COOKE & BIELER

Q2 2024

Concentrated Value Equity

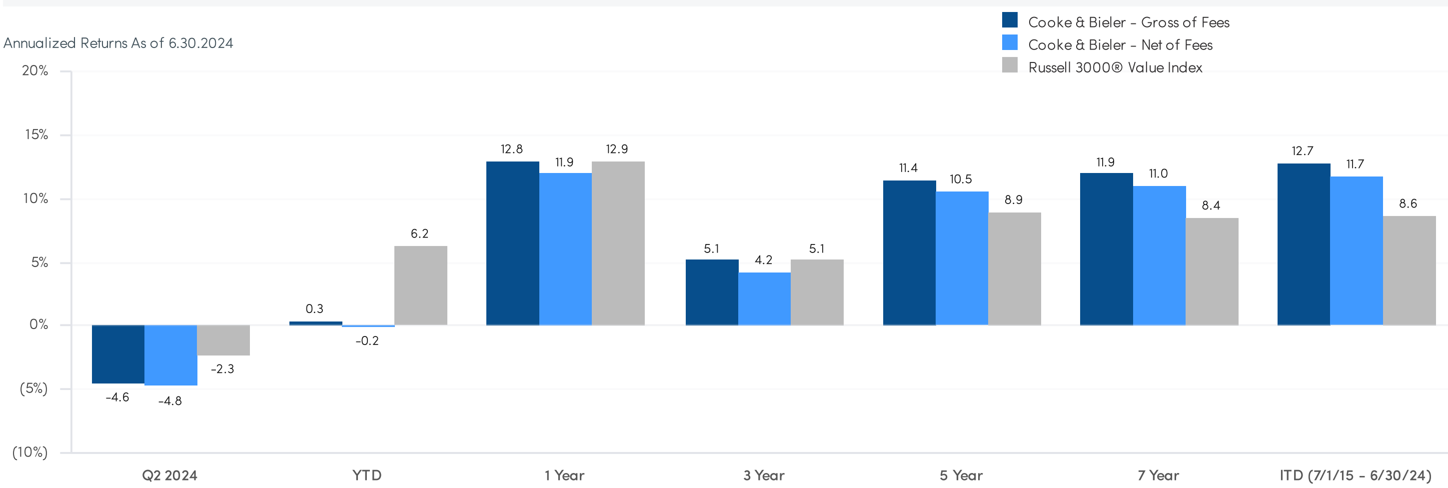
Overview

As inflation showed itself to be stubbornly persistent and interest rates appeared to weigh more heavily on the economy, investors became less optimistic in the second quarter that the Federal Reserve would be able to engineer a soft landing. Expectations for rate cuts were pushed further out and 10-year interest rates fell slightly, deepening the yield curve inversion that has held for most of the last 12 months. Large cap capitalization-weighted indices such as the S&P 500® and Russell 1000® posted solid gains for the quarter, 4.28% and 3.57%, respectively. However, these headline numbers belie the narrow nature of the advance, which was driven by a handful of mega cap stocks – primarily NVIDIA, Apple, and Alphabet – that are seen as the big winners from rapid progress in artificial intelligence. Returns across indices not dominated by those high-flyers were much less impressive. The Russell 1000® Value and S&P 500® Value indices both declined for the quarter as did mid and small cap indices regardless of style orientation. Reflecting investors' current mindset, Utilities, a classic hedge against difficult economic times, outperformed across the capitalization spectrum while Information Technology, a seemingly impervious sector due to the demand for artificial intelligence, also generally outperformed across styles and sizes.

Portfolio Performance & Developments

Cooke & Bieler's Concentrated Value Strategy underperformed the Russell 3000® Value Index during the quarter, posting a -4.58% return gross of fees (-4.79% net of fees) against a -2.25% return for the benchmark. Stock selection effect was the main driver of portfolio underperformance, though sector allocation effect also posed a moderate drag. In a continuation of trends witnessed in the first quarter, stock selection among Financials holdings detracted most, primarily due to Globe Life, which was eliminated during the quarter. Consumer Discretionary and Energy holdings such as Winnebago, Helen of Troy, and ConocoPhillips were also notable underperformers. Partially offsetting these headwinds, Consumer Staples holdings benefited relative results.

Concentrated 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.

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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Philip Morris	6.1	11.8	70
UnitedHealth Group	5.3	11.1	64
AerCap	5.2	7.3	36
Crown Castle	3.3	3.9	27
TE Connectivity	4.7	3.8	16

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Globe Life	0.8	-57.9	-374
Winnebago	2.8	-26.2	-86
ConocoPhillips	6.1	-9.8	-59
Helen of Troy	2.5	-19.7	-55
Teleflex	5.9	-7.1	-41

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 Concentrated Value institutional portfolio's gross of fees return relative to the Russell 3000® 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 Concentrated Value institutional portfolio returned -4.83% net of fees and -4.63% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Concentrated 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 continued to post solid consolidated volume growth, thanks in part to the strong momentum of the Swedish Match portfolio acquired last year. With 40% of sales now deriving from high-margin, smoke-free products, the company is making consistent progress toward a more sustainable and profitable growth algorithm.

UnitedHealth Group (UNH), a leading managed care and health care services company, was the second-largest contributor. After the position was initiated, investor sentiment improved markedly during the quarter in response to indications that medical cost trends were stabilizing as management expected.

AerCap (AER), the largest independent aircraft lessor, was the third-largest contributor. AER hosted a well-received investor day and was upgraded by one of the major credit rating agencies. Fundamentally, the business continues to benefit from strong demand for its aircraft as worldwide travel demand remains strong and production difficulties at Boeing as well as Airbus constrain supply.

Largest Detractors

Globe Life (GL), a life and supplemental health insurer to underserved Americans, was the largest detractor. GL's price performance had been weak in recent quarters driven in part by accusations of employee misconduct at one agency within the company's largest business unit – American Income. We believed the reports were likely true, but also isolated and fixable. However, that view was severely challenged following a new report issued by a short seller detailing far-reaching allegations of fraud and misconduct. The information contained in the report convinced us the issues GL faced were more pervasive than we had thought and that the situation had become largely unanalyzable. Faced with a high degree of uncertainty and the potential for further downside, we decided to eliminate the position.

Winnebago (WGO), a leading North American manufacturer of recreational vehicles, was the second-largest detractor. WGO continues to operate in a soft retail environment for recreational vehicles. While the wholesale dealer destocking cycle seems largely complete within its towable division, its motorized and marine segments are still in the process of right-sizing inventory levels. Although the industry is clearly cyclical, WGO has a conservative balance sheet, is repurchasing shares, and possesses a handful of company-specific initiatives that should benefit mid-cycle earnings power as volume trends ultimately normalize.

ConocoPhillips (COP), one of the largest international E&P companies with a scaled and well-diversified portfolio of assets, was the third-largest detractor. COP missed consensus estimates as lower natural gas prices offset its better results in oil. Production growth was also modestly impacted by weather. Investor concerns about the sustainability of commodity prices, along with the market's slightly unfavorable outlook on COP's Marathon acquisition, weighed on the stock price.

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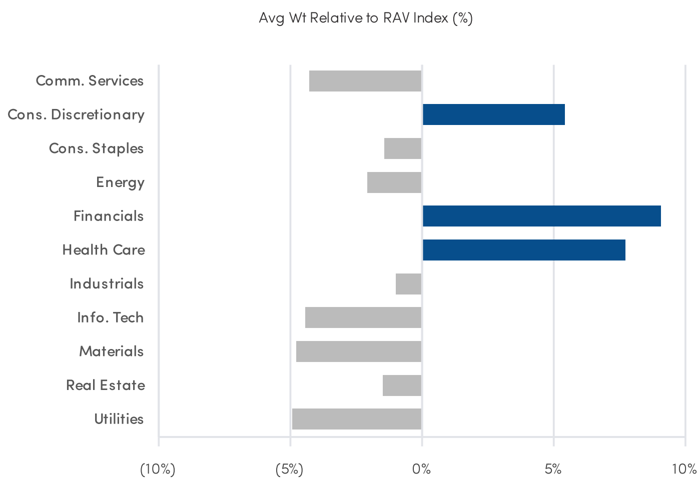
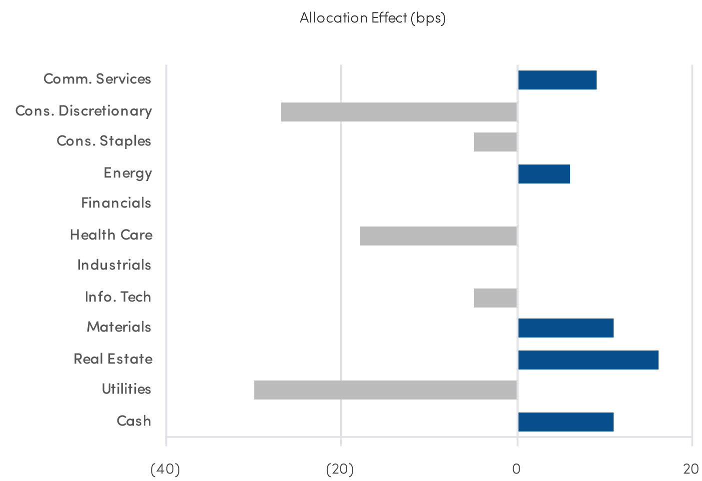
Sector Positioning

Sector allocation effect was moderately negative for portfolio results during the quarter. The portfolio's underweight to Utilities, the best performing sector within the Index and a usual safe haven during uncertain economic times, detracted most. An overweight to Consumer Discretionary, the worst performing sector within the benchmark, also weighed on relative results as investors called into question the overall health of the consumer. Conversely, the underweight to Real Estate provided a partial positive offset.





Source: FactSet

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Initiations

UnitedHealth Group (UNH) is a comprehensive health care company that touches all key aspects of the U.S. health care system through its managed care, health care IT, pharmacy benefits management, primary care provider, home health, and facilities operations. In total, UNH manages nearly $300 billion of spend, giving it unmatched scale. UNH's scaled breadth of capabilities has resulted in an industry leading value-based care platform that is being used to manage ever increasing health care costs. We expect UNH to gain share in its markets and generate high returns on incremental capital invested given the company's meaningful competitive advantages, including proven integrated offerings. We view UNH as a reliable double-digit compounder of value, and the stock's recent decline on concerns about Medicare Advantage reimbursement rates created an attractive entry point.

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. Elevated interest rates, uncertainty regarding the outcome of the small cell strategy review, and the drag of T-Mobile rationalizing their cell tower leases following their Sprint acquisition gave us the opportunity to initiate a position.

Eliminations

Globe Life (GL) was eliminated due to a broken thesis.

Medtronic (MDT) was eliminated to make room for higher conviction opportunities.

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Outlook

With mounting trepidation among investors that the U.S. consumer backdrop is deteriorating faster than the Fed can gain traction on inflation, markets are no longer reacting favorably to negative economic developments – bad news is once again bad news. Meanwhile, valuations are becoming more compressed within Cooke & Bieler's investable universe as positive returns elsewhere in the market have been narrowly limited to a subset of companies with increasingly demanding valuations. Said differently, we believe the outperformance of large growth stocks is unsustainable, and our portfolios are much more attractive in the long run. The current environment reminds us of past periods of sharp underperformance, including the third quarter of 2022, which have frequently marked a trough in relative performance as fundamentals reasserted themselves. Of course, this history does not guarantee a similar pattern will emerge now. Still, to ensure the portfolio is as strong as possible, we remain vigilant with scrubbing the balance sheets and economics of our current and prospective portfolio holdings, while eliminating holdings that fail to meet our exacting standards. As a result, we believe the portfolios' holdings remain well capitalized and equipped to weather possibly adverse economic conditions, while also possessing long-term potential to compound earnings power at an above-average rate – all in the context of increasingly attractive valuations.

Sources: Bloomberg, FactSet

Additional Cooke & Bieler Concentrated Value Performance Disclosures