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GAMCO All Cap Value (ACV) – May 2024 - Commentary

	GAMCO ACV	R3000V	R3000
May 2024	2.4%	3.3%	4.7%

Commentary:

U.S. stocks rebounded in May, with the S&P 500 (+4.9%) reaching another all-time high during the month. Big tech led the rally, with NVIDIA (NVDA) continuing its rise after reporting another stellar quarter. The ongoing AI spending boom has driven NVIDIA's impressive growth, which now has the third largest market capitalization in the U.S. – trailing only Microsoft (MSFT) and Apple (AAPL).

Stocks were higher as investors were encouraged by April's inflation report, which strengthened market expectations for the Federal Reserve to lower interest rates soon, fueling optimism for a soft landing. The personal consumption expenditures (PCE) price index rose by 0.3% from March to April, in-line with expectations and indicating that inflation may be cooling.

On May 1, the Federal Reserve held interest rates steady for the sixth consecutive meeting. Elevated inflation, a resilient economy and a strong labor market suggests the Fed may not cut rates as soon as originally anticipated earlier this year, especially with inflation hovering around 3%. The Fed will remain patient, seeking greater confidence that inflation is trending towards its 2% inflation target. The next FOMC meeting is June 11-12.

In May, the Russell 2000 Value underperformed the S&P 500, and now lags in year-to-date performance by over 1,000 bps. We anticipate a favorable environment for smaller companies in 2024 as post-peak rates and necessary consolidation in certain industries such as media, energy and banking should lead to a more robust year. M&A activity began the year strong, setting the stage for catalysts to emerge within our portfolio of companies.

We remain optimistic in our outlook for small to mid-cap stocks, as valuations have proven to be a good indicator of the potential for long-term outperformance. The valuation of the Russell 2000

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Value remains compelling, which currently trades at ~13x estimated earnings for the next twelve months versus ~22x for the S&P 500.

May 2024 Performance

(May 31, 2024)	**Growth**	**Core**	**Value**
Russell 1000 (Large Cap)	6.0%	4.7%	3.2%
" 3000 (All Cap)	6.0	4.7	3.3
" 2000 (Small Cap)	5.4	5.0	4.7

As value oriented stock pickers, we find the current market conditions exceptionally favorable for our methodology. Our focus remains steadfast on identifying exceptional businesses trading at a discount to Private Market Value, with catalysts to surface value. We will continue to use the volatility provided by Mr. Market to increase our stakes in great companies at attractive prices.

Portfolio Observations – May:

NextEra Energy, Inc. (+19.5%), DuPont de Nemours, Inc. (+13.9%), and Grupo Televisa (+17.3%) were the three primary contributors to performance. Shares of NextEra Energy, Inc. (NEE) have continued to move higher, driven by increasing optimism around accelerated electric demand growth fueled by the expanding influence of AI, data centers, electric vehicles (EVs), electrification, and on-shoring efforts. We consider NEE to be one of the stronger electric utilities in the nation and the premier renewable player. The company will be a leading beneficiary of tighter power markets, renewable portfolio standards and growing demand specifically for clean power. Shares of DuPont de Nemours, Inc. (DD) were higher after the company announced a plan to separate into three publicly traded companies within 18-24 months. Under the plan, DuPont will separate its Electronics and Water businesses in a tax-free manner to its shareholders with New DuPont continuing as a premier diversified industrial company following completion of the separations. The company anticipates that all three companies will have strong balance sheets and

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strong future growth trends. In addition, the company announced that Lori Koch, current CFO, will succeed Ed Breen as CEO. Ed will retain his role of Executive Chairman. We believe that completing the separations will give each business greater flexibility for M&A, while also attracting different investor bases, and providing potential upside to their respective trading multiples. Shares of Grupo Televisa (TV) were higher as the company's integration plan at Sky Mexico and increased confidence in streaming margins at Televisa Univision has improved investors' sentiment in the near term. Televisa owns approximately 59% of Sky Mexico but announced on April 3 an agreement to acquire the remaining stake, pending regulatory approvals. Additionally, Francisco Valim was appointed CEO of Sky to aid in the integration with Cable and unlock additional synergies. TV's upcoming catalysts include the monetization of Univision (likely via a 2024 IPO) and the turnaround of Sky Mexico.

Genuine Parts Company (-8.3%), O'Reilly Automotive, Inc. (-4.9%), and Republic Services, Inc. (-3.4%) were the three primary detractors from performance. Shares of Genuine Parts Company (GPC) were lower after facing recent challenges related to weather and ongoing issues with supplier fill rates. Away from recent headwinds, GPC made the anticipated official announcement that their CEO, Paul Donahue, will be stepping down as CEO and replaced by the current president and COO, Will Stengel. Mr. Stengel has already driven strategic changes around supplier and inventory availability which drove sequential improvement in 1Q results. We expect to see further improvements going forward and continue to believe that GPC is undervalued at 10x EBITDA. Over the long term, we see scale benefits in the company's best-in-class automotive distribution business (~60% of revenue) that drive steady share gains and free cash flow of ~$1 billion. Further, we believe that GPC's Industrial segment is undervalued as the segment is uniquely positioned to benefit from reshoring, federal spending, such as The Inflation Reduction Act, and a rebound in rapidly growing end markets such as automation and conveyance. Shares of O'Reilly Automotive, Inc. (ORLY) were lower following concerns linked to the recent negative impact of weather and macro read-throughs relating to potential softening consumer demand. Despite concerns related to potential headwinds, management has continued to view the consumer to be reasonably healthy, which is supported by trade-downs and deferrals continuing to remain stable within ORLY's

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customer base. Going forward, we expect that ORLY will continue to take share in the fragmented DIFM market and volumes will remain solid as consumers feel some relief from moderating inflation levels. We continue to project that key drivers such as VIO, part complexity, and superior execution will support growth in 2024. ORLY is the best operator of its competitors and a high quality cash generating company that we anticipate will continue gaining market share. Shares of Republic Services, Inc. (RSG) were lower after the company reported mixed Q1 results. While quarterly performance was solid, shares likely declined on account of elevated margin expectations stemming from underperformance relative to peers. Despite this relatively weak quarter, we expect RSG to continue to execute well on plans to improve margins with easing volume headwinds in addition to continued M&A, targeting $500m in expenditure for 2024. We view RSG's core solid waste business to remain strong and well-positioned to benefit from a persistently strong inflationary environment given its pricing indexed exposure to CPI.

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This letter was prepared by Kevin V. Dreyer and Christopher J. Marangi with the assistance of many including Charles LaRosa and Cameron Acito. The examples cited herein are based on public information and we make no representations regarding their accuracy or usefulness as precedent. The views are subject to change at any time based on market and other conditions. The information in this letter represent the opinions of the individuals as of the date hereof and is not intended to be a forecast of future events, a guarantee of future results, or investments advice. The views expressed may differ from other Research Analysts, Portfolio Managers, or of the Firm as a whole.