



Mid Cap Value Equity

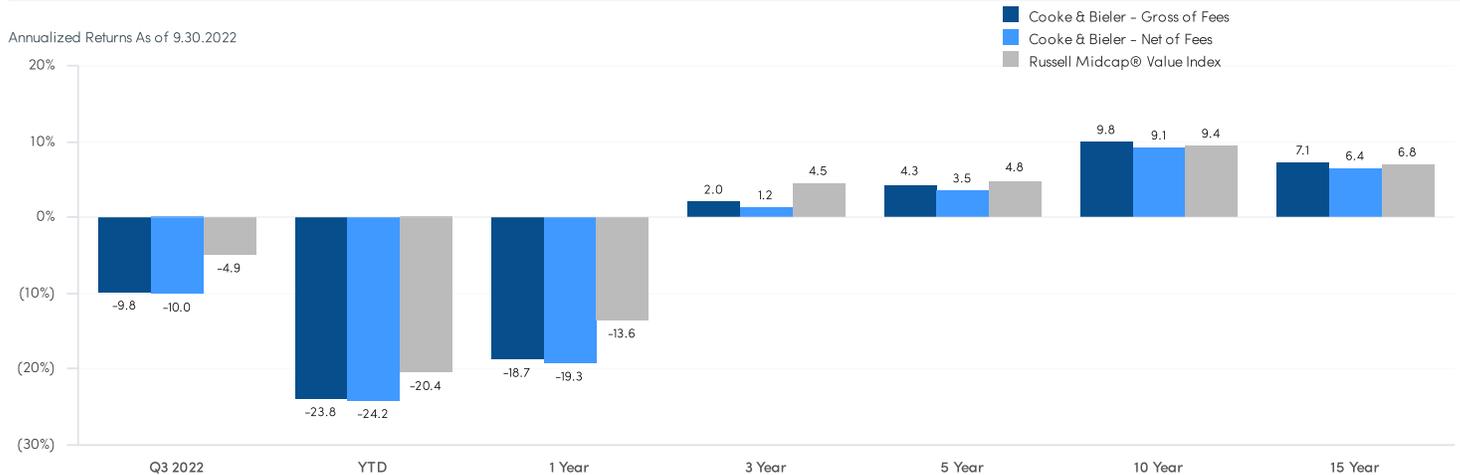
Overview

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 Utilities and 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 Mid Cap Value Strategy returned -9.77% gross of fees (-9.95% net of fees), underperforming the Russell Midcap® Value Index which returned -4.93% during the third quarter. Negative stock selection effect more than offset positive sector allocation effect. Consumer Discretionary holdings, in particular Helen of Troy, Hanesbrands, and CarMax, posed further headwinds as consumers reined in spending and retailers reduced inventory. Health Care and Industrials holdings like Syneos Health and Stanley Black & Decker also weighed on results as they underperformed their respective sectors as well as the broader benchmark. Conversely, Financials holdings were a continued bright spot, particularly FirstCash and Globe Life.

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 (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
FirstCash	2.5	6.0	9	Helen of Troy	2.6	-40.6	-128
Armstrong World	1.8	6.0	8	CarMax	2.2	-27.0	-65
AerCap	2.8	3.4	7	Syneos Health	1.9	-34.2	-62
Globe Life	2.9	2.5	5	Stanley Black & Decker	2.2	-27.6	-59
Huntington Ingalls	1.3	2.2	5	Arrow Electronics	3.4	-17.8	-57

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 gross of fees return relative to the Russell Midcap® Value Index. The representative Mid Cap Value institutional portfolio returned -9.93% net of fees and -9.76% 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

FirstCash (FCFS), the largest pawn shop operator in North America, was the largest contributor. FCFS benefited from its generally recession-resistant business model and from its lack of reliance on supply chains.

Armstrong World Industries (AWI), the leading North American manufacturer of non-residential ceiling systems, was the second-largest contributor. AWI demonstrated strong pricing power in the quarter. The company's business is largely driven by repair and remodel demand and is focused on commercial construction end markets, where leading indicators have remained more favorable than in residential end markets.

AerCap (AER), the largest independent aircraft lessor, was the third-largest contributor. AER reported encouraging results as global air travel continued to recover from the pandemic. Additionally, losses caused by Russian airlines breaching lease terms in the wake of the war in Ukraine have proven to be manageable.

Largest Detractors

Helen of Troy (HELE), a diversified consumer and household products company, was the largest detractor. HELE management indicated that slower ordering patterns and inventory destocking at mass market retailers was likely to weigh on revenue and margin results in upcoming quarters, particularly in categories that witnessed outsized demand during the pandemic. However, we believe that the company's market leading brands in secularly expanding categories should provide a long runway for organic and acquired growth.

CarMax (KMX), an independent used car retailer operating through both brick & mortar and online channels, was the second-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.

Syneos Health (SYNH), a leading provider of outsourced pharmaceutical clinical trial and commercialization services, was the third-largest detractor. The stock's valuation contracted sharply in response to disappointing new business awards during the quarter and management's cautious outlook for improvement.

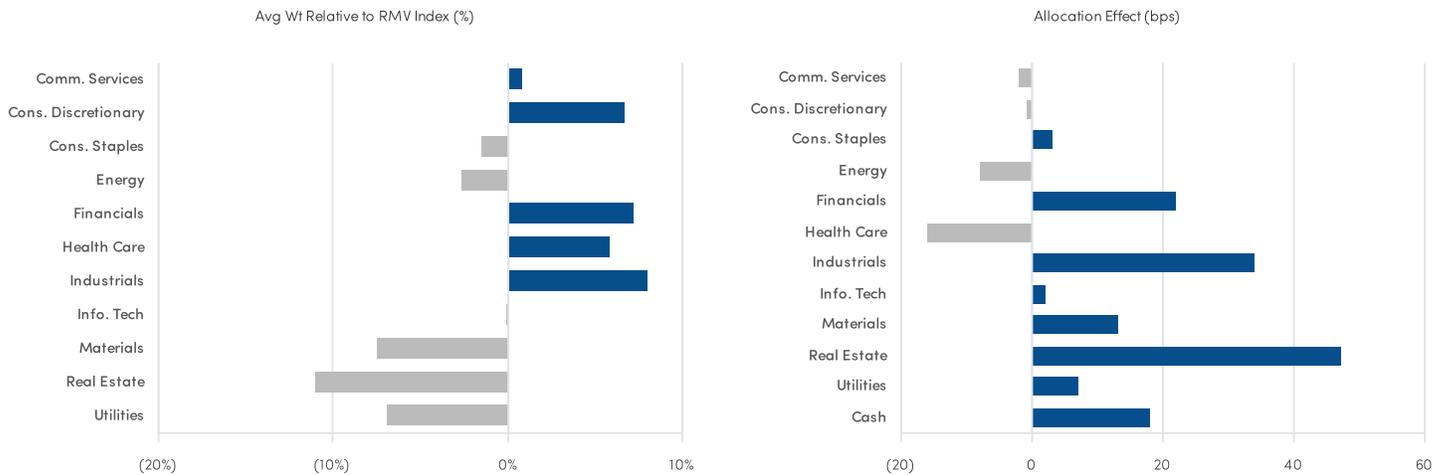




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Sector Positioning

Sector allocation effect was broadly positive for the quarter, with the majority of sectors contributing to relative performance. The portfolio's underweight to Real Estate, the worst performing sector within the benchmark, was the largest tailwind followed by the favorable impact of an overweight to Industrials and Financials, two of the best performing sectors. An overweight to Health Care and an underweight to Energy were a partial negative offset.



Source: FactSet

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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 reinstate 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.

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

Amdocs (DOX) and **Leidos (LDOS)** reached their price targets and were eliminated.





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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

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 9/30/22. The portfolio attribution is gross of fees. 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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