Q4 2024

Concentrated Value Equity

Overview

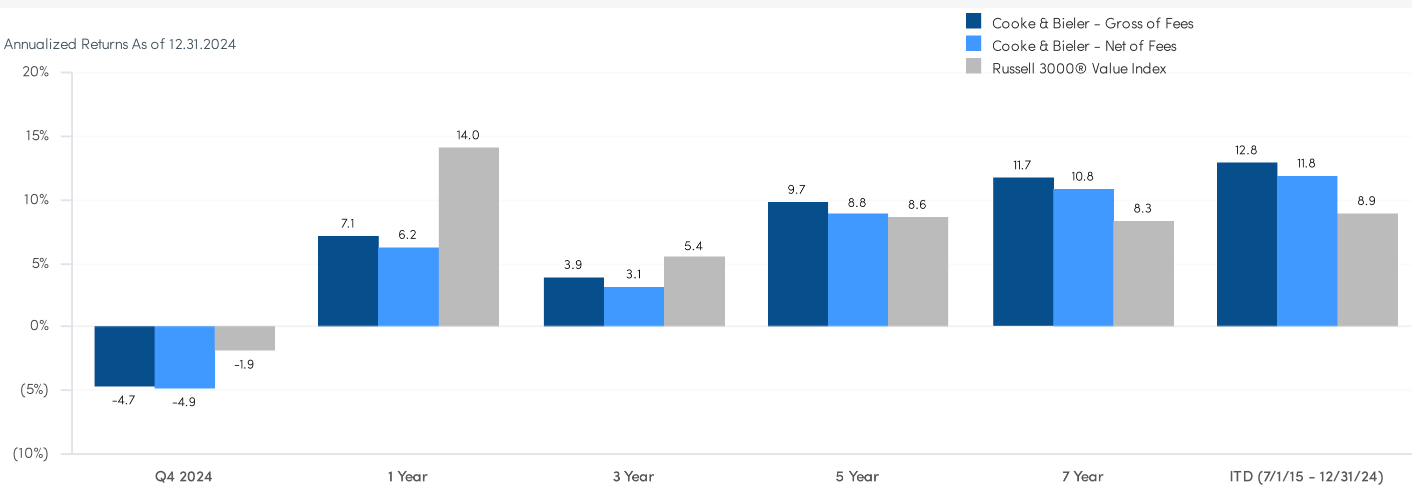
U.S. stocks were mixed in the fourth quarter – the S&P 500® returned 2.41%, while the Russell 1000® Value was down 1.98% – but performance was enough to cement another very strong year for equities overall. With the S&P 500® up for the fifth straight quarter and by 25.02% for the full year, 2024 marked 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 Concentrated Value Strategy underperformed the Russell 3000® Value Index during the quarter, returning -4.72% gross of fees (-4.94% net of fees) against the benchmark's -1.94% return. Sector allocation effect was positive but failed to offset the impact of negative stock selection. Health Care holdings such as Teleflex and UnitedHealth Group lagged the most significantly, while Real Estate and Financials holdings also posed headwinds to results. Conversely, Consumer Staples holding Philip Morris International outperformed its respective benchmark constituents.

For the full year, though absolute performance was positive, relative performance lagged significantly. As was the case in the fourth quarter, negative stock selection effect overwhelmed the portfolio's positive allocation effect. Stock selection in the Financials and Health Care sectors caused the most substantial drag in 2024, while an overweight to Financials and stock selection in Consumer Staples were additive.

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.

Click for additional C&B Concentrated Value Performance Disclosures

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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Charles Schwab	5.6	14.4	90
Brookfield	7.9	8.0	54
State Street	5.3	11.7	54
RB Global	5.4	12.2	52
AerCap	4.5	1.1	6

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Teleflex	5.7	-28.1	-177
Crown Castle	5.5	-22.5	-135
Ashtead Group	5.4	-20.1	-110
Fidelity Nat'l. Financial	6.2	-9.0	-58
UnitedHealth Group	3.9	-13.4	-50

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 -4.92% net of fees and -4.71% 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

Charles Schwab (SCHW), a leading provider of investment services to individuals and investment advisors, was the largest contributor. SCHW benefited from improving deposit trends, and their clients seem to have largely completed the process of rotating from low-interest cash to higher yielding investment instruments.

Brookfield (BN), a global investor, operator, and asset manager of real assets, was the second-largest contributor. BN's annual investor day in September reiterated strong growth expectations, driven by continued secular tailwinds in their asset classes. In addition, the stabilizing interest rate environment has increased expectations for disposition gains and realized carried interest. As BN owns 73% of Brookfield Asset Management (BAM), BN also benefited from BAM's recently announced corporate structure initiatives that will make BAM eligible for broader index inclusion.

State Street (STT), a leading custodian and record keeper for financial assets, was the third-largest contributor. A strong market backdrop and promising new business have improved investor sentiment.

Largest Detractors

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

Crown Castle (CCI), a leading operator of cell towers and small cells in the United States, was the second-largest detractor. CCI underperformed as interest rate cut expectations for 2025 declined.

Ashtead Group (ASHTY), the second-largest construction and industrial equipment rental company in North America, was the third-largest detractor. Investors reacted negatively to lower fiscal year 2025 guidance. This reduction was due to a continued normalization from an above-normal post-pandemic environment, as well as an apparent cyclical downturn in demand. Neither development was surprising, and our long-term thesis remains intact. The company also announced that it will be moving its primary stock listing to the U.S., a move largely overlooked by investors, but one that should provide increased liquidity in markets where most of its assets and profitability reside.

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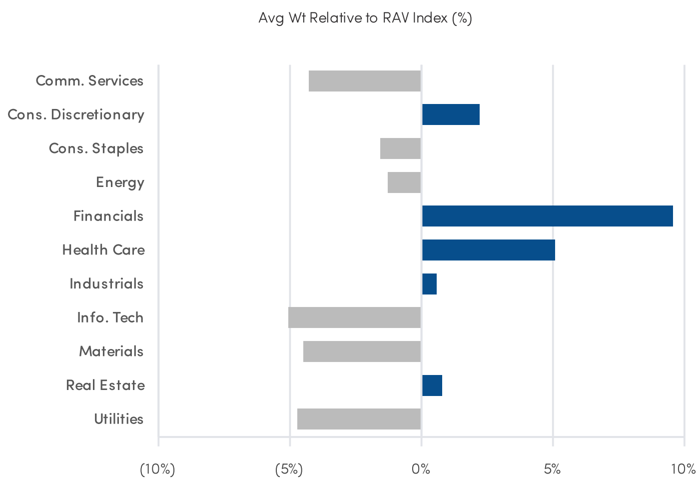
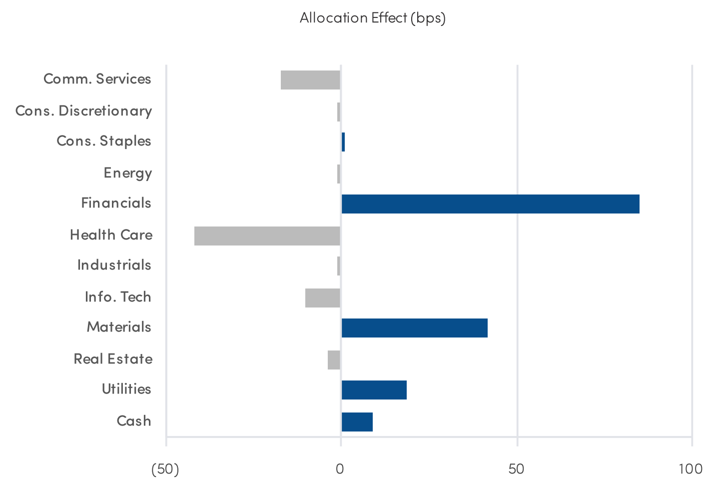
Sector Positioning

Sector allocation effect was positive for the quarter. The portfolio's overweight to Financials, the top performing sector within the benchmark, was the most significant tailwind as the sector soared following the election on the potential for less regulation in the future. The strategy's underweight to Materials, the worst performing benchmark sector, was also beneficial as investors grew apprehensive about the potential effect of future tariffs. An overweight to Health Care was a partial negative offset.





Source: FactSet

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Initiations

There were no initiations.

Eliminations

There were no eliminations.

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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

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 Concentrated 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 Concentrated Value institutional portfolio for the quarter ending 12/31/24. 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 3000® Value Index. 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.

Additional Cooke & Bieler Concentrated Value Performance Disclosures