Cooke & Bieler

Q2 2023

Concentrated Value Equity

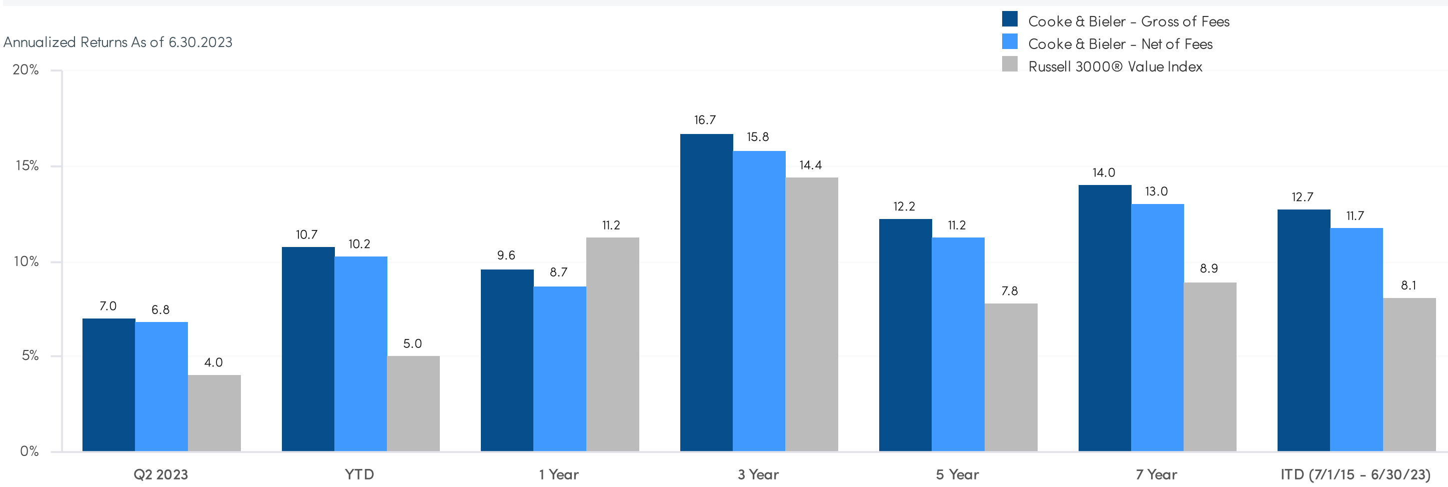
Overview

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 Concentrated Value Strategy significantly outperformed its benchmark during the second quarter, returning 6.99% gross of fees (6.78% 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 Health Care posting the best results thanks to strong performance by Baxter International and Medtronic. Information Technology and Communications Services holdings also contributed to relative results. Conversely, Consumer Discretionary holdings posed the largest headwind for the second quarter in a row, due largely to the impact of Hanesbrands, the portfolio's largest detractor. Financials holdings such as U.S. Bancorp also weighed on relative results, with many banks again posting lackluster returns following the collapse of several regional franchises earlier in the year.

Concentrated 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 (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Alphabet	4.4	18.9	109
Arrow Electronics	5.9	14.4	83
AerCap Holdings	5.7	12.6	73
TE Connectivity	6.6	7.1	61
London Stock Exchange	4.5	9.9	61

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Hanesbrands	2.3	-14.0	-41
U.S. Bancorp	3.5	-7.3	-32
Gildan Activewear	5.2	-2.6	-23
State Street	6.8	-2.8	-22
Chubb	4.2	-0.7	-4

Source: FactSet

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Largest Contributors

Alphabet (GOOGL), a leader in search engine technology, advertising, and cloud products was the largest contributor. GOOGL has worked on reducing costs to better balance innovation and profitability. Investors reacted positively to improving operating margins and meaningful share repurchases.

Arrow Electronics (ARW), a distributor of electronic components and a solution provider to value added technology resellers, was the second-largest contributor. Investors rewarded ARW for strong execution as they continued to benefit from inflation, while reduced share count offset the higher cost of debt. As a whole, the IT sector continued to hold up after last year's concerns about the sector's growth prospects.

AerCap (AER), the largest independent aircraft lessor, was the third-largest contributor. AER benefited from ongoing improvement in the health of their airline customers and management's disciplined approach to capital allocation.

Largest Detractors

Hanesbrands (HBI), a manufacturer and marketer of basic apparel, was the 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.

U.S. Bancorp (USB), one of the largest non-money center banks, was the second-largest detractor. USB suspended share repurchases in the near term to organically increase capital and regain capital targets given the impact of their acquisition of Union Bank. Additionally, the potential for increased requirements on larger banks weighed on the stock following last quarter's concerns about the stability of the banking industry.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the third-largest detractor. GIL underperformed slightly in the quarter as wholesale inventory movements masked end user demand strength for imprintable garments. New retail wins are materializing, and the company's new, lower-cost manufacturing capacity begins phasing into production this year. We anticipate this combination will put GIL on track to achieve its full year targets.

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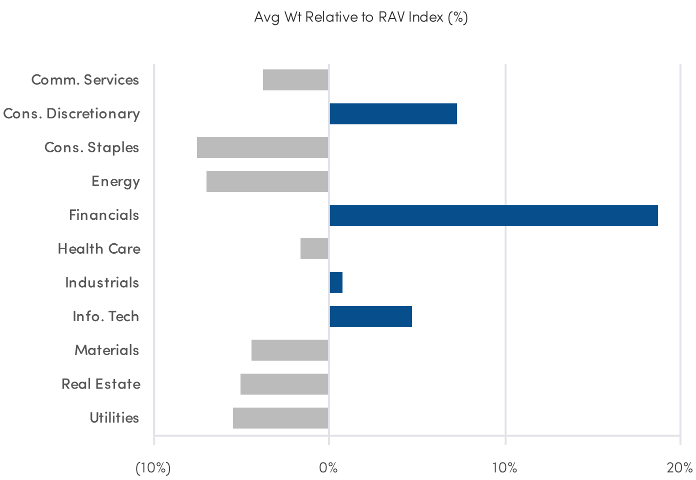
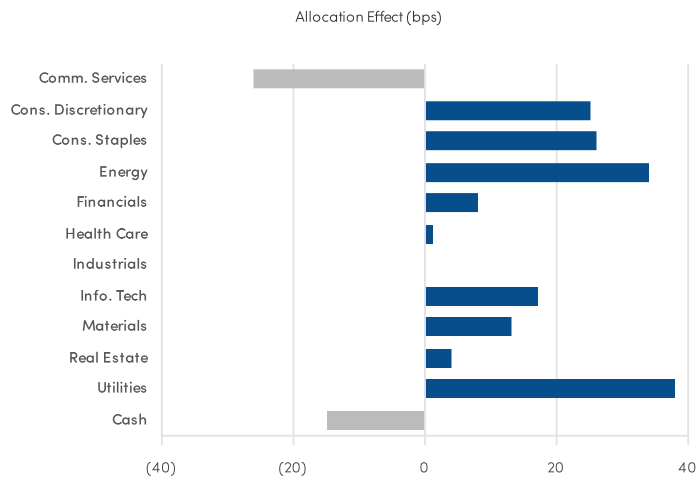
Sector Positioning

Sector allocation effect was broadly additive during the second quarter, with most sectors contributing to the portfolio's outperformance. An underweight to Utilities, the worst performing benchmark sector for the quarter and the year-to-date period, generated the largest tailwind as the space continued to struggle with the impact of higher interest rates. The strategy's underweight to Energy and Consumer Staples 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

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Initiations

Charles Schwab (SCHW) is the country's largest discount broker with more than $7.5 trillion in client assets. The stock sold off sharply during the March banking crisis as investors grew concerned Schwab clients would accelerate their movement of cash from Schwab's banking subsidiary to higher-yielding alternatives, pressuring Schwab's balance sheet. However, this sort of cash sorting behavior is well understood by Schwab management. While the unexpectedly rapid pace of Federal Reserve tightening will require Schwab to use some more expensive short-term financing and thus depress 2023 earnings, the company's long-term competitive position remains extremely strong.

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.

Globe Life (GL) offers basic individual life and supplemental health insurance through niche distribution channels to underserved lower- and middle-income Americans. This marketing and distribution model combined with the company's scale and cost structure create a durable competitive advantage that is reflected in above average returns on equity and cash flow. Management consistently returns excess cash to shareholders, primarily through share repurchases.

Eliminations

Alphabet (GOOGL), **Arch Capital (ACGL)**, and **London Stock Exchange (LNSTY)** were eliminated to make room for better opportunities.

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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

Past performance is not indicative of future results. All investing involves risk, including loss of principal. The material presented represents the manager's assessment of the Concentrated Value institutional portfolio and market environment at a specific point in time and should not be relied upon by the reader as research or investment advice regarding any particular security or sector. The above commentary and portfolio attribution are based on a representative Concentrated Value institutional portfolio for the quarter ending 6/30/23. Certain client portfolios may or may not hold the securities identified above due to the respective account's guidelines, restrictions, required cash flows, or other relevant considerations. The performance attribution is an analysis of the portfolio's return relative to the Russell 3000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Concentrated 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.

Additional Cooke & Bieler Concentrated Value Performance Disclosures