exposure to those we see as fundamentally sound – decisions we expect to pay off over time.

Disappointed as we are, we remain confident in our process and people. Our post-mortem analysis of problem stocks did not indicate systemic process or risk control failures. Weak results were also spread across team members. Thus, we humbly and steadfastly move forward, determined to learn from our experiences in a challenging year. Cooke & Bieler's long history reminds us that we are neither as bad as we appear when we underperform significantly, nor as good as we appear when we outperform significantly, as we did in 2023. The concentrated nature of our strategy can create large relative performance fluctuations – in both directions – over shorter periods of time, particularly when thematic sentiment dominates. Such was the case in 2024 with investors fixated on the Mag Seven, Big Tech, and AI stocks, while being uninterested in most everything else.

Looking forward, the backdrop for equity investing appears mixed entering 2025. Positively, current economic conditions are favorable. Pandemic-related supply and demand factors have mostly normalized. The push to build out domestic supply chains, advance AI capabilities, and incorporate related technologies into products, services, and operations has created pervasive demand drivers across sectors and industries that should persist. Inflation seems manageable and monetary policy is loosening. On the other hand, possible policy changes from the new administration, structural fiscal budget deficits, unstable geopolitics, and weakness in important economies outside the U.S. create uncertainty and risk. Valuations are a mixed bag with many high-profile growth stocks priced to perfection, while large swaths of the broad market are reasonably valued.

History suggests that valuation gap will shrink eventually as popular market leaders struggle under the weight of lofty expectations, while a decent economy provides opportunities for companies with lower valuations to meet or exceed expectations. We believe the portfolio – full of attractively valued stocks of good businesses with favorable underlying economics and strong balance sheets – is well positioned for that environment. Additionally, the gap between our estimates of intrinsic value and current prices increased across many portfolio holdings in the past year, providing another source of potential upside. Finally, we believe the portfolio's unique combination of quality and value should cushion the blow of an unexpected downturn should it occur..

Sources: Bloomberg, FactSet, International Monetary Fund, SS&C APX, Vanguard

Additional Cooke & Bieler SMID Cap Value Performance Disclosures