Cooke & Bieler

Q2 2023

All Cap Value Equity

Overview

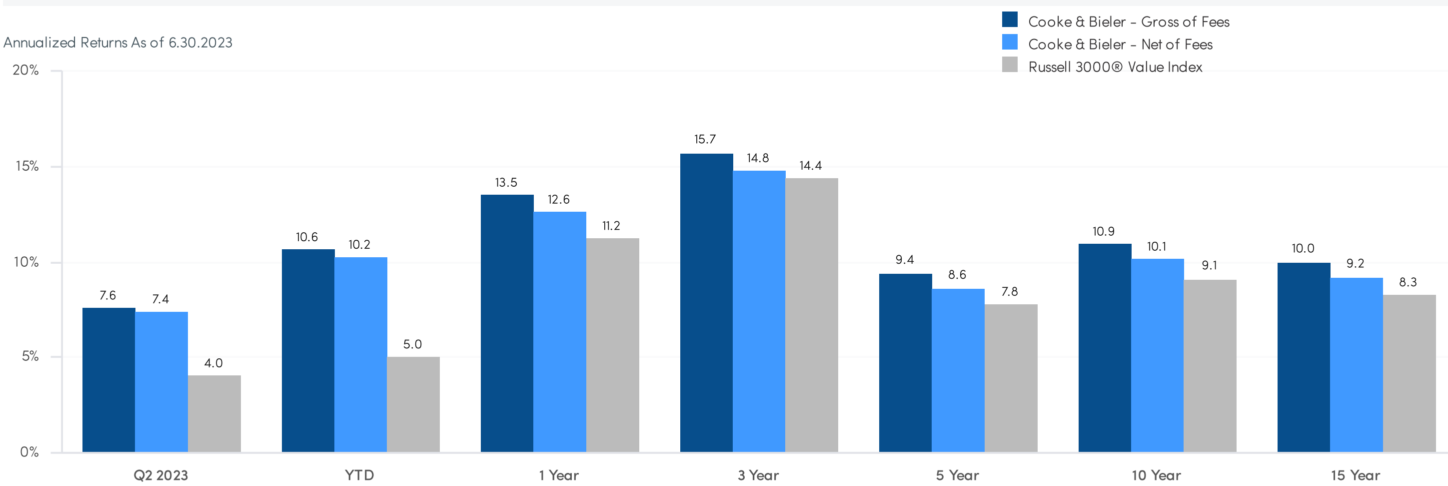
Domestic equity indices finished higher across the board in the second quarter as the tech heavy NASDAQ rode a wave of AI enthusiasm to a 13% gain. Growth beat value, and high beta issues outperformed during the period. Market cap trends were muddled with both the top and bottom ends performing well. 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 All Cap Value Strategy significantly outperformed its benchmark during the second quarter, returning 7.62% gross of fees (7.43% net of fees) against a 4.03% return for the Russell 3000® Value Index. Both stock selection effect and sector allocation effect were additive. Stock selection drove most of the strategy's favorable outcome, with Industrials posting the best results for the second quarter in a row thanks to strong performance by American Woodmark and AerCap. Information Technology and Health Care 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 Verizon Communications and Activision Blizzard. Consumer Staples holdings also weighed on relative results.

All Cap Value Equity Composite Performance

Annualized Returns As of 6.30.2023



Source: FactSet and Russell®

Past performance is not indicative of future results. All investing involves risk, including loss of principal.

Click for additional C&B All Cap Value Performance Disclosures

All Cap Value Equity

Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
CarMax	2.2	30.0	61
American Woodmark	1.3	46.5	58
Winnebago	2.8	16.4	46
Arrow Electronics	2.9	14.5	42
MKS Instruments	1.7	22.1	40

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Integra LifeSciences	1.3	-28.5	-44
Hanesbrands	0.8	-13.9	-14
Kraft Heinz	1.5	-7.4	-11
Gildan Activewear	2.4	-2.4	-10
State Street	2.8	-2.7	-8

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 All Cap Value institutional portfolio's gross of fees return relative to the Russell 3000® 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 All Cap Value institutional portfolio returned 7.37% net of fees and 7.57% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's All 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

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.

American Woodmark (AMWD), a leading kitchen and bath cabinet manufacturer with a focus on value price points, was the second-largest contributor. AMWD demonstrated encouraging margin progress following a period of record input cost inflation. Pricing is catching up with inflation, mix is improving, and production efficiencies are materializing, informing management's call for further margin expansion in the year ahead. At the industry level, favorable demand dynamics for new construction have also benefited investor sentiment for building product companies.

Winnebago (WGO), a leading manufacturer of recreational vehicles and towables, was the third-largest contributor. WGO continues to post relatively strong margins against a significant pullback in wholesale orders for recreational vehicles. OEMs appear to be acting rationally, helping dealers clear aging inventory and positioning the industry for an eventual recovery.

Largest Detractors

Integra LifeSciences (IART), an acquisitive global medical technology company, was the largest detractor. In the quarter, IART announced a voluntary recall of products manufactured in its Boston facility. The expected impact on sales and earnings is manageable, but the timing of FDA approval and required investment to remedy the issue creates uncertainty. We believe IART's strong balance sheet, stable sales base, and consistent free cash flow generation position the company to address the current issues, and valuation is attractive.

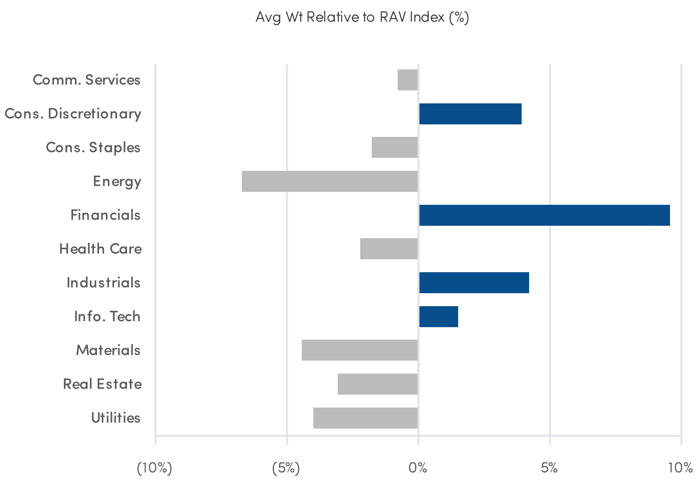
Hanesbrands (HBI), a manufacturer and marketer of basic apparel, was the second-largest detractor. HBI suffered from reduced consumer demand and retail destocking while working through high cost inventory. Additionally, concerns over their debt financing costs have persisted. However, their on balance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

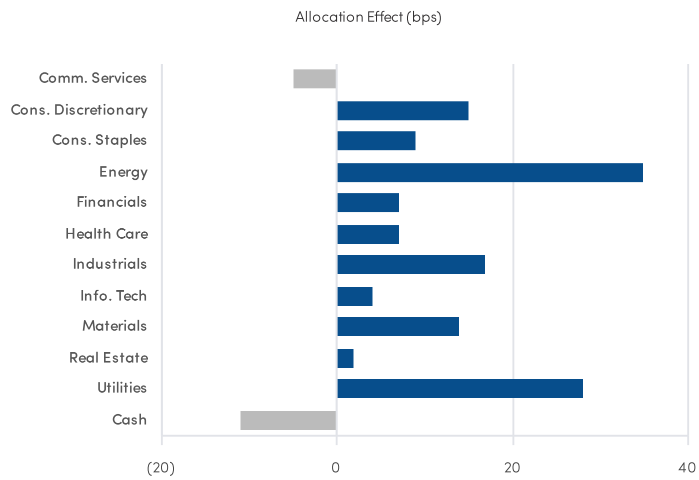
Kraft Heinz (KHC), a multinational owner and operator of leading packaged food brands, was the third-largest detractor. After performing well during the pandemic, demand for processed food has returned to more normal levels. This normalization, which was embedded in our expectations, seemed to weigh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

All Cap Value Equity

Sector Positioning

Sector allocation effect was broadly additive during the second quarter, with most sectors contributing to the portfolio's outperformance. An underweight to Energy and Utilities, the two worst performing benchmark sectors, generated the largest tailwinds as Utilities continued to struggle with the impact of higher interest rates and Energy came down from 2022 highs. The strategy's overweight to Industrials and Consumer Discretionary also bolstered relative performance. Partially offsetting these results, the underweight to Communication Services, the top performing benchmark sector, as well as the portfolio's frictional cash position in a strongly rising market posed slight headwinds.





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 All Cap Value institutional portfolio's gross of fees sector return relative to the Russell 3000® Value Index. The representative All Cap Value institutional portfolio returned 7.37% net of fees and 7.57% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

Bank of America (BAC) is one of the largest banks in the U.S. and a beneficiary of significant scale advantages inherent to the industry. We believe that investor concerns over the stability of the banking system broadly and the negative reaction to BAC's unrealized losses on its held-to-maturity portfolio are overblown, enabling us to initiate a position in this well-run bank at an attractive valuation.

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

FirstCash (FCFS) was eliminated to make room for better opportunities.

COOKE & BIELER

Q2 2023

All Cap Value Equity

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 All Cap Value Performance Disclosures