

Mid Cap Value Equity

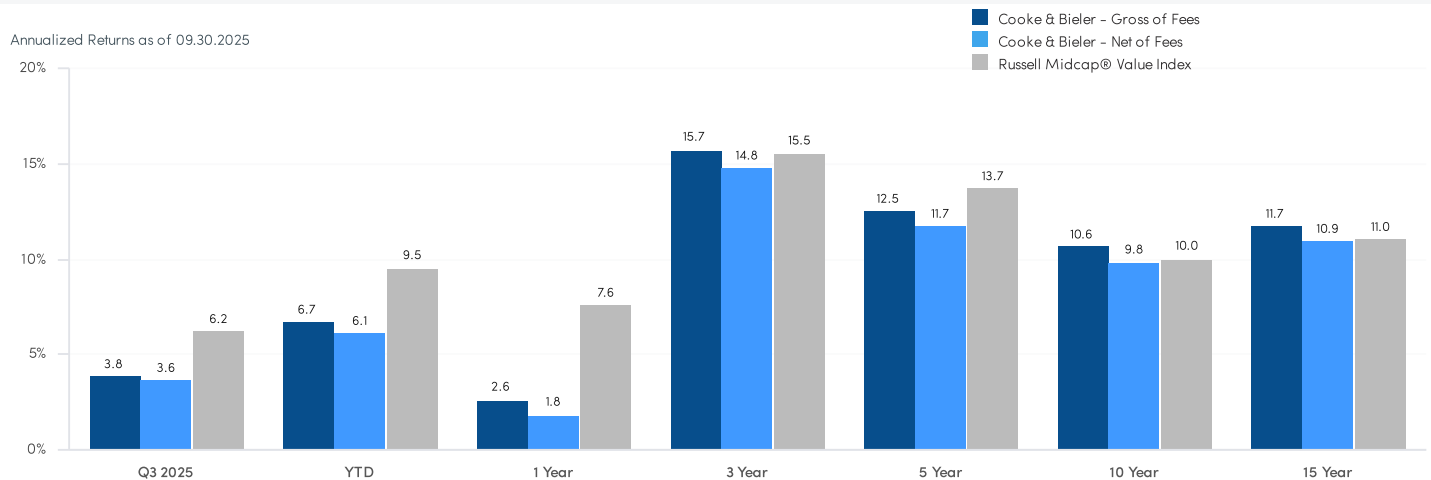
Overview

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, and metals & 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 Mid Cap Value Strategy underperformed the benchmark during the third quarter, posting a 3.83% return gross of fees (3.64% net of fees) against a 6.18% return for the Russell Midcap® Value Index. The quarter was marked by relatively large swings in relative performance, dictated mostly by style factors and changes in market sentiment. Despite most portfolio companies showing solid fundamental progress, negative stock selection effect was the primary driver of underperformance, and sector allocation effect was a slight headwind as well. Selection was weakest among Consumer Discretionary holdings, particularly automotive adjacent companies CarMax and LKQ. Health Care and Industrials holdings also underperformed the benchmark during the period. Health Care continued to be one of the most difficult landscapes to navigate in 2025, while Industrials holdings lagged after posting strong performance in the first half of the year. Conversely, Information Technology holdings such as Open Text and MKS outperformed the benchmark, and Communication Services holdings also contributed to relative results.

Mid 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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Mid Cap Value Equity

Five Largest Contributors/Detractors

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Open Text	2.6	29.1	64
MKS	2.5	24.8	59
Gildan Activewear	3.4	17.9	57
Warner Music Group	2.2	25.8	51
TE Connectivity	1.3	30.6	47

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
CarMax	1.6	-33.2	-61
Baxter International	1.7	-24.3	-50
Dentsply Sirona	1.4	-19.1	-30
LKQ	1.7	-16.7	-29
Flowers Foods	1.3	-17.0	-21

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 portfolio's gross of fees return relative to the Russell Midcap® Value Index. The Mid Cap Value composite returned 3.64% net of fees and 3.83% 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

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.

MKS (MKSI), a supplier of critical subsystems and components used in semiconductor manufacturing and electronics packaging, was the second-largest contributor. The shares advanced following better than expected quarterly results, supported by revenue growth of nearly 10% and strong margin performance. Fundamentals are supported by secular drivers, including increasing semiconductor content per system, advanced packaging adoption, and diversification across adjacent markets. Management's operational discipline has been evident in consistent free cash flow generation, even as leverage remains elevated following the Atotech acquisition. While debt paydown has been gradual, refinancing efforts have reduced covenant risk and improved balance sheet flexibility. MKSI's scale and breadth of capabilities position it to continue capturing share from larger semiconductor equipment customers, while consumables in the Atotech segment provide a measure of cyclical resilience.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the third-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.

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.

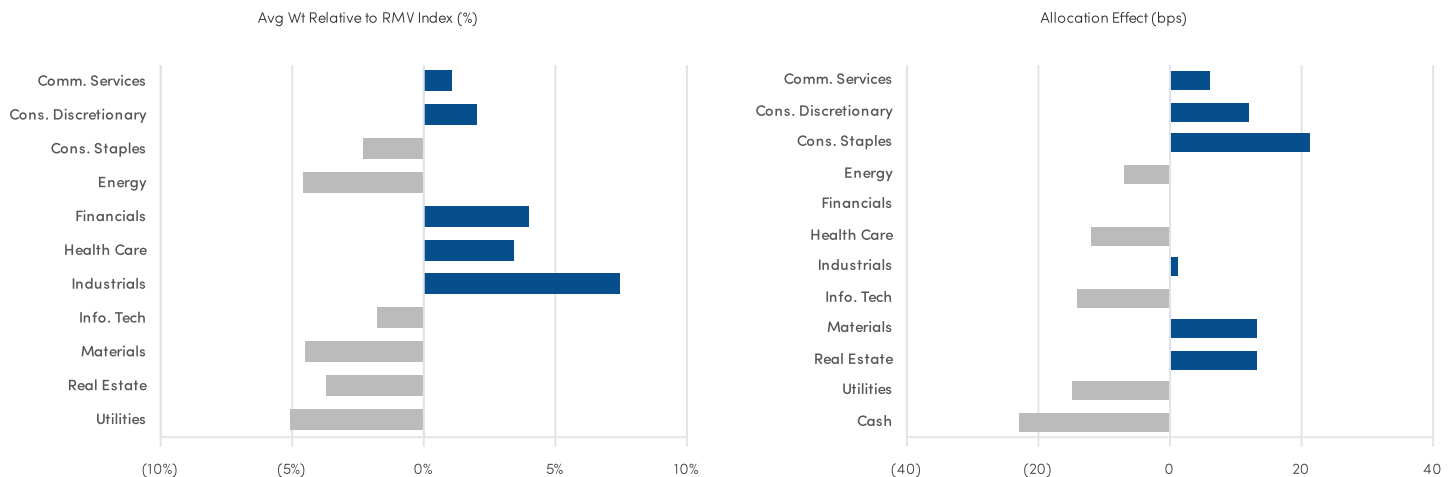
Baxter International (BAX), a developer, manufacturer, and marketer of diversified medically necessary products, was the second-largest detractor. Disappointing quarterly revenue growth, a stop-ship order on its new infusion pump, and lowered full year expectations pushed BAX's valuation to historic lows.

Dentsply Sirona (XRAY), a manufacturer of dental equipment and products, was the third-largest detractor. XRAY's valuation contracted further due to concerns about tariff headwinds related to numerous European countries and continued disappointing sales in orthodontics and implants. Profitability improvements and consistent free cash flow generation are encouraging, but XRAY needs to return to positive organic growth in 2026.

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Sector Positioning

Sector allocation effect was slightly negative during the quarter, though no individual sector generated an outsized impact on performance. The portfolio's underweight to Utilities and Information Technology – two of the strongest sectors within the benchmark, both of which have benefited from the increasing use of AI – posed the largest headwind. An overweight to Health Care also hindered performance. Conversely, the portfolio's underweight to Consumer Staples – the only sector within the benchmark with a negative absolute return – was the largest tailwind. An underweight to Real Estate and Materials also aided relative results.



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 portfolio's gross of fees sector return relative to the Russell Midcap® Value Index. The Mid Cap Value composite returned 3.64% net of fees and 3.83% 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.

H.B. Fuller (FUL) is the largest pure play and second largest adhesives manufacturer in the world. FUL's scale, strong brands and technology, close partnerships with customers, and global distribution allow the company to earn attractive returns on capital. Adhesives generally represent a small percentage of customers' total cost of production, but innovation, consistent quality, and availability are critical to customer end products. This dynamic allows for generally positive pricing, and volume growth should also be positive aided by attractive end market exposure and customers' desire to reduce product weight and improve performance and energy efficiency.

Eliminations

Armstrong World Industries (AWI) was eliminated to make room for better opportunities.

Gates Industrial (GTES) reached its price target and was eliminated.

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

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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 Mid Cap Value 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 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 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.

[Additional Cooke & Bieler Mid Cap Value Performance Disclosures](#)