COOKE & BIELER

Q3 2022

All Cap Value Equity

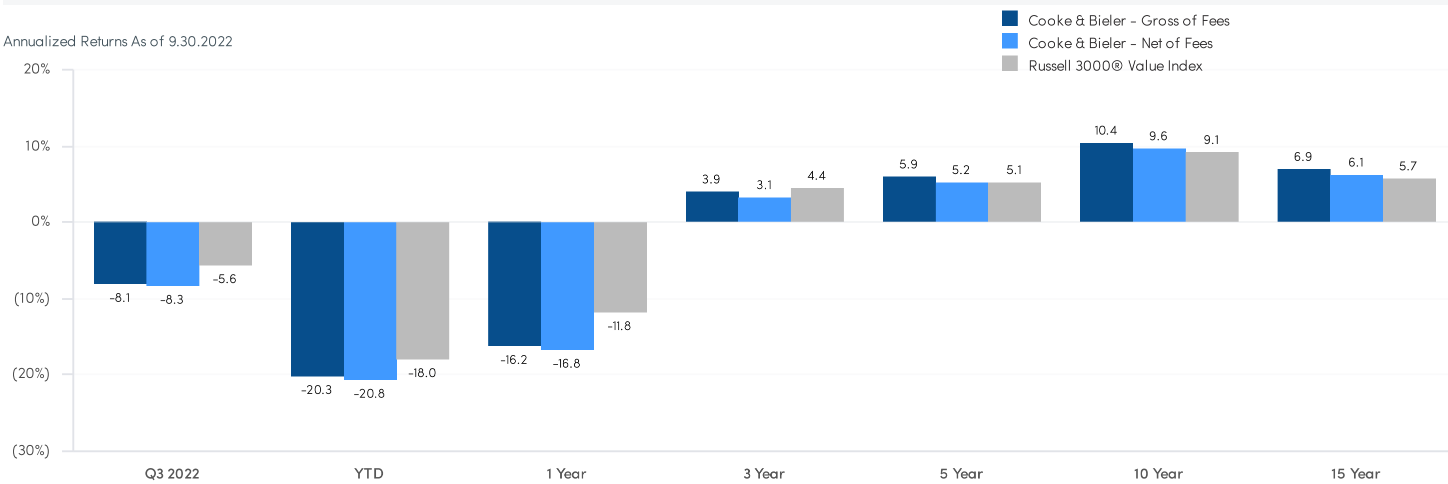
Overview

U.S. equity indices posted their third consecutive quarter of negative returns. Bonds offered little sanctuary as Fed officials raised rates for the fifth time this year and 10-year Treasury yields spiked from 3% to more than 4% before settling around 3.8%. Persistently high inflation and rising interest rates united investors in their pessimism while seemingly dividing their assessment of which ostensible safe haven was best. A global flight to safety drove the dollar to new heights, but outcomes grew muddled from there. Lower quality, non-earnings businesses tended to perform better and despite near 25% declines in underlying oil prices, Energy stocks powered through and still posted some of the top sector results. Smaller capitalization issues as well – which would otherwise lag in a risk-off environment – outperformed across styles as investors presumably focused on their greater mix of U.S. revenues. Conversely, high-yielding, domestic safe havens such as Utilities and Real Estate underperformed in the face of higher interest rates. Investors shrugged off rising rates elsewhere though, as longer duration Growth stocks bested their Value counterparts on the theory their results would be less impacted by a recession.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy returned -8.07% gross of fees (-8.26% net of fees), underperforming the Russell 3000® Value Index which returned -5.56% during the third quarter. Negative stock selection effect more than offset positive sector allocation effect. Consumer Discretionary holdings, in particular Helen of Troy, CarMax, and Hanesbrands posed further headwinds as consumers reined in spending and retailers reduced inventory. Health Care holdings also detracted from relative results, especially Syneos Health and Integra LifeSciences, which underperformed the sector and the broader benchmark. Conversely, Financials holdings were a continued bright spot, particularly Charles Schwab and Wells Fargo.

All Cap Value Equity Composite Performance



Source: Factset and Russell®

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 (%)	Total Return (%)	Contrib. to Return (bps)
PGT Innovations	1.8	26.0	36
Charles Schwab	2.2	14.1	24
Winnebago	2.9	10.1	19
HCA Healthcare	2.0	9.7	13
Wells Fargo	0.2	9.5	8

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Helen of Troy	2.0	-40.6	-97
CarMax	2.2	-27.0	-64
Verizon	2.5	-24.2	-62
Stanley Black & Decker	2.2	-27.6	-60
Syneos Health	1.8	-34.2	-59

Source: FactSet

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Largest Contributors

PGT Innovations (PGTI), a leading manufacturer of laminated, impact-resistant residential windows, was the largest contributor. PGTI saw strong volume, pricing, and margin trends across its geographies. The company continues to improve throughput and shorten lead times, helping to regain market share lost during the pandemic. Moreover, with 70% of PGTI's revenue generated in Florida, recent hurricane activity is likely to spur both near term demand for building products as well as long term interest in impact-resistant windows.

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the second-largest contributor. SCHW benefited from its lack of credit exposure and sensitivity to higher interest rates as well as continued momentum attracting new clients.

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the third-largest contributor. WGO generated record revenue and profitability in the quarter, with continued recreational vehicle and marine segment market share gains. Although we expect that demand will wane significantly, we believe that such a slowdown is already reflected in the company's share price, which we think presents a compelling value relative to our estimate of WGO's normalized earnings power. Investors seemed to at least partially acknowledge that value in the quarter, with management announcing a large, opportunistic share repurchase authorization.

Largest Detractors

Helen of Troy (HELE), a diversified consumer and household products company, was the largest detractor. HELE management indicated that slower ordering patterns and inventory destocking at mass market retailers was likely to weigh on revenue and margin results in upcoming quarters, particularly in categories that witnessed outsized demand during the pandemic. However, we believe that the company's market leading brands in secularly expanding categories should provide a long runway for organic and acquired growth.

CarMax (KMX), an independent used car retailer operating through both brick & mortar and online channels, was the second-largest detractor. KMX reported a worse than expected decline in used vehicle units sold while SG&A spending remained elevated – this surprised investors and significantly depressed the company's stock price.

Verizon (VZ), the largest domestic wireless telecom company, was the third-largest detractor. The stock underperformed as the company's subscriber growth lagged and investors grew increasingly concerned that margins would be affected by an increasingly intense competitive landscape.

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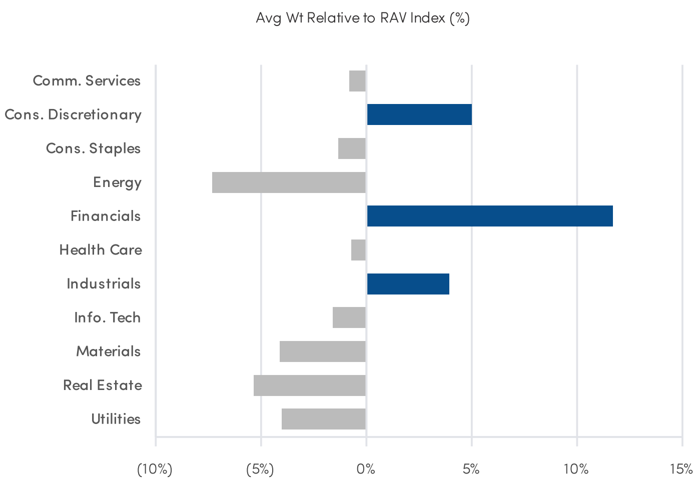
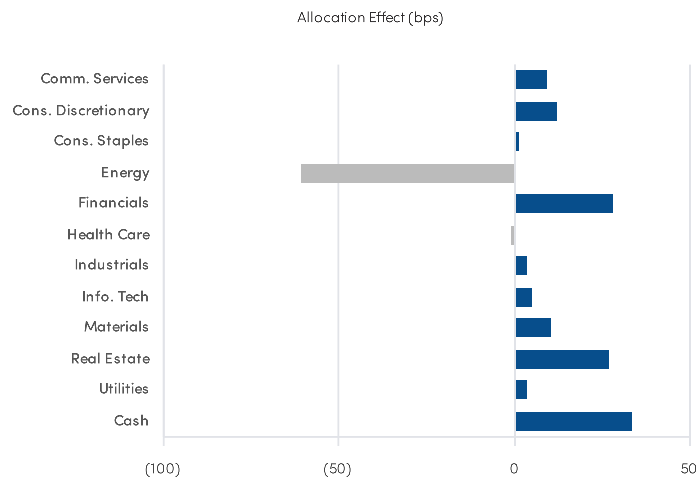
Sector Positioning

Sector allocation effect was broadly positive for the quarter, with nine out of 11 sectors contributing to relative performance. The portfolio's significant overweight to Financials, one of the best performing sectors within the benchmark, and the underweight to Real Estate, one of the worst performing sectors within the benchmark, were the largest tailwinds. An underweight to Energy, the only positively performing sector for the quarter as well as the year-to-date period, was a partial negative offset.





Source: FactSet

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Initiations

There were no initiations this quarter.

Eliminations

Mativ (MATV), formerly Schweitzer-Mauduit (SWM), was eliminated due to what we believed was an unacceptably large increase in the company's financial leverage as a result of a business combination.

Wells Fargo (WFC) was eliminated to make room for better opportunities.

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Outlook

The widespread persistence of inflationary pressures has forced the Federal Reserve to continue aggressively tightening monetary policy, increasing both interest rates and the odds of a U.S. economic recession. This reality – along with continuing supply chain disruptions, conflict in Ukraine, and economic weakness abroad – has greatly soured investor sentiment for equities, particularly those of companies deemed to be economically sensitive. Across capitalization ranges, the Consumer Discretionary, Industrials, and Information Technology sectors have experienced year-to-date declines from 20-40% or more, with many stocks losing more than half of their value. This has presented a meaningful challenge to relative performance given the portfolio's significant exposure to the Consumer Discretionary and Industrials sectors.

Though entering a recession overweighted to cyclical sectors is not ideal, we are increasingly convinced portfolio holdings in these sectors will be an important source of portfolio returns going forward. Underperformance tends to increase our already exhaustive attention to detail – leading our Analysts to further scrutinize the portfolio, challenge their thesis drivers, and dig even deeper into underlying business models and balance sheets. Our conclusion is that though some portfolio companies will likely be impacted meaningfully by a recession, we believe they have the balance sheet strength, favorable underlying economics, competitive advantages, and management talent to weather the storm and earn solid fundamental returns over the long haul.

In aggregate, Cooke & Bieler's companies earn higher returns on capital and maintain lower debt leverage than their benchmark peers. However, in many cases portfolio holdings more exposed to recession and/or continuing supply chain disruptions and inflationary pressures now trade at low double, if not single, digit multiples of earnings. We believe the short-term oriented market is egregiously underpricing their future streams of earnings and cash flows. We have added to many of these positions, further enhancing the portfolio's appreciation potential. We continue to have great confidence that our long-term approach, supported by the conviction that comes from detailed independent research, will add value through the cycle.

Sources: Bloomberg, CNBC, FactSet, Forbes, Jefferies, New York Times, Wall Street Journal

Additional Cooke & Bieler All Cap Value Performance Disclosures