Cooke & Bieler

Q2 2022

Mid Cap Value Equity

Overview

The investing environment went from challenging to nearly universally negative during the second quarter as markets struggled to digest rising interest rates, unexpectedly high levels of inflation, and signs of economic deterioration. This troublesome combination caused sentiment to turn overwhelmingly negative as it resurrected unhappy memories of the stubborn stagflation that hampered stocks much of the 1970s. Indeed, the -20% return posted by the S&P 500® Index for the first half of 2022 was its worst since 1962. The damage would have been worse were it not for a late quarter rally spurred by views that the Federal Reserve might turn less hawkish in the face of continuing economic weakness.

The breadth of the decline was all-encompassing, with all major benchmarks showing double digit declines and every sector across those benchmarks down as well. As in the first quarter, rising interest rates continued to negatively impact Growth indices most and market turbulence continued to affect smaller capitalization stocks the most. Among sectors, Consumer Staples, Utilities, and Energy held up relatively well across the market cap spectrum, while Information Technology and Consumer Discretionary stocks tended to lag.

Portfolio Performance & Developments

Cooke & Bieler's Mid Cap Value Strategy provided some downside protection during the difficult market environment of the second quarter, returning -11.61% gross of fees (-11.78% net of fees) against a -14.68% return for the Russell Midcap® Value Index. This outperformance was driven by strong stock selection effect, with a positive impact in six of the nine sectors in which the portfolio had weight, while sector allocation effect detracted slightly. Consistent with first quarter trends, Financials holdings led the way, with insurance companies such as Progressive and RenaissanceRe continuing to provide the greatest benefit. The portfolio's Information Technology and Consumer Staples holdings also outperformed their benchmark counterparts, with Amdocs and General Mills performing particularly well on a relative basis. Stock selection within Health Care offset some of these positive results as Dentsply Sirona and Enovis lagged both the sector and the broader market. Stock selection effect in Utilities was also slightly negative.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
General Mills	1.8	12.2	22
Perrigo	2.1	6.3	19
Huntington Ingalls	1.7	9.8	12
Progressive	2.6	2.1	6
CBOE Global Markets	0.5	4.8	5

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
State Street	2.6	-28.6	-77
MKS Instruments	2.2	-31.5	-68
Fidelity Nat'l. Financial	2.6	-23.4	-65
Dentsply Sirona	2.1	-27.2	-62
Hanesbrands	1.9	-30.1	-61

Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Mid Cap Value institutional portfolio's gross of fees return relative to the Russell Midcap® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Mid 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

General Mills (GIS), a packaged food company with strong brands, was the largest contributor. GIS managed to achieve strong results despite an environment of high inflation and supply chain disruptions, increasing investor confidence in the business.

Perrigo (PRGO), a manufacturer and supplier of over-the-counter and generic pharmaceutical products, was the second-largest contributor. PRGO's valuation expanded significantly from low levels after the company reported strong first quarter revenue growth, early completion of a highly accretive acquisition, and share gains in the infant formula market, increasing investor confidence in the business.

Huntington Ingalls (HII), a military shipbuilder for the U.S. Navy and the Navy's sole supplier for nuclear-powered aircraft carrier construction, refueling, and deactivation, was the third-largest contributor. HII has continued to make fundamental progress on margin improvement and integrating its acquisition of Alion Science and Technology. Additionally, the stock benefited from investor expectations that domestic defense spending could increase due to rising global geopolitical tensions.

Mid Cap Value Equity

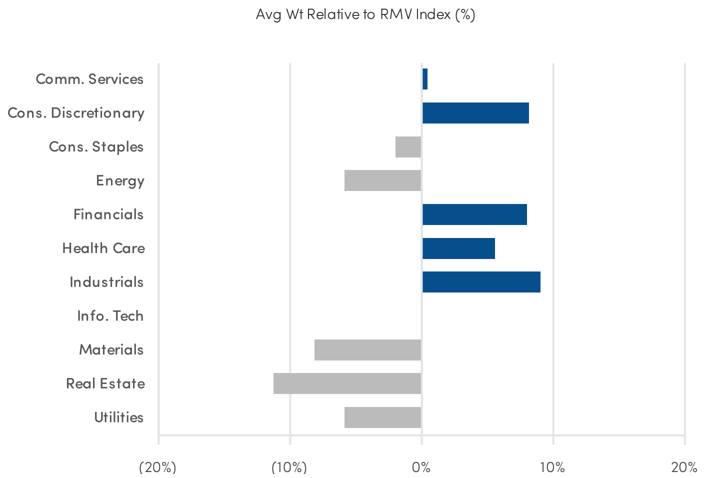
Largest Detractors

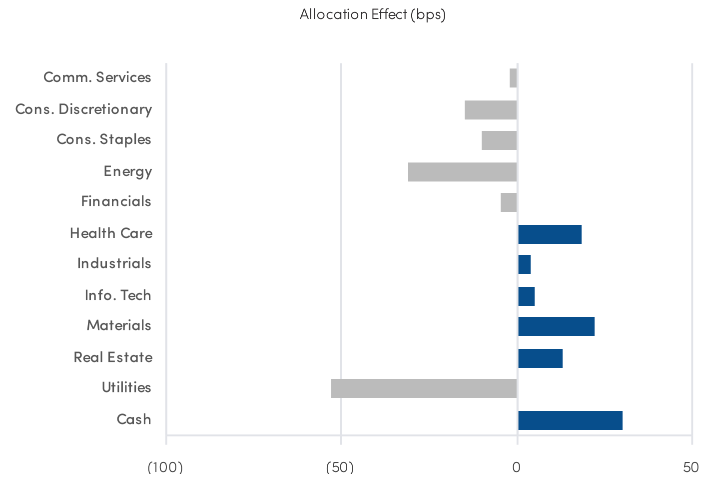
State Street (STT), a leading custodian and recordkeeper for financial assets, was the largest detractor. STT suffered from investor concerns that rising bond yields would have negative implications for its regulatory capital.

MKS Instruments (MKSI), a supplier of components and subsystems to companies in the semiconductor capital equipment industry, was the second-largest detractor. Investors were disappointed with the company's pause in increasing cell phone component capacity, while concerns that the semiconductor capital equipment cycle may have peaked also weighed on the stock's valuation.

Fidelity National Financial (FNF), the nation's leading title insurer, was the third-largest detractor. FNF underperformed as rising interest rates cooled the housing market.

Sector Positioning





Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Mid Cap Value institutional portfolio's gross of fees sector return relative to the Russell Midcap® Value Index. Please see additional performance disclosures at the end of this document.

Sector allocation effect was slightly negative for the second quarter. The strategy's underweight to Utilities, the best performing sector within the Index, was the biggest detractor. Underweight positions in Energy and Consumer Staples as well as an overweight in Consumer Discretionary also posed headwinds to performance. Conversely, the portfolio's underweight positions in Materials and Real Estate were additive to relative performance as both sectors turned in some of the benchmark's worst results. An overweight to Health Care was an additional tailwind.

Initiations

CBOE Global Markets (CBOE) is a global operator of stock and option exchanges and the exclusive venue for trading S&P 500® and VIX® options, creating extremely high barriers to entry. Though the company's revenue and profits are affected by trading volume, we believe that its strategy of expanding its addressable market through both product and geographic expansion should generate attractive revenue growth over a full cycle. The stock struggled early in the year as the company had to lap elevated lockdown-era trading volumes, creating a buying opportunity for longer-term investors.

ESAB (ESAB) is a leading global provider of welding equipment and consumables. The company was spun off from long-time portfolio holding Colfax during the quarter.

Synchrony Financial (SYF) is a leading private label credit card company with value propositions driven by data collection and analysis. The profit-sharing element of their business model both enhances the client relationship and provides downside protection to SYF.

Mid Cap Value Equity

Eliminations

Alleghany (Y) was eliminated to make room for better opportunities.

Notable Stock Updates

Enovis (ENOV) is the successor entity to long-time portfolio holding Colfax following the spin-off of their welding business. ENOV is a medical technology business selling orthopedic reconstruction, prevention, and rehabilitation products.

Outlook

The end of the second quarter leaves investors worse off and facing the same set of uncertainties that bedeviled them in April. Widespread supply chain disruptions persist, the war in Ukraine seems no closer to resolution, and inflation remains stubbornly high, forcing the Federal Reserve to raise interest rates even as the economy slows. The odds of recession are rising – though the timing and severity remain unclear – and investors' minds are naturally drawn to speculation about when the tide of events will turn. Never long-term oriented or fundamentally focused by nature, most market participants are prone to guessing at geopolitical and economic developments.

We think these inclinations are mistaken. We agree that the Fed's window to engineer a soft landing is shrinking. With the economy already slowing, further monetary tightening risks tipping us into a recession. But with inflation still at multi-decade highs, easing policy too soon risks further embedding inflation and increasing the costs of later action. The Fed's success depends on a myriad of factors mostly out of its control, making their task extremely difficult and investor efforts to predict the outcome futile.

We think it is better to adopt Warren Buffett's mantra of buying good businesses when they go on sale. The trick of course is to distinguish good businesses with low share prices from those that have merely been kept aloft by investor optimism or those that face serious existential threats. This differentiation is the focus of our research: finding businesses that can prosper far into the future regardless of the short-term path of the economy. Recently, this research has led us to find value in Information Technology and Consumer Discretionary companies – businesses left behind as investors worry about rising rates or slowing demand, but which remain poised to earn solid returns over a full cycle. Regardless of the industry or sector, these businesses share strong competitive advantages, conservative capital structures, and talented management teams that we believe can generate attractive returns over the long run. And while their fundamental prospects are largely unchanged, they are all substantially – often 30% or more – cheaper than they were at the beginning of the year. While short-term bumps are inevitable and the market's bottom will only be clear in retrospect, we believe our long-term approach, supported by the conviction that comes from detailed independent research, will add value through this cycle.

Sources: AEI, APX, CNBC, FactSet, Forbes, Fortune, PBS, The Wall Street Journal

Additional Cooke & Bieler Mid Cap Value Performance Disclosures