Cooke & Bieler

Q4 2024

Large Cap Value Equity

Overview

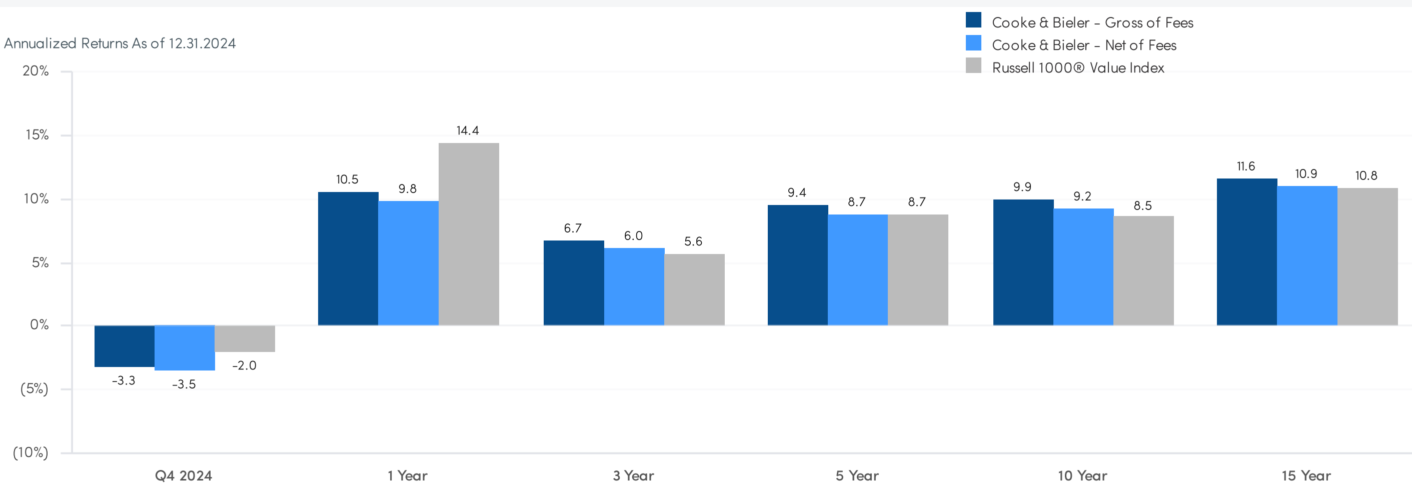
U.S. stocks were mixed in the fourth quarter – the S&P 500® returned 2.41%, while the Russell 1000® Value was down 1.98% – but performance was enough to cement another very strong year for equities overall. With the S&P 500® up for the fifth straight quarter and by 25.02% for the full year, 2024 marked 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 Large Cap Value Strategy underperformed the Russell 1000® Value Index during the quarter, returning -3.28% gross of fees (-3.45% net of fees) against the benchmark's -1.98% return. Sector allocation effect was positive but failed to offset the impact of negative stock selection. Information Technology holdings such as Open Text and Arrow Electronics lagged the most significantly, while Communication Services, Industrials, and Financials holdings also posed headwinds to results. Conversely, Utilities and Materials holdings such as Atmos Energy and PPG Industries outperformed their 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 Information Technology sectors caused the most substantial drag in 2024, while stock selection in Consumer Discretionary and an overweight to Financials were additive.

Large 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.
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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Discover Fin. Services	1.2	24.7	40
Charles Schwab	3.1	14.4	37
Walt Disney	1.5	17.4	29
JPMorgan Chase	1.5	14.2	26
State Street	2.4	11.8	25

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Crown Castle	2.4	-22.4	-58
Stanley Black & Decker	1.5	-26.6	-45
Ashtead Group	2.2	-20.0	-45
Dentsply Sirona	1.5	-29.4	-43
Omnicom Group	2.6	-16.3	-43

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 Large Cap Value institutional portfolio's net of fees return relative to the Russell 1000® 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 Large Cap Value institutional portfolio returned -3.44% net of fees and -3.28% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large 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

Discover Financial Services (DFS), an owner and operator of a closed-loop branded credit card network targeting prime consumers, was the largest contributor. The stock benefited from increasing confidence that the proposed acquisition by Capital One would receive regulatory approval.

Charles Schwab (SCHW), a leading provider of investment services to individuals and investment advisors, was the second-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.

The Walt Disney Company (DIS), a leading global provider of filmed and experiential entertainment, was the third-largest contributor. Investors were encouraged by improving profitability in the company's streaming business and by management's outlook for their Experiences segment, which includes their domestic and international parks.

Largest Detractors

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

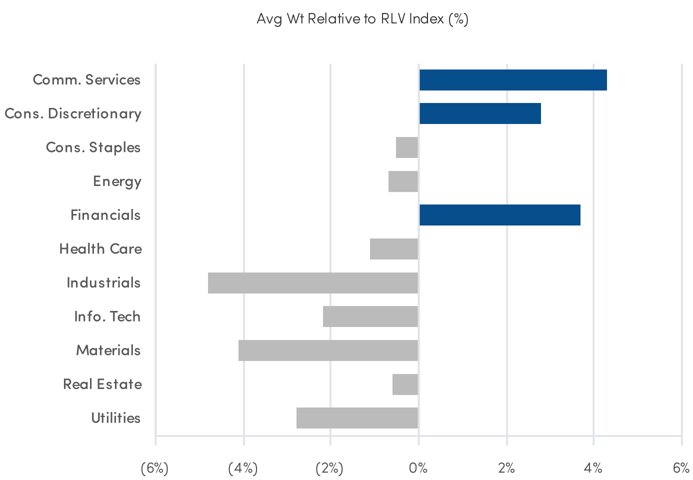
Stanley Black & Decker (SWK), an industrial and household tool manufacturer, was the second-largest detractor. The stock suffered from persistent weakness in DIY projects due to low housing turnover.

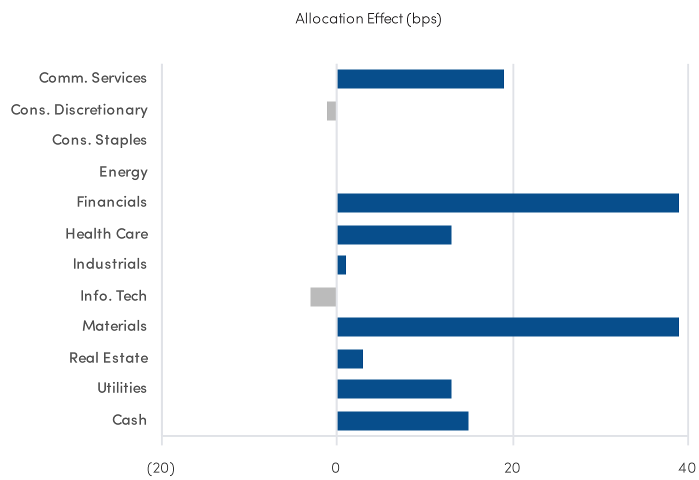
Ashtead Group (ASHTY), the second-largest construction and industrial equipment rental company in North America, was the third-largest detractor. Investors reacted negatively to lower fiscal year 2025 guidance. This reduction was due to a continued normalization from an above-normal post-pandemic environment, 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.

Large Cap Value Equity

Sector Positioning

Sector allocation effect was positive for the quarter, with the majority of sectors contributing to results. 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 underweight to Information Technology was a partial negative offset.





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 Large Cap Value institutional portfolio's gross of fees sector return relative to the Russell 1000® Value Index. The representative Large Cap Value institutional portfolio returned -3.44% net of fees and -3.28% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

Citigroup (C) is one of the largest U.S.-based international banks, with a global presence and diversified business model across institutional and consumer banking. Over the past several years, Citigroup has undergone a strategic shift toward simplification and centralizing risk after previous regulatory challenges and underperformance. C trades at a valuation discount relative to peers, one we believe is too steep given several structurally advantaged businesses and management's progress toward improving systems and controls, reducing costs, and focusing on core businesses.

PPG Industries (PPG) is a provider of architectural, automotive, and industrial coatings. PPG is a leading player in most of its product/geographic categories, with technical expertise and solid margins. In recent years, management has worked to improve PPG's business mix, divesting from its North America architectural business and focusing on their most competitive coatings. Additionally, PPG is well positioned to take share in a consolidating industry, with a cost conscious and long-term oriented management team.

The Walt Disney Company (DIS) is a leading provider of filmed entertainment, sports, and entertainment experiences. The company's unmatched portfolio of brands, including Pixar, Marvel, Star Wars, ESPN, and Disney itself, position it well for the increasingly fragmented entertainment landscape. Shares had been weighed down by the significant operating losses incurred in their Disney+ streaming business over the past several years, as well as concerns their move to launch ESPN as a streaming service might prove equally expensive. In addition, investors were concerned their parks might suffer from increased competition and consumer budget pressures. We believe DIS's long term prospects in streaming are extremely attractive. Revenue for their streaming service already exceeds that of their entertainment cable networks, and profitability is rapidly improving. While the market remains dynamic, Disney+ has already emerged as one of a few streaming services to reach the necessary scale. We believe ESPN is similarly positioned to successfully transition to a streaming platform. Additionally, though some near term weakness in their parks segment is possible, attendance and spending at Disney attractions have proven extremely resilient over time. Taken together, we believe we were able to acquire a premier global entertainment franchise at a very attractive price.

Large Cap Value Equity

Eliminations

Discover Financial Services (DFS) reached its price target and was eliminated.

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 Large Cap Value Performance Disclosures