Q4 2024

Small Cap Value Equity

Overview

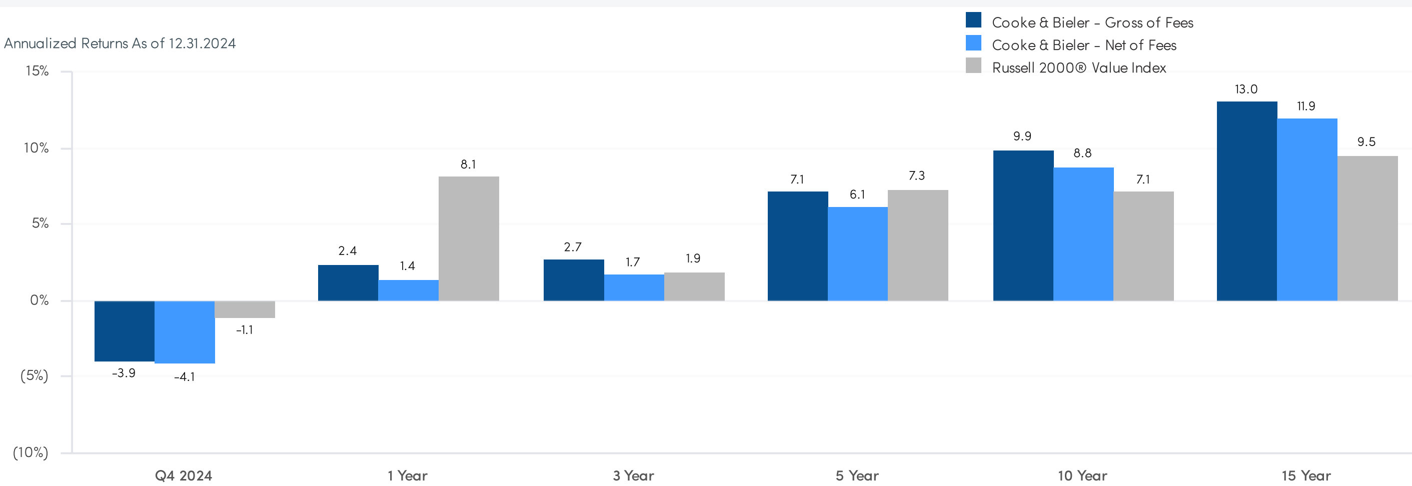
U.S. stocks were mixed in the fourth quarter – the S&P 500® returned 2.41%, while the Russell 1000® Value was down 1.98% – but performance was enough to cement another very strong year for equities overall. With the S&P 500® up for the fifth straight quarter and by 25.02% for the full year, 2024 marked 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 Small Cap Value Strategy underperformed the Russell 2000® Value Index during the quarter, returning -3.85% gross of fees (-4.10% net of fees) against the benchmark's -1.06% return. Sector allocation effect was positive but failed to offset the impact of negative stock selection. Consumer Discretionary holdings such as Dream Finders Homes and American Eagle Outfitters lagged the most significantly, while Information Technology and Industrials holdings also posed headwinds to results. Conversely, Health Care and Financials holdings such as Varex Imaging and Glacier Bancorp outperformed their respective benchmark constituents.

For the full year, though absolute performance was positive, relative performance lagged significantly. While negative stock selection effect was the primary driver, allocation effect was also negative. Stock selection in the Consumer Discretionary and Health Care sectors caused the most substantial drag in 2024, while selection in Industrials and Financials was additive.

Small 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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Small Cap Value Equity

Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Glacier Bancorp	3.4	11.1	58
Gates Industrial	1.8	17.0	29
Tecnoglass	2.1	15.5	29
Varex Imaging	1.3	22.2	25
ESAB	2.1	12.7	25

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Dream Finders Homes	2.3	-36.0	-97
Dentsply Sirona	2.1	-29.5	-64
Janus International Group	2.1	-27.5	-61
American Eagle	2.1	-25.3	-60
Winnebago	3.0	-18.0	-54

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 Small Cap Value institutional portfolio's net of fees return relative to the Russell 2000® 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 Small Cap Value institutional portfolio returned -4.05% net of fees and -3.80% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Small 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

Glacier Bancorp (GBCI), a regional bank operating 17 brands across eight Western states, was the largest contributor. GBCI reported solid earnings for their third quarter and benefited from market expectations for a more benign regulatory environment, which could facilitate their acquisition-led growth strategy.

Gates Industrial (GTES), a global manufacturer of premium transmission belt and fluid power products, was the second-largest contributor. GTES continues to utilize its healthy free cash flow to deleverage its balance sheet and repurchase stock at attractive prices. Recent share repurchases have supported secondary offerings from Blackstone, improving trading liquidity and investor sentiment.

Tecnoglass (TGLS), a vertically integrated manufacturer of residential and commercial windows, was the third-largest contributor. TGLS continued to post impressive growth in its single-family residential segment, along with solid backlog growth in its commercial segment. With currency headwinds fading, margins have also improved, and further progress is likely in 2025 as more favorable sourcing contracts phase in.

Largest Detractors

Dream Finders Homes (DFH), a top-15 U.S. homebuilder with a concentration in the Southeast, was the largest detractor. DFH's shares suffered in the quarter along with the broader homebuilding industry as incrementally less dovish Fed policy kept mortgage rates stubbornly high. DFH itself posted mixed results, as higher land and financing costs as well as elevated SG&A related to geographic expansion weighed on margins. Further pressure subsequently materialized as other homebuilders reported persistently high customer incentives. Importantly, the company reported a sequential acceleration in orders and maintained its full-year guidance for record deliveries, and we would expect them to leverage their SG&A base as they scale.

Dentsply Sirona (XRAY), a manufacturer of dental equipment and products, was the second-largest detractor. XRAY's valuation contracted in response to a weaker than expected sales result, negative updates on its Byte clear aligner product, and tax issues with German tax authorities.

Janus International Group (JBI), a turnkey solutions provider for self-storage facility componentry and services, was the third-largest detractor. JBI posted lower sales and operating income in the quarter and lowered full year guidance. Elevated interest rates are delaying both renovation and new construction projects, though the company has not seen cancelation rates increase. Positively, there is some evidence that pent-up demand for renovation activity among certain of its large REIT customers is finally materializing in order activity. Furthermore, JBI's dominant competitive position remains intact, their NOKE keyless entry system continues to increase penetration, and occupancy rates at self-storage facilities are relatively high. Given the installed base and the likely recovery in historically low housing turnover, long-term demand for self-storage capacity and renovation activity remains promising.

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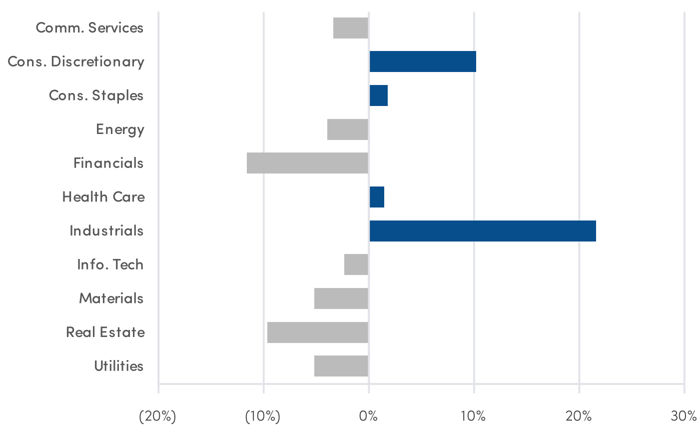
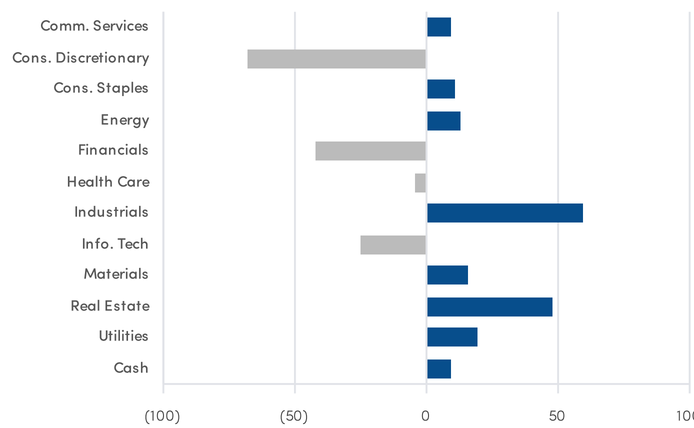
Sector Positioning

Sector allocation effect was positive for the quarter, with the majority of sectors contributing to results. The portfolio's significant overweight to Industrials was the biggest tailwind to relative performance. An underweight to Real Estate, Utilities, and Materials, three of the worst performing benchmark sectors, also aided results. The strategy's overweight to the poorly performing Consumer Discretionary sector was a partial negative offset, along with an underweight to Financials which soared following the election on the potential for less regulation in the future.

Avg Wt Relative to RUJ Index (%)



Allocation Effect (bps)



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 Small Cap Value institutional portfolio's gross of fees sector return relative to the Russell 2000® Value Index. The representative Small Cap Value institutional portfolio returned -4.05% net of fees and -3.80% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

Ryman Hospitality Properties (RHP) is a differentiated lodging REIT focused on the non-gaming group and conference markets. RHP's hotels are the largest non-gaming hotels by meeting space in the United States. The company also owns and operates select non-REIT assets, with a focus on country music entertainment venues. RHP has generated the highest AFFO/share growth among publicly traded hotel REITs over the past decade. This success is thanks to its focused portfolio of differentiated, "all under one roof" properties in destination locations, industry-leading room economics, high-return investment opportunities, unique entertainment and programming, and a supply constrained lodging sub-category. High-teen ROI investments should continue to drive profitability improvement over the next decade while an eventual sale of the company's higher growth Entertainment segment will provide ample flexibility to fund further Hospitality segment investment.

Weatherford International (WFRD) is an oil services company with products and services spanning the life cycle of the well across exploration, drilling, completions, and production. WFRD generates nearly 80% of its revenues internationally and also has larger offshore exposure compared to peers. WFRD struggled during the previous cycle due to high debt leverage, elevated M&A, and poor execution. We believe previous difficulties were a management issue, not a result of the company's portfolio of products and services. WFRD has a differentiated offering across the world's core oil and gas producing areas, including an extensive footprint in the Middle East, tubular running services and managed pressure systems for offshore drilling, and completions tools and artificial lift in North America. Under a new CEO, WFRD is driving operational excellence while taking a disciplined approach to investing in its core businesses. Today, the company has much improved profitability and a strong balance sheet.

White Mountains Insurance Group (WTM) is a holding company that owns insurance and financial services related businesses. Management takes a long-term view and generates solid returns with these businesses over time. They add incremental value by opportunistically buying new businesses and selling existing businesses, often generating substantial gains on sales. Cash flow and divestiture proceeds are opportunistically allocated, often via share repurchases, resulting in an approximately 75% reduction in shares outstanding over the last 20 years. WTM does not hold quarterly investor calls, and has virtually no sell-side coverage. We believe valuation is persistently attractive, despite a proven track record of compounding book value per share at healthy levels.

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Eliminations

RenaissanceRe (RNR) was eliminated after its market capitalization grew beyond the strategy's appropriate range.

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 Small Cap Value Performance Disclosures