



# Concentrated Value Equity

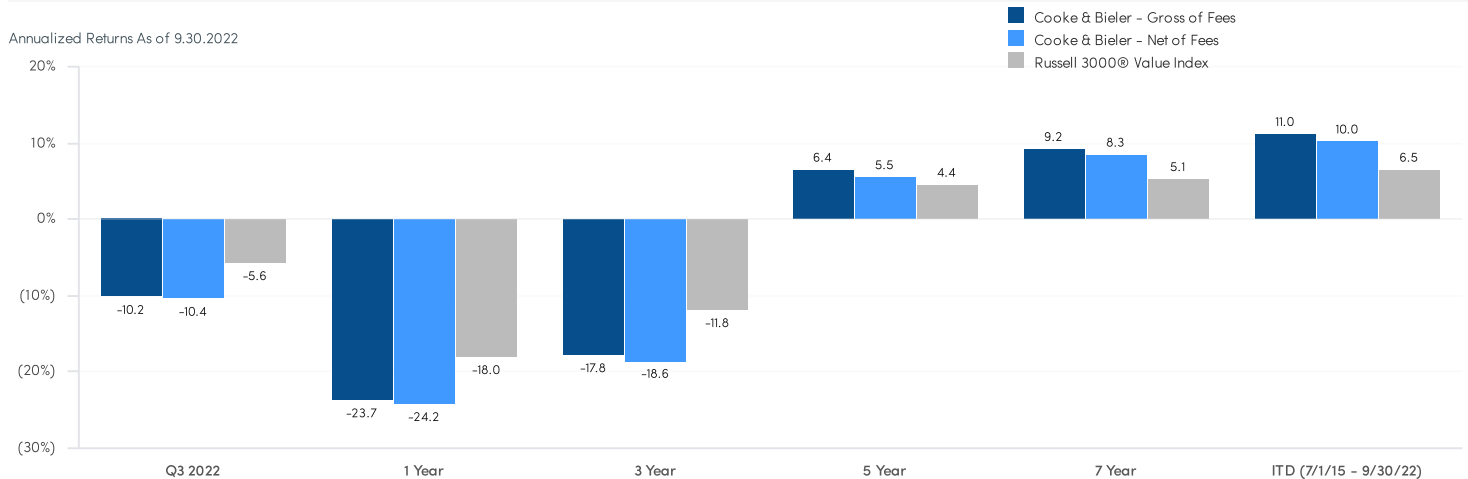
## Overview

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 Concentrated Value Strategy returned -10.21% gross of fees (-10.43% 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 and Hanesbrands, posed the largest headwinds as consumers reined in spending and retailers reduced inventory. However, recreational vehicle manufacturer Winnebago was a bright spot within the space. Health Care holdings also detracted from relative results, especially Syneos Health and Medtronic, which underperformed the sector and the broader benchmark.

## 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 (%)	Total Return (%)	Contrib. to Return (bps)
Winnebago	3.2	10.1	20
AerCap	6.1	3.4	14
Arch Capital	6.4	0.1	-3
Progressive	5.5	0.0	-6
IAA	3.5	-2.8	-10

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Syneos Health	4.9	-34.2	-163
Helen of Troy	3.2	-40.6	-157
Stanley Black & Decker	4.3	-27.6	-118
Arrow Electronics	6.6	-17.8	-108
Hanesbrands	2.9	-31.3	-93

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 Concentrated Value institutional portfolio's gross of fees return relative to the Russell 3000® Value Index. The representative Concentrated Value institutional portfolio returned -10.43% net of fees and -10.23% gross of fees during the quarter. 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](mailto:contact@cooke-bieler.com).

## Largest Contributors

**Winnebago (WGO)**, a leading manufacturer of recreational vehicles, was the 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.

**AerCap (AER)**, the largest independent aircraft lessor, was the second-largest contributor. AER reported encouraging results as global air travel continued to recover from the pandemic. Additionally, losses caused by Russian airlines breaching lease terms in the wake of the war in Ukraine have proven to be manageable.

**Arch Capital (ACGL)**, a Bermuda-based specialty property & casualty and mortgage insurer, was the third-largest contributor. ACGL continued to achieve strong operating results in the quarter, growing its insurance premiums into a hard market environment and compounding book value significantly versus the prior year. The stock also benefited from fading investor concerns regarding mortgage insurance claims.

## 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 disappointing new business awards during the quarter and management's cautious outlook for improvement.

**Helen of Troy (HELE)**, a diversified consumer and household products company, was the second-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.

**Stanley Black & Decker (SWK)**, an industrial and household tool manufacturer, was the third-largest detractor. The company's CEO announced that expectations of future performance had been scaled back as investors became increasingly concerned about a retail inventory correction.

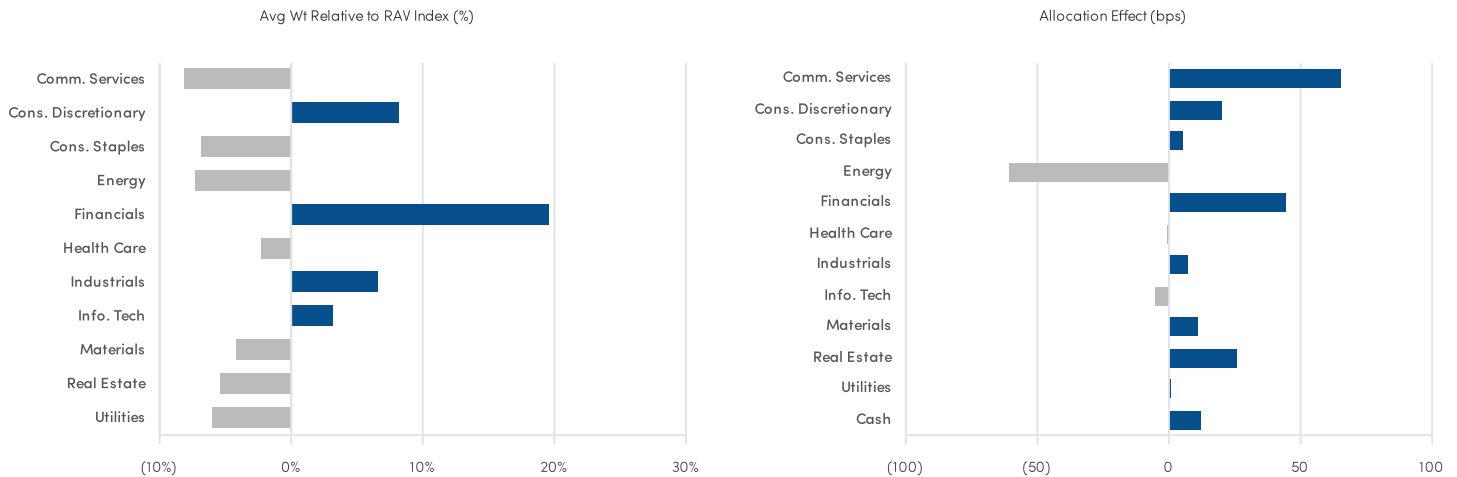




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## Sector Positioning

Sector allocation effect was broadly positive for the quarter, with eight out of 11 sectors contributing to relative performance. The portfolio's underweight to Communication Services, the worst performing sector within the benchmark, and the overweight to Financials, one of the best performing sectors within the benchmark, were the largest tailwinds. The underweight to Real Estate also contributed to relative results. 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, as was the overweight to cyclically exposed Information Technology.



Source: FactSet

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## Initiations

There were no initiations this quarter.

## Eliminations

There were no eliminations this quarter.





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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 our portfolios' 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

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 9/30/22. The portfolio attribution is gross of fees. 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](mailto:contact@cooke-bieler.com).

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