Q3 2022

Large Cap Value Equity

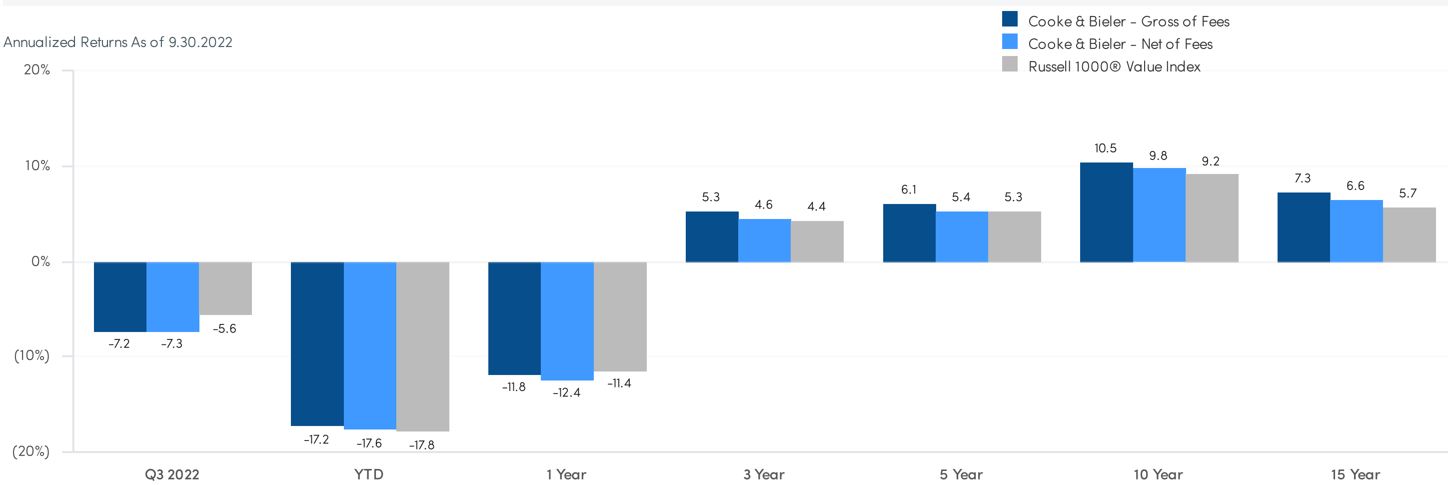
Overview

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 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 Large Cap Value Strategy returned -7.17% gross of fees (-7.33% net of fees), underperforming the Russell 1000® Value Index which returned -5.62% during the third quarter. Negative stock selection effect more than offset positive sector allocation effect. Consumer Discretionary holdings, in particular CarMax, Hanesbrands, and Hasbro posed further headwinds as consumers reined in spending and retailers reduced inventory. Similarly, Information Technology and Industrials holdings such as Arrow Electronics and Stanley Black & Decker underperformed their respective sectors as well as the broader benchmark. Conversely, Financials holdings were a continued bright spot, particularly Charles Schwab and Wells Fargo.

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)
Charles Schwab	2.2	14.1	24
EOG Resources	1.2	16.2	15
HCA Healthcare	2.0	9.7	13
Wells Fargo	0.2	9.5	8
AerCap	2.2	3.4	6

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
CarMax	2.2	-27.0	-64
Verizon	2.4	-24.2	-59
Stanley Black & Decker	2.1	-27.6	-59
Arrow Electronics	3.3	-17.8	-56
Hanesbrands	1.7	-31.3	-51

Source: FactSet

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Largest Contributors

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the largest contributor. SCHW benefited from its lack of credit exposure and sensitivity to higher interest rates as well as continued momentum attracting new clients.

EOG Resources (EOG), one of the largest crude oil and natural gas exploration and production companies in the United States, was the second-largest contributor. EOG exceeded expectations on both production volume and operating costs in a period of elevated commodity prices.

HCA Healthcare (HCA), a health care services company, was the third-largest contributor. The stock's valuation responded favorably to indications that recent labor cost pressures are easing.

Largest Detractors

CarMax (KMX), an independent used car retailer operating through both brick & mortar and online channels, was the largest detractor. KMX reported a worse than expected decline in used vehicle units sold while SG&A spending remained elevated – this surprised investors and significantly depressed the company's stock price.

Verizon (VZ), the largest domestic wireless telecom company, was the second-largest detractor. The stock underperformed as the company's subscriber growth lagged and investors grew increasingly concerned that margins would be affected by an increasingly intense competitive landscape.

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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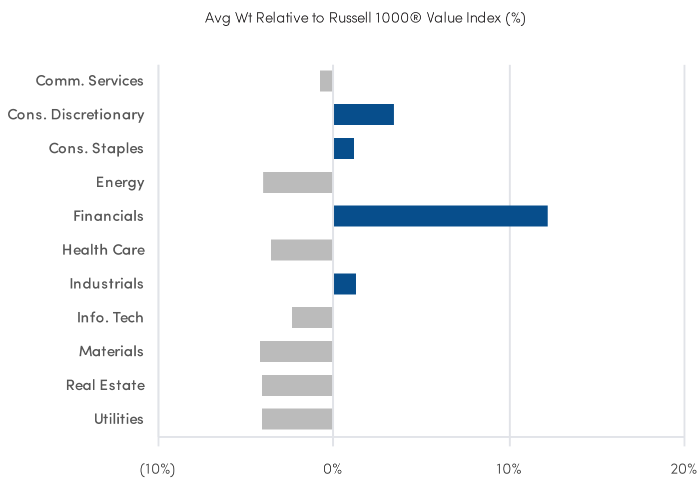
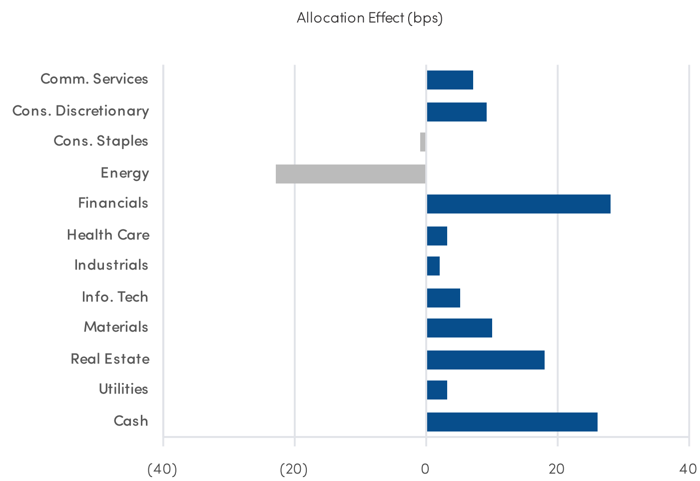
Sector Positioning

Sector allocation effect was broadly positive for the quarter, with nine out of 11 sectors contributing to relative performance. The portfolio's significant overweight to Financials, one of the best performing sectors within the benchmark, was the largest tailwind. Underweight positions in Real Estate and Materials, two of the worst performing sectors, further supported 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.





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Initiations

CBRE (CBRE) is the world's largest commercial real estate (CRE) services provider. Having sold CBRE late in 2021, we had the opportunity to reinitiate the position during the quarter as investor concerns over the CRE cycle weighed on the stock price. Our thesis remains the same: that through its uniquely broad offerings which include sales and leasing advisory services, outsourced services, investment management, and CRE development, CBRE is well positioned as the market leader to benefit from strong long-term secular trends within the CRE industry.

EOG Resources (EOG) is one of the largest domestic crude oil and natural gas exploration and production companies. EOG is a low-cost producer that focuses on combining technology, acreage, and scale to maximize return on capital. The company prioritizes the exploration and drilling of internally generated prospects in order to deliver cost-effective crude oil and natural gas production.

Open Text (OTEX) is a software company serving predominantly enterprise customers. The company's portfolio of products includes enterprise content management, supply chain business network, security, and digital experience software. Many of these offerings are particularly sticky with customers and OTEX enjoys overall renewal rates over 90%. OTEX enjoys high free cash flow margins which enable the business to either invest in research & development or acquire capabilities; the company has a strong track record of acquiring and successfully integrating adjacent businesses. OTEX is in the process of transitioning from selling traditional licenses to selling software subscriptions. Investor concerns that OTEX will fail to drive organic growth through this transition gave us the opportunity to initiate a position.

Eliminations

Alleghany (Y) was eliminated to make room for better opportunities following the proposed acquisition of the company by Berkshire Hathaway (BRK/B). **Leidos (LDOS)** and **UnitedHealth (UNH)** reached their price targets and were eliminated. **Wells Fargo (WFC)** was eliminated to make room for better opportunities.

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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 the portfolio's 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

Additional Cooke & Bieler Large Cap Value Performance Disclosures