



Concentrated Value Equity

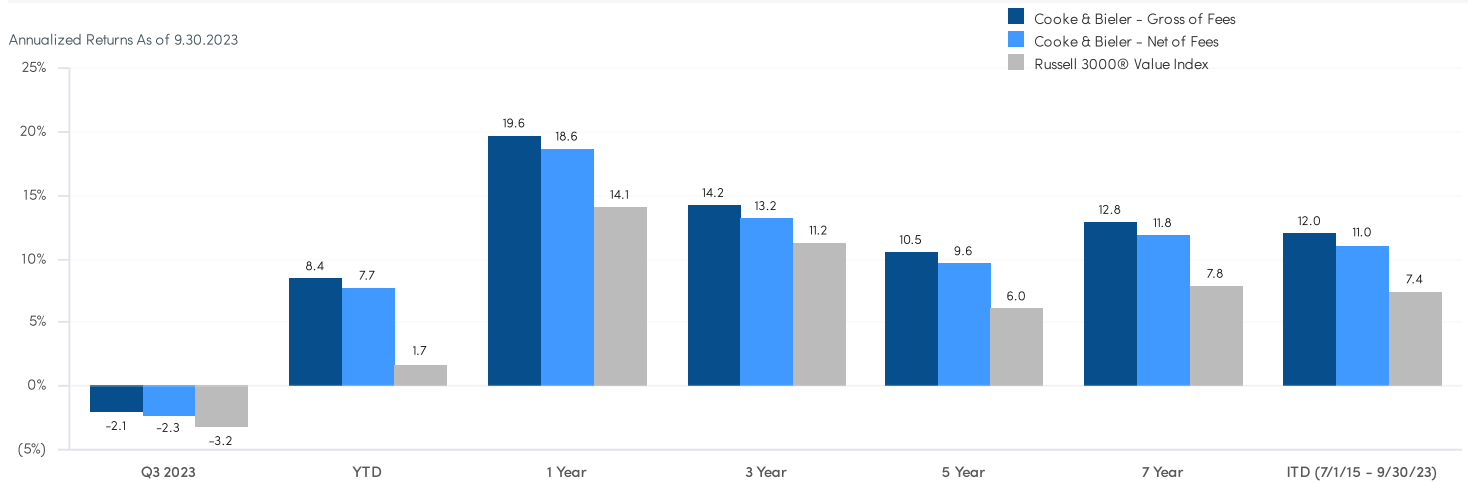
Overview

Markets continued their upward trend early in the third quarter, though rising oil prices and the prospect of persistently higher interest rates ultimately sapped investor optimism and pushed major indices down modestly for the full three-month period. The S&P 500® lost 3.6%, the tech-heavy NASDAQ fell 4.1%, and the Russell 2000® Index declined 5.5% as small caps lagged their larger counterparts. Energy was the best performing sector across the board, fueled by a 28% rise in WTI crude. Conversely, yields on 10-year Treasuries rose by nearly 90 basis points to their highest levels since 2007, sending the yield-driven Utilities and Real Estate sectors lower. Perhaps not surprisingly, mounting economic anxiety seemed to benefit stocks of higher quality businesses, as evidenced by the outperformance of companies with higher returns on capital and lower debt leverage.

Portfolio Performance & Developments

Cooke & Bieler's Concentrated Value Strategy outperformed the Russell 3000® Value Index for the third consecutive quarter, posting a -2.05% return gross of fees (-2.26% net of fees) against a -3.15% return for the Index. Outperformance was driven by both positive stock selection effect and sector allocation effect. Portfolio holdings within Industrials and Financials – particularly Fidelity National Financial and RB Global – performed best. Energy and Consumer Discretionary holdings were also additive. Partially offsetting these results were Health Care holdings such as Baxter International and Medtronic, as well as the portfolio's Information Technology holdings.

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)		Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Fidelity National Fin.	6.3	15.9	84	Baxter International	4.1	-16.6	-68
ConocoPhillips	4.2	16.6	59	Brookfield	9.2	-6.9	-65
Chubb	5.2	8.5	39	Gildan Activewear	4.7	-12.6	-59
Helen of Troy	3.4	7.8	25	Medtronic	5.1	-10.4	-54
Charles Schwab	5.0	-2.8	22	State Street	6.2	-7.6	-48

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. 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 Concentrated Value institutional portfolio returned -2.19% net of fees and -1.98% 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.

Largest Contributors

Fidelity National Financial (FNF), the largest U.S. title insurer, was the largest contributor. FNF's title revenue fell sharply year over year as higher interest rates depressed mortgage activity. The company's strong cost control, however, allowed them to produce better than expected margins while their annuity subsidiary posted strong sales results. Additionally, sentiment was undoubtedly aided by hopes that interest rates may have peaked.

ConocoPhillips (COP), one of the largest international E&P companies with a scaled and well-diversified portfolio of assets, was the second-largest contributor. 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. COP continues to return healthy cash flows to shareholders while keeping their low cost of supply.

Chubb (CB), a leading global property and casualty insurer, was the third-largest contributor. Strong underwriting results and higher interest rates led to strong fundamental returns. Investor sentiment improved as the existing strong pricing environment is expected to continue in the near and intermediate term.

Largest Detractors

Baxter International (BAX), a developer, manufacturer, and marketer of diversified medically necessary products, was the largest detractor. BAX struggled with extensive supply chain disruptions and pervasive input cost inflation over the past year, resulting in a series of earnings disappointments. Recent management guidance for improved results shows input costs and supply chain constraints easing and cost savings initiatives well underway.

Brookfield Corporation (BN), a global investor, operator, and manager of real assets, was the second-largest detractor. Investor sentiment waned in the quarter due to concerns of higher interest rates and exposure to commercial real estate. Though there is likely stress on some of their commercial real estate portfolio, the current valuation gives little, if any, credit for these assets. Elsewhere, fundamentals remain strong, including its 75% stake in the attractive, capital light asset management business.

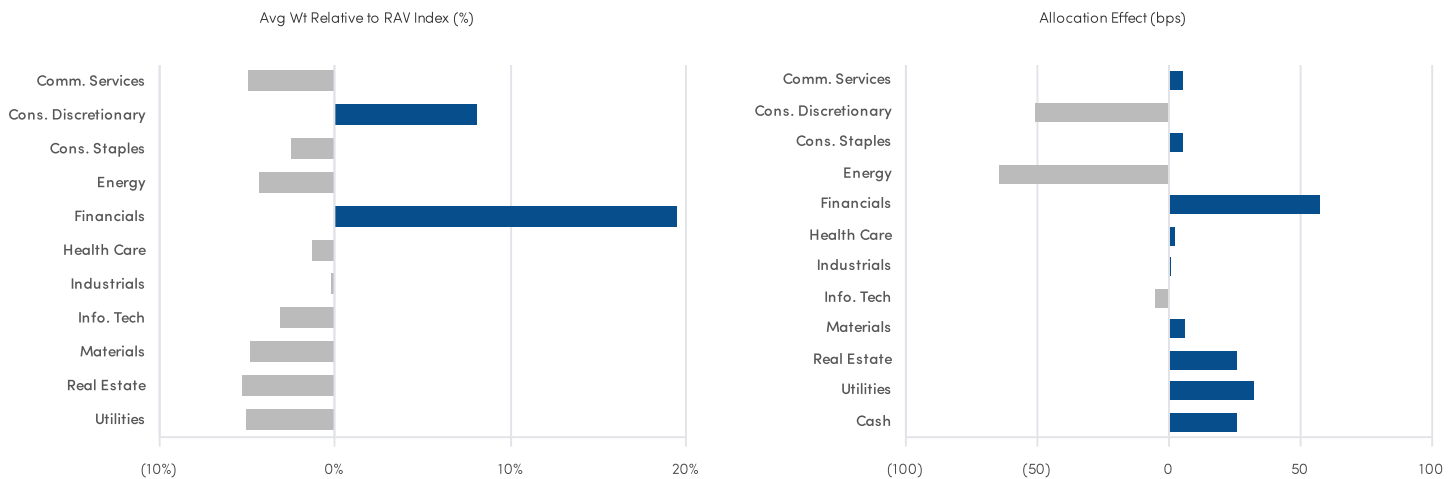
Gildan Activewear (GIL), the largest basic apparel manufacturer, was the third-largest detractor. GIL posted a decent quarter marked by strong margin expansion and further market share gains, but reduced its full year guidance on the basis of Activewear segment mix shift. While management continues to expect second half revenue growth, that growth will be more muted than originally anticipated as end user preferences have shifted toward lower ticket garments. Therefore, although volume projections remain the same, revenue and margin projections are weaker now.



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Sector Positioning

Sector allocation effect was additive during the third quarter. The portfolio's overweight to Financials, the second best performing sector within the benchmark, generated the largest contribution to relative results. Underweight positions in Utilities and Real Estate were also beneficial as bond proxy sectors faltered during the quarter. Conversely, the most significant headwind came courtesy of an underweight to Energy, which turned in a double-digit return driven by rising oil prices, easily surpassing the negative returns posted by all other benchmark sectors. The strategy's overweight to Consumer Discretionary also weighed on portfolio performance.



Source: FactSet
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Initiations

Kenvue (KVUE), recently split off from **Johnson & Johnson (JNJ)**, is a diversified developer, manufacturer, and marketer of self-care, skin, health, and beauty care, and essential health care consumer products. The company generally participates in above average growth categories with limited private label offerings and boasts numerous category leading brands, including Tylenol, Neutrogena, Aveeno, Listerine, and Johnson's. As a newly independent entity, we believe the company will benefit from increased focus and aligned incentives and view the company as a dependable grower.

Philip Morris (PM) is a leading global tobacco products manufacturer. We believe the company is well positioned to be a strong earnings compounder due to robust pricing power in its legacy cigarette business matched with positive volume trends and favorable mix tailwinds in its now sizeable reduced-risk product portfolio.

Teleflex (TFX) is a manufacturer of a diverse portfolio of single-use, disposable medical devices and products used primarily in critical care settings around the world. Over the past decade, management has used the company's strong free cash flow generation and balance sheet to broaden its portfolio through margin accretive acquisitions, supplementing its established portfolio of industry-leading catheters. We believe that the combination should produce attractive organic revenue and earnings growth over time.

Eliminations

Arrow Electronics (ARW), **Hanesbrands (HBI)**, and **Kenvue (KVUE)** were eliminated to make room for higher conviction opportunities.

Notable Stock Updates

Kenvue (KVUE), a diversified developer, manufacturer, and marketer of self-care, skin, health, and beauty care, and essential health care consumer products, was spun off from long-term holding **Johnson & Johnson (JNJ)** in a tender exchange offer.





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Outlook

Although Cooke & Bieler's bottom-up process centers on individual company fundamentals, we remain keenly aware of the macroeconomic landscape and the hazards it may present. With the Fed having somewhat tamped inflation, the U.S. consumer displaying surprising resilience, and unemployment remaining low, the market's initial third quarter buoyancy was not entirely unfounded. That said, the recent spike in oil prices poses a clear headwind to disinflation, while the impending resumption of student loan payments could finally deplete consumers' pandemic savings buffer. Additionally, there is a growing sense that not only are policymakers' "higher for longer" talking points sincere with regards to interest rates, but many are expecting one remaining rate hike in 2023. With these developments, a soft landing scenario has become incrementally less likely. Investors have begun to rein in their expectations accordingly, but we are not yet convinced these expectations are aligned with the true risks. This disconnect strengthens the case for discerning stock selection, and we believe the style preferences displayed by markets during the quarter may prove enduring, which could benefit the portfolios going forward. Combining strong business quality, balance sheet strength, and good valuation – the intersection that Cooke & Bieler targets when choosing holdings – becomes more relevant during periods of economic turmoil.

Sources: Bloomberg, FactSet

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 9/30/23. 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.

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