COOKE & BIELER

Q4 2022

All Cap Value Equity

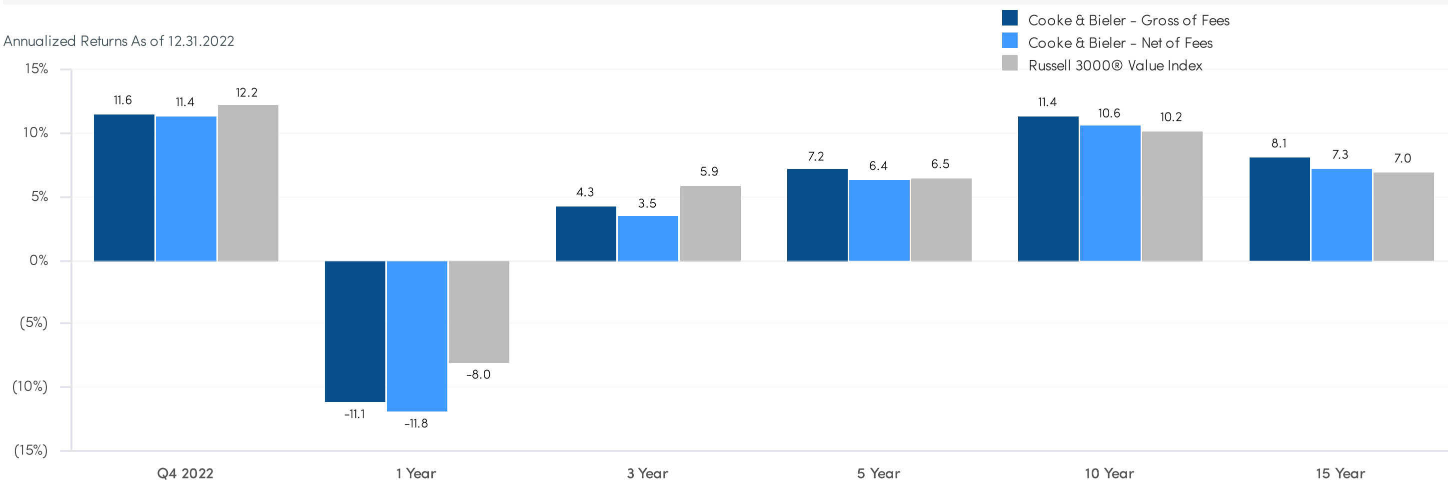
Overview

Stocks recovered strongly in the fourth quarter, but the rally was not strong enough for major indices to avoid their worst calendar year returns since 2008. Improved sentiment was driven by the slower pace of Fed tightening and signs inflation pressures had peaked, with markets also skirting any significant macroeconomic shocks. Oil prices and long-term interest rates ended the quarter broadly flat and the main geopolitical development – China's decision to relax its Covid Zero policy – bodes well for global growth. Domestically, both employment data and consumer spending appeared healthy despite the sharp tightening of monetary conditions since the start of the year, bolstering hopes for a soft landing. Against that backdrop, Energy continued its reign as the best performing sector, while value outperformed growth across the capitalization spectrum for the quarter and the year. Conversely, the most speculative areas of the market, including unprofitable technology companies, cryptocurrency related businesses, and small biotech, posted weak and at times catastrophic returns.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy generated strong absolute Q4 results, though relative performance still lagged for the quarter and full year. During the quarter, the strategy posted an 11.61% return gross of fees (11.42% net of fees) versus a 12.18% return for the Russell 3000® Value Index. This underperformance was mostly due to negative sector allocation effect, though stock selection effect was a slight detractor as well. Stock selection was additive in seven out of nine sectors where the portfolio had weight, but the headwinds from the two detracting sectors more than offset those results. The strategy's Consumer Discretionary holdings continued to struggle as investors weighed potential recession scenarios. The portfolio's Health Care stocks also underperformed the benchmark's sector constituents. Conversely, Financials and Communication Services holdings contributed most during the quarter.

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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Contributors & Detractors

Largest Contributors

AerCap (AER), the largest independent aircraft lessor, was the largest contributor. AER continued to benefit from the recovery in air travel. In addition, its acquisition of GE's aircraft leasing business has proved accretive to the company's cash flows.

Arch Capital (ACGL), a Bermuda-based specialty property & casualty and mortgage insurer, was the second-largest contributor. ACGL continued to achieve strong operating results, growing its insurance premiums into a hard market environment and compounding book value significantly versus the prior year. Expectations that property catastrophe reinsurance conditions would harden significantly in 2023 also helped the stock's performance. Additionally, investor sentiment on ACGL strengthened due to the stock's inclusion in the S&P 500®.

ESAB (ESAB), a manufacturer of welding and gas control equipment and consumables, was the third-largest contributor. ESAB reported solid earnings, easing investor concerns regarding the impact of a global economic slowdown. Management is executing well as a newly spun-off and independent business, investing in R&D, driving innovation, and making attractive bolt-on acquisitions.

Largest Detractors

Syneos Health (SYNH), a leading provider of outsourced pharmaceutical clinical trial and commercialization services, was the largest detractor. The stock's valuation contracted sharply in response to very disappointing new business awards during the quarter and management's cautious outlook for improvement.

PGT Innovations (PGTI), a leading manufacturer of laminated, impact-resistant residential windows, was the second-largest detractor. The shares outperformed in the third quarter on the prospect of robust hurricane-driven demand in its Florida markets, but saw that enthusiasm retreat somewhat this quarter despite continued strong volume, pricing, and margin trends.

CarMax (KMX), an independent used car retailer operating through both brick & mortar and online channels, was the third-largest detractor. In the third quarter of the year, KMX reported a worse-than-expected decline in used vehicle unit sales while SG&A spending remained elevated. These trends persisted into the fourth quarter as increasing consumer auto loan rates continued to put pressure on used car prices and volumes.

Sector Positioning

Sector allocation effect was negative during the quarter. The portfolio's underweight to Energy, once again the benchmark's best performing sector, continued to weigh on performance and was the largest detractor for the quarter and the year. An underweight to Materials also hindered results. Partially offsetting these headwinds were the underweight position in Real Estate, one of the worst performing sectors within the Index, and the overweight to Industrials.

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Initiations & Eliminations

Initiations

CBRE (CBRE) is the world's largest commercial real estate (CRE) services provider. Having sold CBRE late in 2021, we had the opportunity to reinitiate the position during the quarter as investor concerns over the CRE cycle weighed on the stock price. Our thesis remains the same: that through its uniquely broad offerings which include sales and leasing advisory services, outsourced services, investment management, and CRE development, CBRE is well positioned as the market leader to benefit from strong long-term secular trends within the CRE industry.

Kraft Heinz (KHC) is a multinational owner and operator of several leading packaged food brands that generate stable product demand and consistent above average profitability. The company has significantly improved its balance sheet over the past several quarters, allowing us to initiate a position.

PNC Financial Services Group (PNC) is a super-regional bank with a strong credit culture and significant technological capabilities. PNC provides retail, commercial, and corporate banking, as well as asset management services to customers throughout the United States.

Eliminations

Brookfield Asset Management (BAM) was spun out of Brookfield Corporation during the quarter and subsequently eliminated, with the proceeds reinvested back into Brookfield Corporation.

General Mills (GIS) reached its price target and was eliminated.

Syneos Health (SYNH) was eliminated to make room for better opportunities.

Notable Stock Updates

Long-term holding **Brookfield Asset Management (BAM)** renamed itself **Brookfield Corporation (BN)** and spun off 25% of its asset management business as a new entity named **Brookfield Asset Management (BAM)**.

F&G Annuities & Life (FG) was partially spun out of its parent, Fidelity National Financial, and subsequently eliminated from the portfolio to make room for better opportunities. FG primarily offers indexed annuities.

Outlook

With an ostensibly better line of sight on the end of the Fed's tightening cycle, investors seemed to focus more on longer-term fundamentals as the year drew to a close. The related underperformance within more speculative areas of the market and greater strength among enterprises with proven business models might presage a more favorable environment for Cooke & Bieler's style of investing. Similarly, it seems many investors who were concerned about a recession are now anticipating a soft landing – a shift in sentiment that benefited many of the portfolio's more cyclical holdings. That said, prevailing macroeconomic forces are likely to keep inflation higher and financial conditions tighter in 2023 and 2024 than they were in the middle part of the last decade, in which case the investing environment will remain challenging, particularly for highly valued stocks. However, we believe the portfolio should be positioned well for either a soft or hard landing due to the strong profitability and healthy balance sheets of our holdings. In addition, many of the more economically sensitive holdings had discounted a long and severe recession going into the fourth quarter. Many of the portfolio's holdings remain egregiously undervalued despite solid long term fundamentals, giving us reason to be optimistic about the portfolio's future prospects.

Sources: Bloomberg, CNBC, CNN, FactSet, NBC, Reuters, U.S. Department of the Treasury

Additional Cooke & Bieler All Cap Value Performance Disclosures