Q1 2023

Large Cap Value Equity

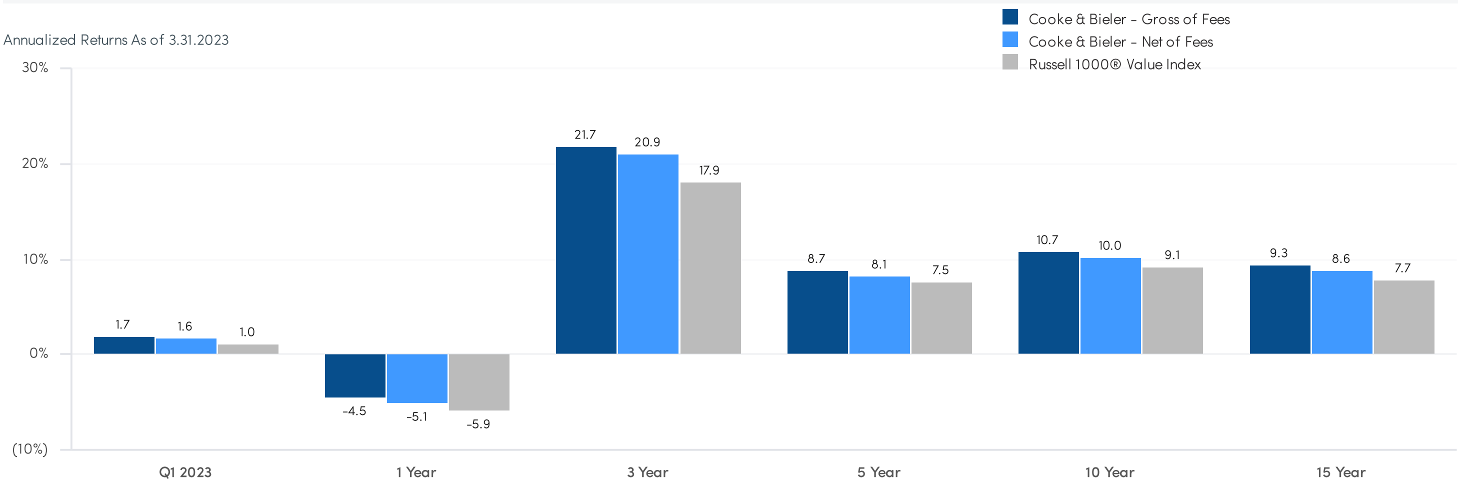
Overview

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 Large Cap Value Strategy outperformed the benchmark during the volatile first quarter, posting a 1.74% return gross of fees (1.58% net of fees) against the Russell 1000® Value Index's 1.01% return. Sector allocation effect was additive to relative results, while stock selection effect was a slight headwind. Communication Services holdings detracted most, particularly Warner Music Group which struggled after being a top performer last quarter. Consumer Discretionary and Financials holdings also weighed on results. Conversely, Health Care holdings performed well, especially Dentsply Sirona, a stock that performed poorly in 2022 but outperformed the benchmark handily in the first quarter. Information Technology holdings were also a relative bright spot.

Large 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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Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Open Text	2.6	31.0	69
Arrow Electronics	3.4	19.4	61
Dentsply Sirona	2.2	23.8	46
Omnicom	2.9	16.6	43
Gildan Activewear	2.3	21.9	43

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Charles Schwab	2.3	-36.9	-95
U.S. Bancorp	1.9	-16.2	-33
PNC Financial Services	1.5	-18.8	-32
Johnson & Johnson	2.4	-11.6	-28
Allstate	1.4	-17.7	-26

Source: FactSet

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Largest Contributors

Open Text (OTEX), an enterprise software company, was the largest contributor. The company reported stronger than expected cloud revenue and cloud bookings, a positive sign in its transition from selling traditional licenses to selling software subscriptions.

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 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.

Dentsply Sirona (XRAY), a manufacturer of dental equipment and products, was the third-largest contributor. XRAY reported encouraging results and new management provided incremental information outlining its plan to improve organic growth, profitability, and free cash flow conversion. Later in the quarter, XRAY announced the resumption of share repurchase activity with a target of returning at least 50% of free cash flow to shareholders.

Largest Detractors

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the largest detractor. The stock declined sharply as the market grew concerned about the unrealized losses in the company's large held-to-maturity bond portfolio. We believe these concerns are misplaced, as the company remains liquid and well capitalized and the mark-to-market losses – driven by increased interest rates – should reverse as the bonds mature over time.

U.S. Bancorp (USB), one of the largest non-money center banks, was the second-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.

PNC Financial Services (PNC), a super-regional bank with a strong credit culture and significant technological capabilities, was the third-largest detractor. PNC suffered from concerns about the stability of the banking system in the wake of the collapse of Silicon Valley Bank. Additionally, investors became increasingly concerned about the company's exposure to credit risk on commercial real estate loans.

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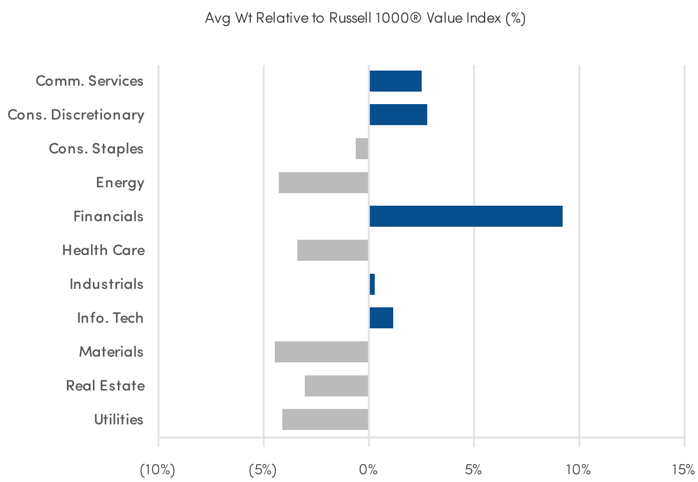
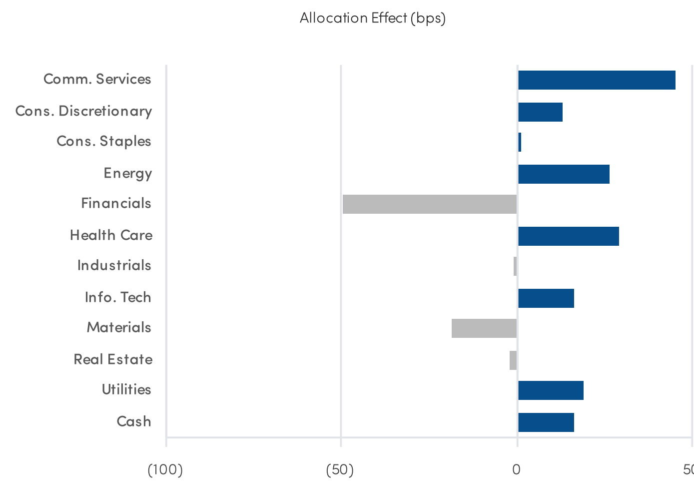
Sector Positioning

Sector allocation effect was additive during the first quarter, with most sectors contributing to the strategy's outperformance. An overweight to Communication Services, the top performing sector within the benchmark, was the largest driver. An underweight to Health Care was also additive, along with the strategy's underweight to Energy as the sector faltered following strong performance in 2022. Somewhat offsetting these positive results, an overweight to Financials posed a 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 only modestly overweight banks, and we believe those in the portfolio are better capitalized and more conservatively positioned than the broader industry. An underweight to Materials, one of the better performing sectors within the benchmark, also detracted from results.





Source: FactSet

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Initiations

Bank of America (BAC) is one of the largest banks in the U.S. and a beneficiary of significant scale advantages inherent to the industry. We believe that investor concerns over the stability of the banking system broadly and the negative reaction to BAC's unrealized losses on its held-to-maturity portfolio are overblown, enabling us to initiate a position in this well-run bank at an attractive valuation.

Discover Financial Services (DFS) is an owner and operator of a closed-loop branded credit card network targeting prime consumers. DFS also offers unsecured personal loans in addition to mortgage, home equity, and debt consolidation loans, with assets largely deposit funded. We believe DFS should be able to retain its card niche by making incremental strides in improving its network while maintaining a disciplined credit culture and returning capital to shareholders through share repurchases.

LKQ (LKQ) is in the business of rebuilding, refurbishing, and distributing aftermarket auto parts. We believe LKQ has significant competitive advantages due to its ability to source used and compromised vehicles at a scale unmatched by its competitors. We also believe LKQ will benefit as insurers increasingly begin to accept recycled parts for auto repairs.

Eliminations

PACCAR (PCAR) and **Progressive (PGR)** reached their price targets and were eliminated.

Synchrony Financial (SYF) was eliminated due to concerns that the CFPB's proposal to limit credit card late fees could significantly damage the company's business model.

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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 Large Cap Value Performance Disclosures