COOKE & BIELER

Q1 2023

Concentrated Value Equity

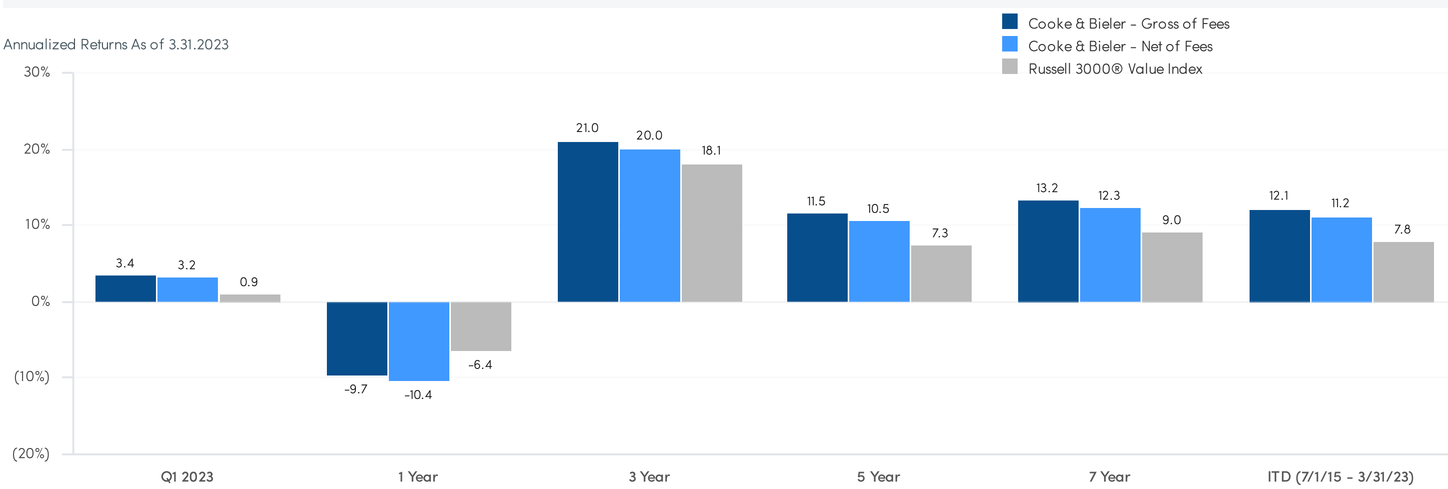
Overview

The first three months of 2023 have already taken markets on an eventful ride. Initially, investors indulged the bullish peak inflation and soft landing narratives that emerged in late 2022, fueling a broad rally through the end of January. Higher than expected inflation reports in early February, though, tempered that enthusiasm and spurred a retreat when hawkish Federal Reserve commentary pushed interest rates higher. By early March, that retreat further deteriorated into a deeper sell-off when several regional banks unexpectedly failed. Almost as quickly, fear gave way to optimism that the crisis would not be systemic. The Fed used its balance sheet to inject substantial liquidity into the banking system and investors embraced the possibility that central banks would change policy course sooner than later. The resulting late quarter market surge ultimately pushed most major equity indices into positive territory. Returns across investment styles, market capitalizations, and economic sectors varied widely, with growth indices advancing sharply, value indices posting flattish results, and large cap stocks outperforming small cap issues. At the sector level, the biggest winners were Information Technology, Communication Services, and Consumer Discretionary constituents – many of which posted double-digit returns. Energy stocks, on the other hand, followed the prevailing trend of last year's leaders becoming this year's laggards, while concerns about the liquidity of smaller banks weighed on Financials stocks at the lower end of the capitalization spectrum.

Portfolio Performance & Developments

Cooke & Bieler's Concentrated Value Strategy significantly outperformed the benchmark during the volatile first quarter, posting a 3.44% return gross of fees (3.23% net of fees) against the Russell 3000® Value Index's 0.91% return. Stock selection effect was additive to relative results, while sector allocation effect was a headwind. Financials holdings continued to shine, with London Stock Exchange and Progressive contributing most. Industrials and Communication Services holdings also added to results. Conversely, Consumer Discretionary holdings continued to struggle, with Helen of Troy and Hanesbrands detracting most as investors continued to grapple with a potential recession amid mixed economic data. Health Care holdings also detracted from results.

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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Contributors & Detractors

Largest Contributors

Arrow Electronics (ARW), a distributor of electronic components and a solution provider to value added technology resellers, was the largest contributor. Investors rewarded ARW for strong execution as it achieved record sales and operating margins, despite a decrease in units sold. Investors generally favored the technology sector this quarter after worrying about the sector's growth prospects last year.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the second-largest contributor. GIL is weathering current consumer softness well, posting resilient margins and winning market share in both its core printwear apparel business and its retail innerwear segment. Management guided to flat earnings in the upcoming fiscal year, reassuring investors that the company's margin improvements over the last few years should prove sustainable.

ESAB (ESAB), a manufacturer of welding and gas control equipment and consumables, was the third-largest contributor. Investors rewarded ESAB for strong execution, resulting in organic revenue growth and margin expansion. Following their recent spin-off, management continues to improve its communication to investors – particularly related to bolt-on opportunities within the gas controls space – improving investor sentiment.

Largest Detractors

Fidelity National Financial (FNF), the nation's leading title insurer, was the largest detractor. FNF sold off in response to a cooling real estate market. The company has taken quick action to reduce costs and has a long history of generating value across real estate cycles.

Baxter International (BAX), a manufacturer of a diverse portfolio of lifesaving medical products, was the second-largest detractor. The company has struggled with extensive supply chain disruptions and pervasive input cost inflation over the past year, resulting in a series of earnings disappointments. Recent indications that these issues will continue to weigh on earnings in 2023 pressured the stock's valuation meaningfully.

U.S. Bancorp (USB), one of the largest non-money center banks, was the third-largest detractor. The collapse of Silicon Valley Bank caused widespread concern about the stability of the banking system, pressuring the stock's valuation. Investors were also concerned that the recent acquisition of Union Bank had left USB in an unattractive capital position for this new environment.

Sector Positioning

Sector allocation effect was negative for the quarter. An overweight to Financials posed the largest headwind as the sector saw instances of indiscriminate selling following the collapse of multiple regional banks. While the strategy is significantly overweight Financials as a whole, it is underweight banks, and we believe those in the portfolio are better capitalized and more conservatively positioned than the broader industry. An underweight to Communication Services, the best performing sector within the benchmark, also detracted from results. Somewhat offsetting these results, the overweight to Information Technology was additive, as was the underweight to Energy as the sector faltered following strong performance in 2022.

Initiations & Eliminations

Initiations

Alphabet (GOOGL) generates over 90% of its revenues from advertising, primarily through its Google Search & YouTube offerings, with Google Cloud products accounting for the remainder. We believe the company's heavily entrenched position in the search market should enable it to take advantage of trends in global advertising spending and increase its share of customer advertising budgets.

Fidelity National Financial (FNF) is the largest title insurer in the United States with a long history of best-in-class execution and value-added corporate actions. Title insurance is an attractive industry, with the top four players controlling 80% of the market and little of the balance sheet risk endemic to most financials.

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Eliminations

Progressive (PGR) reached its price target and was eliminated.

Stanley Black & Decker (SWK) was eliminated to make room for better opportunities.

Notable Stock Updates

Ritchie Bros. Auctioneers (RBA) owns and operates the leading auction marketplace for used construction, agricultural, mining, and transportation equipment. RBA completed its acquisition of previous portfolio holding **IAA (IAA)** in a stock-and-cash transaction during the quarter. We believe that the combination should accelerate RBA's promising satellite yard strategy and improve IAA's ability to service insurance customers during catastrophic events. We believe there are also significant opportunities for RBA's strong management team to create shareholder value by executing on cost and revenue synergies.

Outlook

Having shrugged off the failure of several regional banks and the forced consolidation of a large Swiss banking house, markets enter the second quarter with strong momentum. For the moment, investors seem inclined to take a constructive view of most developments, with strong data taken as a sign of economic resilience and weak data, or signs of financial stress, taken as evidence the Federal Reserve will soon end its year-long series of rate increases. There are clearly risks to this buoyant mood, however, as the effects of the Fed's dramatic tightening program are still materializing and we think more negative surprises seem likely. That said, we have long maintained that it is more productive to focus on company-specific fundamentals than to guess at macroeconomic outcomes. As always, we believe competitively advantaged businesses that create value for their customers, are conservatively managed, and are appropriately financed will generate attractive returns for their shareholders over time if purchased judiciously. Viewed in this light, economic dislocation creates more opportunities than risks for patient and disciplined investors.

Sources: Bloomberg, FactSet, The New York Times

Additional Cooke & Bieler Concentrated Value Performance Disclosures