



Mid Cap Value Equity

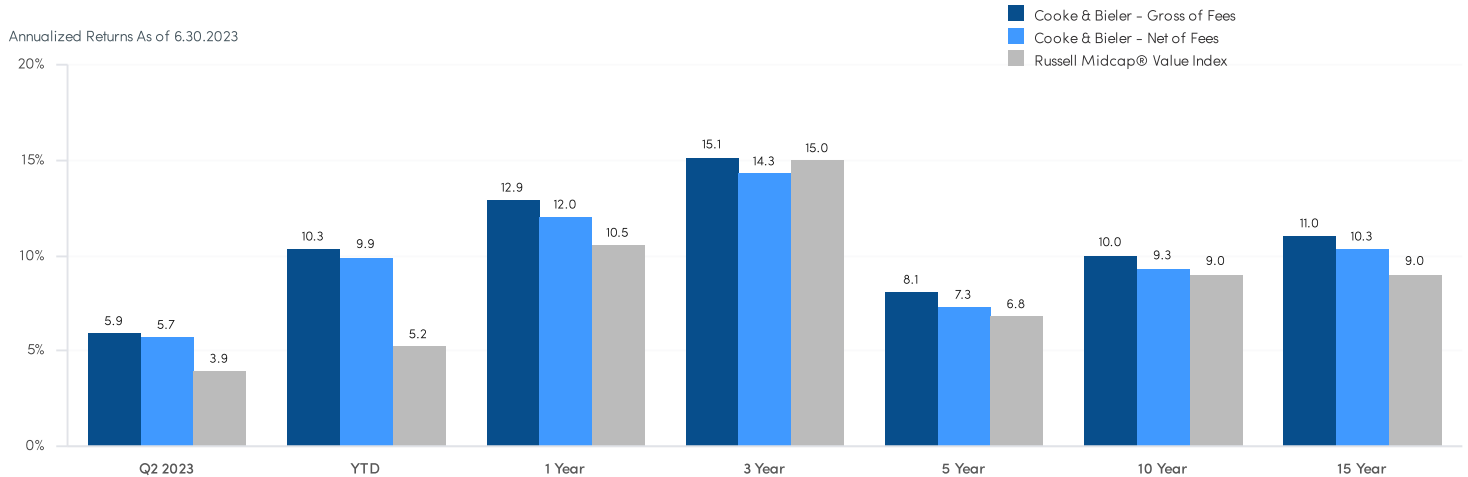
Overview

Domestic equity indices finished higher across the board in the second quarter as the tech heavy NASDAQ rode a wave of AI enthusiasm to a 13% gain. Growth beat value, and high beta issues outperformed during the period. Market cap trends were muddled with both the top and bottom ends performing well. In contrast to the growing sense of dread in commercial real estate, housing-adjacent constituents benefited from a handful of fundamental green shoots and a growing consensus that the economy was headed for a soft landing rather than a recession. An uneventful end to March's regional banking crisis further fueled the fire. Overall, market participants appeared increasingly sanguine despite persistently hawkish Fed talking points and ongoing global turmoil, including an attempted coup in Russia.

Portfolio Performance & Developments

Cooke & Bieler's Mid Cap Value Strategy significantly outperformed its benchmark during the second quarter, returning 5.93% gross of fees (5.74% net of fees) against a 3.86% return for the Russell Midcap® Value Index. Both stock selection effect and sector allocation effect were additive to results. Stock selection was a tailwind in the majority of the sectors where the portfolio had weight. Information Technology was the best performing sector, led by the strong performance of MKS Instruments and Arrow Electronics. Financials and Energy holdings also contributed to relative results during the quarter. Conversely, Health Care holdings posed the largest headwind, due largely to the impact of Integra LifeSciences, the portfolio's largest detractor. Industrials holdings, including Acuity Brands, also weighed on relative performance.

Mid 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 (%)	Net Total Return (%)	Net Contrib. to Return (bps)		Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
CarMax	2.2	30.0	61	Integra LifeSciences	1.9	-28.6	-63
Hasbro	2.2	21.9	47	Glacier Bancorp	0.7	-25.4	-25
MKS Instruments	2.0	22.0	46	Acuity Brands	1.8	-10.9	-20
AerCap Holdings	3.5	12.8	45	American Eagle	1.4	-11.8	-20
Woodward	2.1	22.2	44	Hanesbrands	0.8	-13.9	-14

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 Mid Cap Value institutional portfolio's net of fees return relative to the Russell Midcap® Value Index. Security net total returns equal the security's gross return less the portfolio-level fee effect. Security net contributions to return are equal to the security's gross contribution to return less the security's average weight times the portfolio-level fee effect. The portfolio-level fee effect is the difference between the portfolio's gross and net of fee returns calculated using the highest published fee. The representative Mid Cap Value institutional portfolio returned 5.69% net of fees and 5.88% gross of fees during the quarter. 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

CarMax (KMX), an independent used car retailer operating through both brick & mortar and online channels, was the largest contributor. KMX drove share gains, maintained unit economics, and performed better than expected in the wholesale space. Management has also shown progress in controlling SG&A costs. KMX continues to invest to enhance its capabilities and has the opportunity to become the premier omni-channel value proposition.

Hasbro (HAS), a leading global play and entertainment company with a broad and deep portfolio of brands and entertainment properties, was the second-largest contributor. Investors responded positively to the company's better than expected first quarter results, pushing the stock's valuation up from depressed levels.

MKS Instruments (MKSI), a supplier of components and subsystems to companies in the semiconductor capital equipment industry, was the third-largest contributor. We expect MKSI to increase its share of components in semiconductor capital equipment over time and benefit from general growth in the semiconductor industry. Additionally, the increasing interest in AI should bode well for semiconductor capital equipment demand.

Largest Detractors

Integra LifeSciences (IART), an acquisitive global medical technology company, was the largest detractor. In the quarter, IART announced a voluntary recall of products manufactured in its Boston facility. The expected impact on sales and earnings is manageable, but the timing of FDA approval and required investment to remedy the issue creates uncertainty. We believe IART's strong balance sheet, stable sales base, and consistent free cash flow generation position the company to address the current issues, and valuation is attractive.

Glacier Bancorp (GBCI), a regional bank operating as a collection of community banks in the Mountain West, was the second-largest detractor. Having held up well in the early stages of the March bank sell off, GBCI trailed in the second quarter as investors grew concerned their use of temporary, higher-cost funding would hurt margins into 2024.

Acuity Brands (AYI), a leader in lighting, luminaries, and controls, was the third-largest detractor. Slowing orders and revenues due to concerns over commercial construction levels weighed on the stock, though these negatives were partially offset by good margins and cash flow.

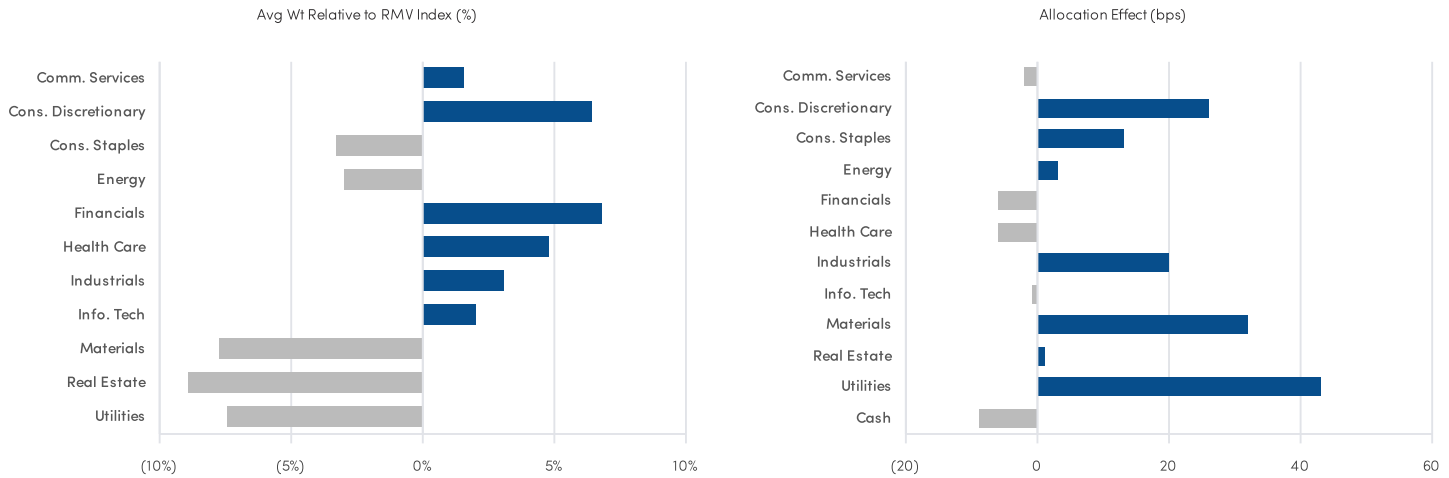




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Sector Positioning

Sector allocation effect was broadly additive during the second quarter, with most sectors contributing to the portfolio’s outperformance. An underweight to Utilities, the worst performing benchmark sector, was the biggest tailwind as the space continued to struggle with the impact of higher interest rates. An underweight to Materials and overweight to Consumer Discretionary also bolstered relative performance. Partially offsetting these results, overweight positions in Health Care and Financials posed slight headwinds.



Source: FactSet

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Initiations

PNC Financial Services Group (PNC) is a super-regional bank with a strong credit culture and significant technological capabilities. PNC provides retail, commercial, and corporate banking, as well as asset management services to customers throughout the United States.

Warner Music Group (WMG) is the world’s third largest music label, providing recording, distribution, rights management, and other services to artists worldwide. Music labels benefit from high barriers to entry, as their large existing catalogs make them essential partners for streaming services while their broad distribution reach makes them an attractive platform for new and emerging artists, further deepening their catalog. The stock was briefly a holding in 2022 before being sold to make room for better opportunities, and more recently, concerns about near-term revenue trends and the potential impact of generative AI have created another compelling opportunity.

Eliminations

FirstCash (FCFS) was eliminated to make room for better opportunities.





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Outlook

As the second quarter unfolded, investors' fears of economic recession, spreading bank failures, and a U.S. government debt default all but vanished. The result was an equity rally that while initially limited to a handful of mega cap technology stocks, ultimately grew to encompass most of the market. The forceful swing from pessimism to optimism, especially related to anything AI, leaves us somewhat concerned heading into the second half of the year. Core inflation, though moderating, remains stubbornly high, making it probable the Fed will resume raising interest rates. Fiscal support appears to be peaking, and the lagged effect of tighter monetary policy is lurking. Still, investor expectations have moved higher in the face of this uncertainty, calling for a more measured outlook on equities. We see signs of speculation in certain areas of the market, but we continue to identify quality businesses trading at reasonable valuations. The resulting combination of quality and value inherent in the portfolio leaves us optimistic that our strategy – centered on investing in conservatively financed, competitively advantaged businesses – will deliver attractive returns over time.

Sources: Bloomberg, FactSet, Wall Street Journal

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 Mid 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 Mid Cap Value institutional portfolio for the quarter ending 6/30/23. 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 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.

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