Large Cap Value Equity

Q2 2023

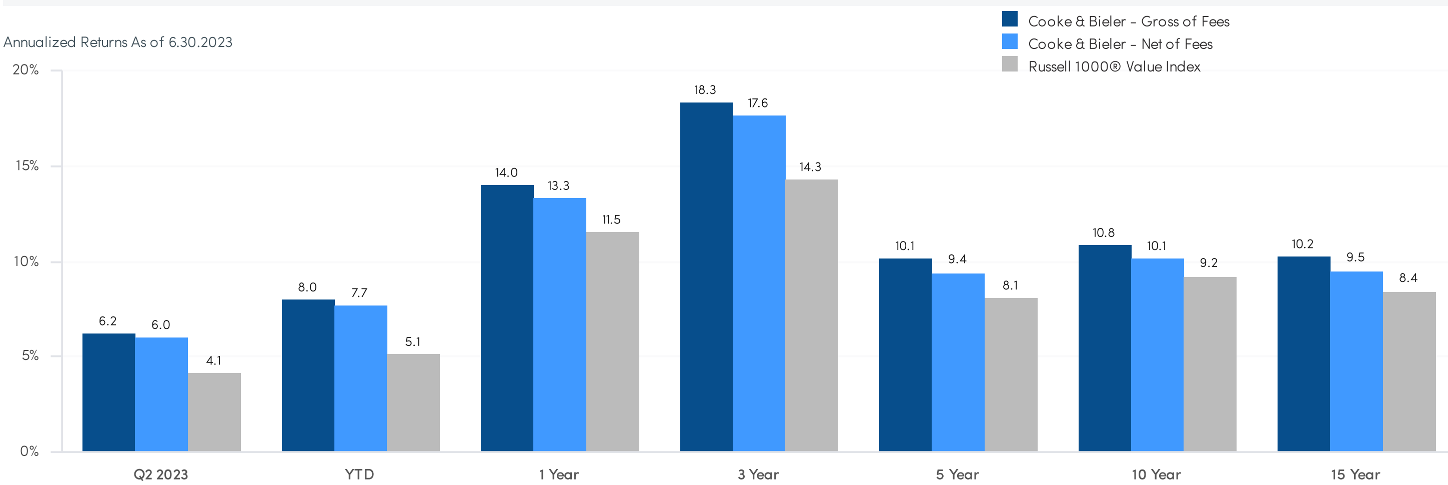
Overview

Domestic equity indices finished higher across the board in the second quarter as the tech heavy NASDAQ rode a wave of AI enthusiasm to a 13% gain. Growth beat value, and high beta issues outperformed during the period. Market cap trends were muddled with both the top and bottom ends performing well. In contrast to the growing sense of dread in commercial real estate, housing-adjacent constituents benefited from a handful of fundamental green shoots and a growing consensus that the economy was headed for a soft landing rather than a recession. An uneventful end to March's regional banking crisis further fueled the fire. Overall, market participants appeared increasingly sanguine despite persistently hawkish Fed talking points and ongoing global turmoil, including an attempted coup in Russia.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy significantly outperformed its benchmark during the second quarter, returning 6.17% gross of fees (6.01% net of fees) against a 4.07% return for the Russell 1000® Value Index. Both stock selection effect and sector allocation effect were additive. Stock selection was a tailwind in the majority of sectors where the portfolio had weight, with Health Care posting its second consecutive quarter in the lead position thanks to strong performance by HCA Healthcare and Medtronic. Industrials and Information Technology holdings also contributed to relative results. Conversely, Communication Services holdings posed the largest headwind for the second quarter in a row, due largely to the impact of Warner Music Group, the portfolio's largest detractor. Financials holdings such as U.S. Bancorp also weighed on relative results, with many banks again posting lackluster returns following the collapse of several regional franchises earlier in the year.

Large 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)
CarMax	2.1	30.0	58
Hasbro	2.2	21.9	47
Arrow Electronics	2.9	14.5	42
AerCap	3.0	12.8	38
HCA Healthcare	2.1	15.1	32

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Warner Music Group	1.8	-21.6	-43
Hanesbrands	0.8	-13.9	-13
Kraft Heinz	1.6	-7.4	-12
Gildan Activewear	2.3	-2.4	-9
U.S. Bancorp	1.6	-7.2	-8

Source: FactSet

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Largest Contributors

CarMax (KMX), an independent used car retailer operating through both brick & mortar and online channels, was the largest contributor. KMX drove share gains, maintained unit economics, and performed better than expected in the wholesale space. Management has also shown progress in controlling SG&A costs. KMX continues to invest to enhance its capabilities and has the opportunity to become the premier omni-channel value proposition.

Hasbro (HAS),a leading global play and entertainment company with a broad and deep portfolio of brands and entertainment properties, was the second-largest contributor. Investors responded positively to the company's better than expected first quarter results, pushing the stock's valuation up from depressed levels.

Arrow Electronics (ARW), a distributor of electronic components and a solution provider to value added technology resellers, was the third-largest contributor. Investors rewarded ARW for strong execution as they continued to benefit from inflation, while reduced share count offset the higher cost of debt. As a whole, the IT sector continued to hold up after last year's concerns about the sector's growth prospects.

Largest Detractors

Warner Music Group (WMG), the world's third largest music label, was the largest detractor. WMG reported weaker than expected revenue due to declines in ad-supported streaming and modest market share losses driven by the timing of new releases. Investor concerns about the effects of generative AI also seemed to weigh on shares later in the quarter.

Hanesbrands (HBI), a manufacturer and marketer of basic apparel, was the second-largest detractor. HBI suffered from reduced consumer demand and retail destocking while working through high cost inventory. Additionally, concerns over their debt financing costs have persisted. However, their on balance sheet inventory has been stabilizing, and we expect them to generate significant free cash flow in the coming year.

Kraft Heinz (KHC), a multinational owner and operator of leading packaged food brands, was the third-largest detractor. After performing well during the pandemic, demand for processed food has returned to more normal levels. This normalization, which was embedded in our expectations, seemed to weigh on sentiment for KHC along with other food processors.

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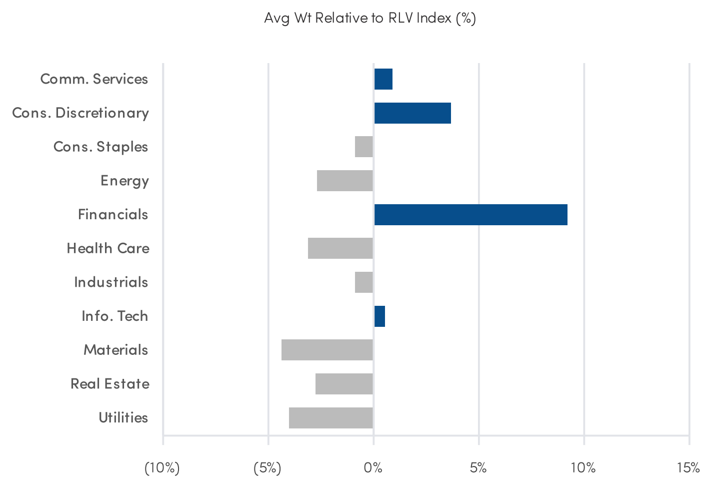
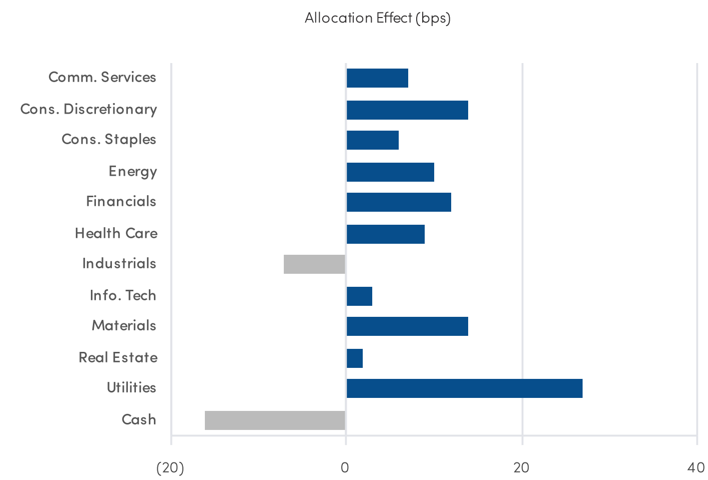
Sector Positioning

Sector allocation effect was broadly additive during the second quarter, with most sectors contributing to the portfolio's outperformance. An underweight to Utilities, the worst performing benchmark sector for the quarter and the year-to-date period, generated the largest tailwind as the space continued to struggle with the impact of higher interest rates. The strategy's overweight to Consumer Discretionary and underweight to Materials also bolstered relative performance. Partially offsetting these results, the underweight to Industrials, one of the top performing benchmark sectors, as well as the portfolio's frictional cash position in a strongly rising market posed slight headwinds.





Source: FactSet

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Initiations

ConocoPhillips (COP) is one of the largest international E&P companies with a scaled and well-diversified portfolio of assets. COP was early among the E&P companies to recognize the importance of both return on and return of capital and thus engaged in countercyclical M&A to establish their advantaged position. Ultimately, we believe COP should continue to drive low cost of supply, resulting in better break-evens and improved corporate return on capital.

Eliminations

ESAB (ESAB) was eliminated to make room for better opportunities.

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Outlook

As the second quarter unfolded, investors' fears of economic recession, spreading bank failures, and a U.S. government debt default all but vanished. The result was an equity rally that while initially limited to a handful of mega cap technology stocks, ultimately grew to encompass most of the market. The forceful swing from pessimism to optimism, especially related to anything AI, leaves us somewhat concerned heading into the second half of the year. Core inflation, though moderating, remains stubbornly high, making it probable the Fed will resume raising interest rates. Fiscal support appears to be peaking, and the lagged effect of tighter monetary policy is lurking. Still, investor expectations have moved higher in the face of this uncertainty, calling for a more measured outlook on equities. We see signs of speculation in certain areas of the market, but we continue to identify quality businesses trading at reasonable valuations. The resulting combination of quality and value inherent in the portfolio leaves us optimistic that our strategy – centered on investing in conservatively financed, competitively advantaged businesses – will deliver attractive returns over time.

Sources: Bloomberg, FactSet, Wall Street Journal

Additional Cooke & Bieler Large Cap Value Performance Disclosures