

Large Cap Value Equity

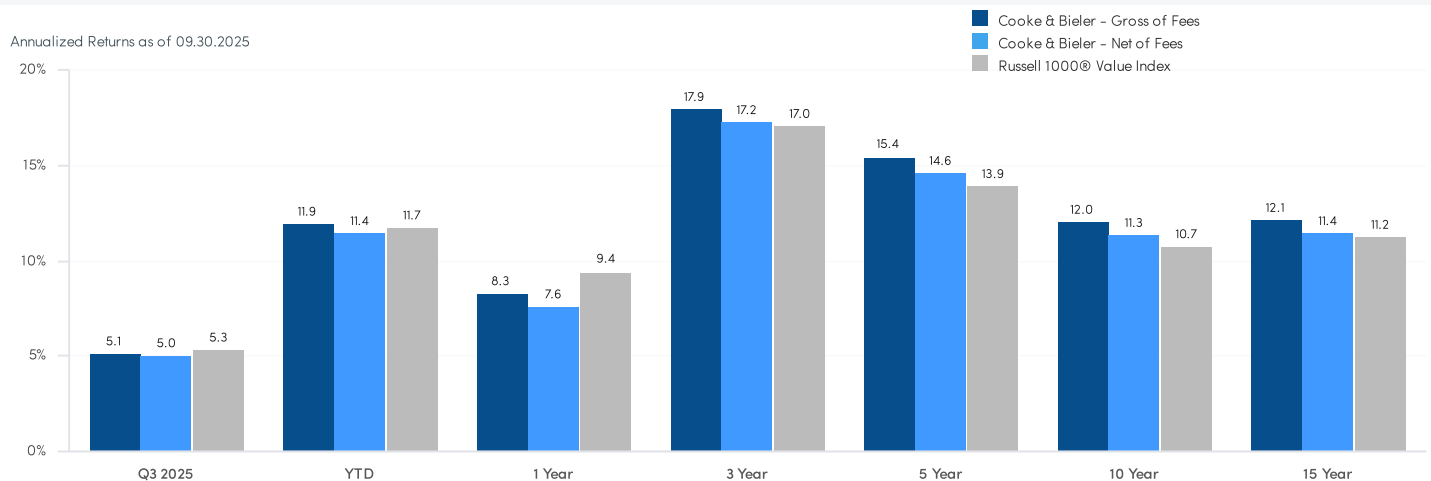
Overview

Investors were focused on the growing likelihood of more accommodative monetary policy in the third quarter, though the underlying drivers of these expectations shifted as the quarter progressed. Promising inflation data released in early August and the prospect of a Goldilocks outcome gave way to softening employment data and a cautionary central bank forecast later in the month. Despite this shifting narrative, expectations for lower interest rates remained relatively unchanged. This expectation, aided by corporate earnings performance that was generally better than even pre-Liberation Day guideposts, inspired a broad-based rally for U.S. equities. By the end of the quarter, signs of speculation were apparent. Trading volume in single-stock call options and leveraged ETFs surged, funds poured into AI-themed and precious metal ETFs, and small cap indices rose meaningfully. The powerful rally in smaller stocks was propelled by higher beta stocks of lower quality companies – particularly non-earners – with higher levels of debt. Biotech, software, metals, and mining stocks were notable standouts here. And although market leaders differed across the capitalization ranges, perceived safe havens such as Consumer Staples and even apparent beneficiaries of a lower interest rate regime such as REITs were consistent laggards.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy underperformed the benchmark during the third quarter, posting a 5.14% return gross of fees (4.98% net of fees) against a 5.33% return for the Russell 1000® Value Index. Stock selection was slightly negative overall, partially offset by positive sector allocation. Selection was weakest among Consumer Discretionary holdings, particularly automotive adjacent companies CarMax and LKQ. Communication Services and Materials holdings also underperformed the benchmark during the period. Conversely, Information Technology holdings such as Open Text and TE Connectivity outperformed the benchmark, posting a 25.99% total return compared to 4.93% for the Index. Health Care holdings also contributed to relative results.

Large Cap Value Equity Composite Performance



Source: FactSet and Russell®

Returns greater than one year are annualized. Past performance is not indicative of future results. All investing involves risk, including loss of principal. Effective at the market opening on March 24, 2025, Russell US Style Indexes have applied the RIC 22.5/45 capping methodology if index weights breached the thresholds as of the quarterly review pricing dates.

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Five Largest Contributors/Detractors

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Open Text	2.6	29.1	67
Gildan Activewear	3.3	17.9	56
Warner Music Group	2.1	25.8	49
TE Connectivity	1.5	30.6	49
Johnson & Johnson	1.7	22.3	36

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
CarMax	1.6	-33.2	-60
London Stock Exchange	1.9	-21.0	-44
LKQ	1.7	-16.7	-29
Dentsply Sirona	1.2	-19.1	-25
Philip Morris	1.3	-11.3	-22

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 Large Cap Value institutional portfolio's gross of fees return relative to the Russell 1000® Value Index. The Large Cap Value composite returned 4.98% net of fees and 5.14% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large Cap 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

Open Text (OTEX), a software company serving predominantly enterprise customers, was the largest contributor. OTEX outperformed as cloud bookings recovered, their sales pipelines grew, and as the board signaled that it would swiftly divest underperforming non-core software assets to pay down debt and reinvest in higher quality core assets.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the second-largest contributor. Investors responded favorably to GIL's announced acquisition of Hanesbrands. The combination should be significantly accretive to GIL on the basis of cost synergies as well as new opportunities in the retail activewear end markets.

Warner Music Group (WMG), a leading global music label and publisher, was the third-largest contributor. WMG reported better than expected revenue and margin trends in the quarter and indicated that new contracts with large digital service providers such as Spotify, Amazon, and Apple should support revenue growth going forward. In addition, the company named a new CFO whose initial interactions with investors were viewed positively.

Largest Detractors

CarMax (KMX), the largest used vehicle retailer in the U.S., was the largest detractor. Shares declined after the company reported weaker profitability and unit growth, reflecting both softer demand and operational headwinds. Management cited a pull-forward of sales in the prior quarter tied to tariff speculation, which left the company over-inventoried and pressured retail margins. Inventory depreciation and the need to adjust pricing weighed further on results. Additionally, elevated SG&A impacted operating income. Although CarMax has continued to demonstrate discipline in its core unit economics and maintained attractive gross profit per unit over time, the company's ability to drive share gains remains the key variable for longer-term success. Competition from online-focused peers such as Carvana, which is now showing both profitability and unit growth, heightens pressure on KMX to reassert its competitive advantage.

London Stock Exchange (LNSTY), a leading operator of financial exchanges and clearinghouses as well as a provider of financial data, was the second-largest detractor. The company reported slowing growth in the annual subscription value of customer contracts in the quarter. Investors feared this deceleration was due to competitive inroads being made by AI. In contrast, management believes their partnership with Microsoft positions them well to leverage AI in their products and that their unique data sets are impossible for new entrants to recreate. Further, large parts of LNSTY's business, including equity indices, derivative clearing, and equity and fixed income trading are not exposed to AI competition.

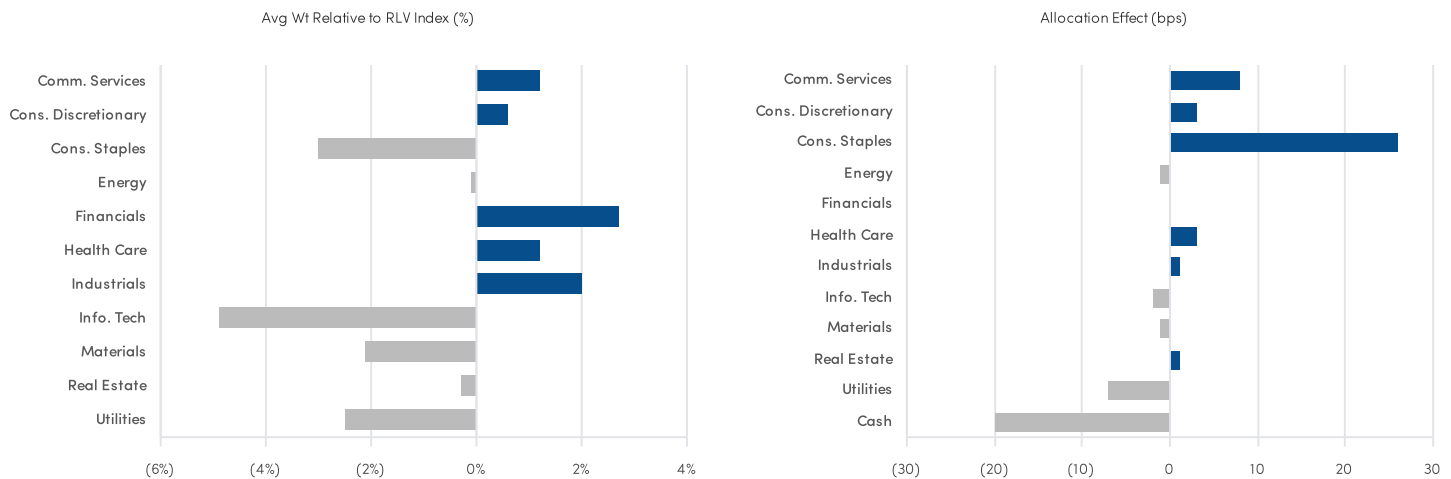
LKQ (LKQ), a leading distributor of aftermarket auto parts, was the third-largest detractor. The company reported weaker organic sales as higher insurance costs and elevated deductibles led drivers to delay repairs, while total loss rates remained at high levels and reduced repairable claims. North American results were pressured, and Europe also struggled with softer demand and operational issues. Despite ongoing cost adjustments and management changes, concerns around cyclical headwinds and secular pressures on repair frequency weighed on shares.



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Sector Positioning

Sector allocation effect was positive during the quarter, with six sectors contributing to results. The portfolio's underweight to Consumer Staples – the only sector within the benchmark with a negative absolute return – was the largest tailwind. An overweight to Communication Services and Consumer Discretionary, two of the best performing Index sectors, also benefited results. Conversely, the portfolio's underweight to Utilities detracted from relative performance as the sector posted stronger returns than the overall benchmark. An underweight to Information Technology also posed a slight headwind as widespread AI exuberance continued.



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 Large Cap Value institutional portfolio's gross of fees sector return relative to the Russell 1000® Value Index. The Large Cap Value composite returned 4.98% net of fees and 5.14% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

Arch Capital (ACGL) is a Bermuda-based specialty property & casualty (P&C) and mortgage insurer. Their niche approach to P&C underwriting and emphasis on risk management in mortgage insurance combined with their superior cycle management and appreciation for capital preservation – all ingrained in their culture – have led to a long track record of above-average returns. We begrudgingly eliminated ACGL in 2023 as the stock price exceeded our growing estimate of intrinsic value. The stock price is nearly back to levels where we last eliminated it, despite book value per share increasing approximately 50% over the last two years, giving us another chance to own this compounder.

Fiserv (FI) is a global provider of financial technology solutions. The company's core bank processing business generates high margins and stable recurring revenue due to the repeatable nature of its services and significant switching costs. In addition, its merchant processing operations create meaningful cross-sell opportunities, providing a long runway for revenue growth.

Eliminations

Hanesbrands (HBI) was eliminated ahead of its announced acquisition by Gildan Activewear (GIL).

JPMorgan Chase (JPM) reached its price target and was eliminated.

Philip Morris (PM) was eliminated to make room for better opportunities.



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Outlook

Our investment approach – centered on investing in quality companies at attractive valuations based on long-term fundamentals – can struggle in risk-on environments dominated by thematic and momentum driven trading schemes. The more market participants are motivated by fear of missing out and avidly chasing popular trends, the more out of sync we are. We readily admit we do not know when the environment will turn constructive for our style. However, we are confident it will shift at some point, and when it does, we believe we will be favorably situated. Paraphrasing economist Ben Graham, the stock market is a sentiment driven voting machine in the short run and a cash flow weighing machine in the long run. By remaining steadfastly committed to our approach, even during challenging times when our style is out of favor, we have crafted a portfolio full of attractively valued stocks of companies generating above average returns on capital, underpinned by durable competitive advantages, skilled management teams, and flexible balance sheets. Most of them performed well fundamentally during the quarter and are well positioned to continue growing earnings and cash flow at above average rates. In many cases, far afield from the frenzied corners of the market where stock prices have soared, these stocks are trading for undemanding valuations, simultaneously providing potential downside protection as well as long-term upside. We see the portfolio's current combination of quality and value as unusually attractive and are confident we are stacking the scale.

Sources: Bloomberg, FactSet, Morningstar, Reuters, Strategas

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 Large Cap 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 Large Cap Value institutional portfolio for the quarter ending 9/30/25. 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 1000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large Cap 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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