Mid Cap Value Equity

Q2 2024

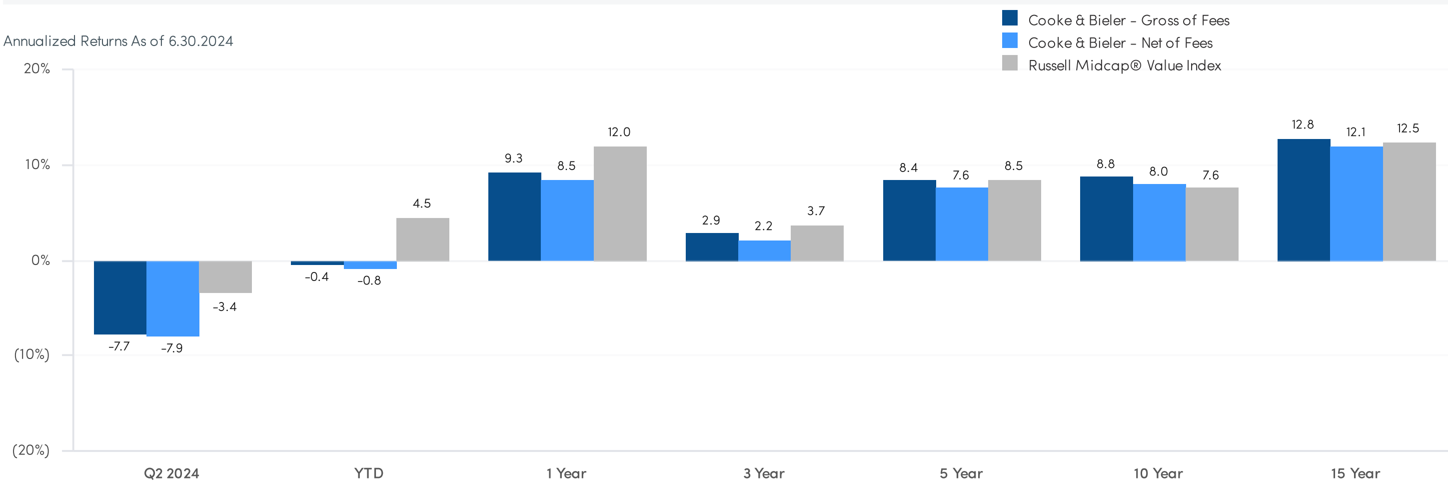
Overview

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 Mid Cap Value Strategy underperformed the Russell Midcap® Value Index during the quarter, posting a -7.72% return gross of fees (-7.90% net of fees) against a -3.40% return for the benchmark. Stock selection effect was the main driver of portfolio underperformance, though sector allocation effect also posed a modest 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. Health Care and Information Technology holdings such as Dentsply Sirona, Baxter International, and Open Text Corporation also underperformed. Partially offsetting these headwinds, Industrials holdings such as Woodward and AerCap benefited relative results, as did the portfolio's Energy holdings.

Mid 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 Mid Cap Value Performance Disclosures

COOKE & BIELER

Q2 2024

Mid Cap Value Equity

Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Woodward	2.6	13.1	33
AerCap	3.1	7.4	23
Hasbro	1.5	4.5	14
Williams	1.5	10.2	13
M&T Bank	1.5	4.8	9

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Globe Life	0.3	-57.8	-157
Open Text	2.6	-22.1	-67
Dentsply Sirona	2.1	-24.6	-57
American Eagle	2.3	-22.4	-55
Helen of Troy	2.4	-19.7	-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 Mid Cap Value institutional portfolio's net of fees return relative to the Russell Midcap® 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 Mid Cap Value institutional portfolio returned -7.88% net of fees and -7.70% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Mid 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

Woodward (WWD), a supplier of energy and motion control systems to the aerospace and industrial industries, was the largest contributor. WWD is well positioned to benefit from the ongoing commercial aerospace recovery thanks to its strong content on narrowbody aircraft and positioning in the aftermarket. WWD's industrial segment performance has improved due to strength in on-highway natural gas engines in China as well as the current CEO's productivity improvements and SKU rationalization.

AerCap (AER), the largest independent aircraft lessor, was the second-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.

Hasbro (HAS), a leading global play and entertainment company with a broad and deep portfolio of brands and entertainment properties, was the third-largest contributor. Investor sentiment improved during the quarter in response to better than expected first quarter results.

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.

Open Text (OTEX), an enterprise software company, was the second-largest detractor. OTEX underperformed following the announcement that fiscal year 2026 performance targets were being pushed out to fiscal year 2027.

Dentsply Sirona (XRAY), a manufacturer of dental equipment and products, was the third-largest detractor. XRAY's valuation contracted in response to weaker than expected sales in the first quarter and back half weighted full year guidance.

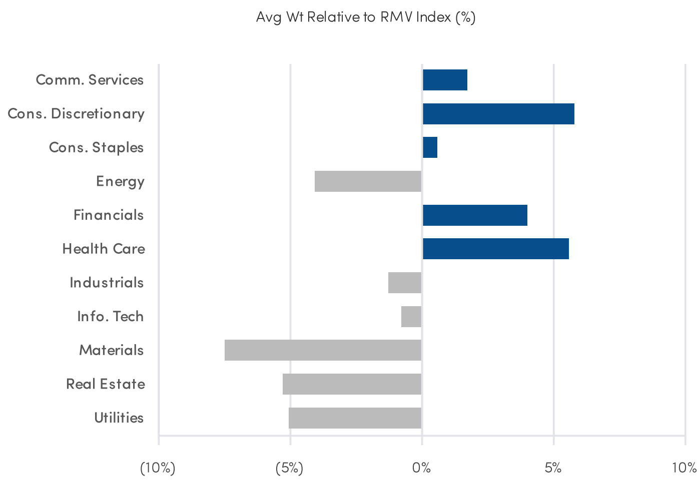
Cooke & Bieler

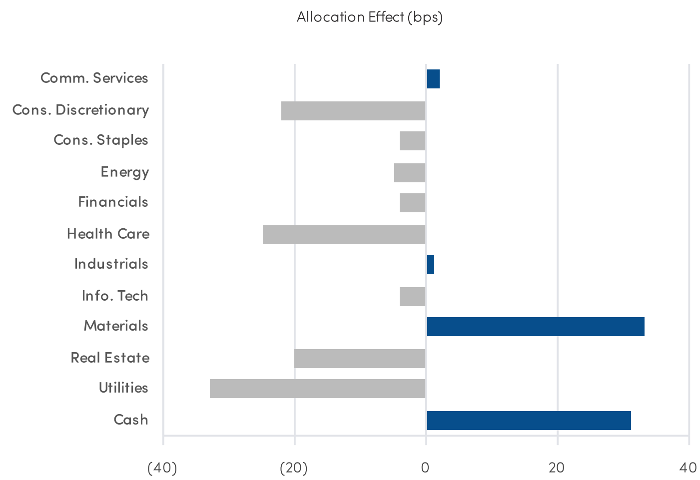
Q2 2024

Mid Cap Value Equity

Sector Positioning

Sector allocation effect was moderately negative to portfolio results during the quarter. An underweight to Utilities, the best performing sector within the Index and a usual safe haven during uncertain economic times, weighed most on relative performance. The strategy's significant overweight to Health Care, one of the worst performing sectors in the benchmark, also detracted from results. The sector has struggled over recent quarters as investors grapple with the impact of the large scale adoption of GLP-1 agonists, with only a handful of companies benefiting and many others seeing valuation contraction. Conversely, an underweight to Materials, one of the worst performing sectors, provided a partial positive 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 Mid Cap Value institutional portfolio's gross of fees sector return relative to the Russell Midcap® Value Index. The representative Mid Cap Value institutional portfolio returned -7.88% net of fees and -7.70% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

APi Group (APG) is an acquisitive business services provider with expertise in fire safety and security, along with a smaller specialty contracting unit that services primarily telecom and utility companies. The company's inspection-first strategy and its acquisitions of Chubb Fire & Security and Elevated have combined to increase its percentage of recurring, higher margin service revenue. We believe that the continued outgrowth of service-focused revenue and disciplined project selection should lead to sustainable profitability improvement.

MSA Safety (MSA) is the largest pure play company in the safety and protection industry. The company's consistent focus and innovative practices, along with complementary acquisitions, leads to above industry average sales growth and the ability to increasingly attach services, connectivity, and software to its physical products. MSA's strong technology and brands, close partnerships with customers, engagement with regulating authorities, and global distribution allow the company to earn attractive returns on capital, and there is a positive mix effect as new products, detection, and connectivity and service solutions typically carry higher than company average margins.

Eliminations

BWX Technologies (BWXT) reached its price target and was eliminated.

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

Mid Cap Value Equity

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 Mid Cap Value Performance Disclosures