

Small Cap Value Equity

Overview

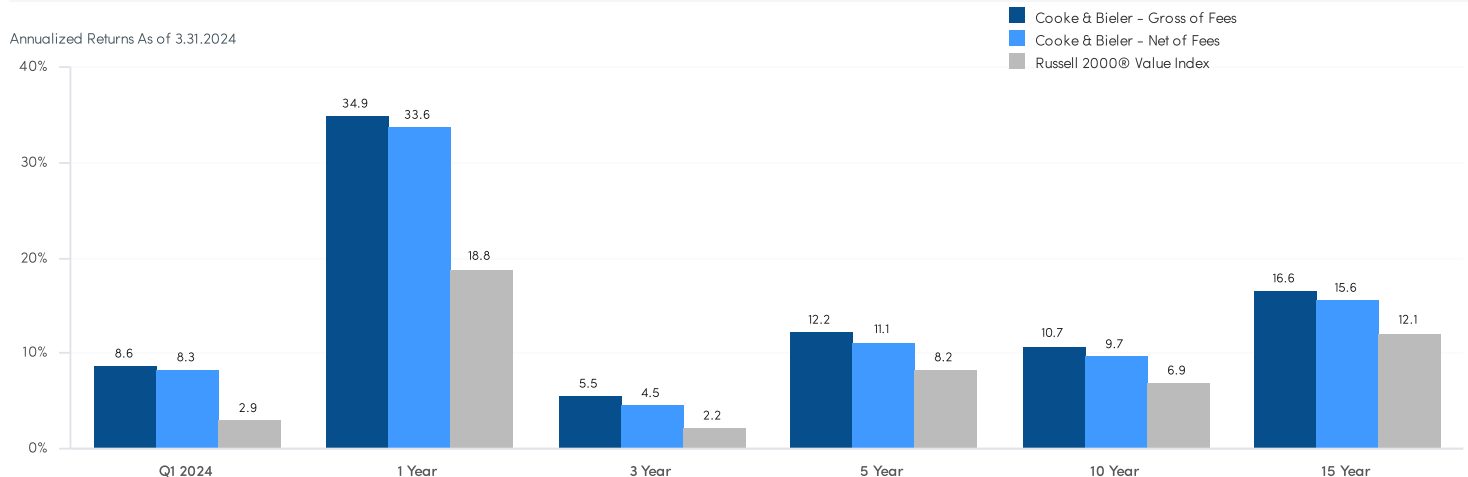
Despite incrementally less dovish signals from the Fed, U.S. equities continued to rally strongly, ending the quarter at all-time highs. Mixed inflation data caused expectations for rate cuts to be pushed out to the second half of 2024, with investors taking the news as a sign that a soft landing scenario may remain on the table. While consumer spending and the economy overall have been stronger than originally feared, the market narrative is increasingly dependent on economic performance without a monetary policy pivot.

Against this backdrop, larger cap and growth equities tended to outperform in the first quarter, as did stocks of high-quality businesses with lower levels of debt leverage. Energy performed especially well, and broad-based strength in Industrials led the value indices to overall positive results. Participation was more widespread than in 2023, though at least four of last year's Magnificent Seven continued their stunning rise. Contrary to trends witnessed last quarter, REITs and Utilities underperformed given a less accommodating interest rate outlook and higher Treasury yields. Companies with commercial real estate exposure and reliance on residential real estate transactions also lagged in an otherwise robust market.

Portfolio Performance & Developments

Cooke & Bieler's Small Cap Value Strategy posted positive absolute and relative returns in the first quarter, generating 8.59% gross of fees (8.33% net of fees) against a 2.90% return for the Russell 2000® Value Index. Outperformance was primarily driven by positive stock selection, though sector allocation effect was also beneficial. In a continuation of the favorable results generated in 2023, stock selection among Industrials holdings such as Air Lease and Gates Industrial generated the most significant tailwind. Financials and Information Technology holdings also contributed. Conversely, stock selection within the portfolio's Health Care positions, particularly Integra LifeSciences and Varex Imaging, was the largest relative performance headwind. Energy holdings also detracted from results.

Small 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.

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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)
Air Lease	3.0	23.0	68	Columbia Banking	1.9	-26.2	-76
Gates Industrial	2.2	31.8	66	Integra LifeSciences	2.2	-18.8	-48
Dream Finders Homes	2.5	22.9	60	Malibu Boats	2.3	-21.3	-48
BWX Technologies	1.7	33.8	60	Varex Imaging	1.9	-11.9	-30
MKS Instruments	2.1	29.3	59	Dentsply Sirona	2.5	-6.5	-17

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 Small Cap Value institutional portfolio's net of fees return relative to the Russell 2000® 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 Small Cap Value institutional portfolio returned 8.23% net of fees and 8.49% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Small 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

Air Lease (AL), a leading global aircraft lessor, was the largest contributor. AL benefited from strong demand for its relatively young fleet and is having success placing both new aircraft and those on expiring leases at higher rates. Signs that long term interest rates may have peaked also helped sentiment around this capital-intensive business.

Gates Industrial Corporation (GTES), a global manufacturer of premium transmission belt and fluid power products, was the second-largest contributor. In the quarter, GTES held a positive investor day where management provided updated financial targets including above market organic growth, material profitability improvement, and continued strong free cash flow generation. GTES has also utilized its healthy FCF to deleverage its balance sheet and repurchase stock at attractive prices.

Dream Finders Homes (DFH), a top 15 U.S. homebuilder with a concentration in the Southeast region, was the third-largest contributor. DFH reported strong delivery growth, helping the company exceed its full year guidance. Gross margins expanded in line with our thesis while the recently announced acquisition of Crescent Homes will increase community count and controlled lots by more than 10%.

Largest Detractors

Columbia Banking System (COLB), a regional bank headquartered in Washington State and focused on the Pacific Northwest, was the largest detractor. COLB disappointed investors by lowering their net interest income expectations for the coming year due to higher than expected funding costs. In addition, while credit costs remain benign overall, investors were concerned by the company's move to increase loan loss reserves in the fourth quarter.

Integra LifeSciences (IART), an acquisitive global medical technology company, was the second-largest detractor. IART's results continue to be negatively impacted by last year's voluntary recall and temporary halt of manufacturing at its Boston facility. Uncertainty remains over the timing and effectiveness of a return to commercial distribution, and back-half weighted guidance has been viewed with skepticism by investors given recent execution missteps. We believe IART's valuation is attractive and their stable sales base, consistent free cash flow generation, and solid balance sheet position the company to address the current issues.

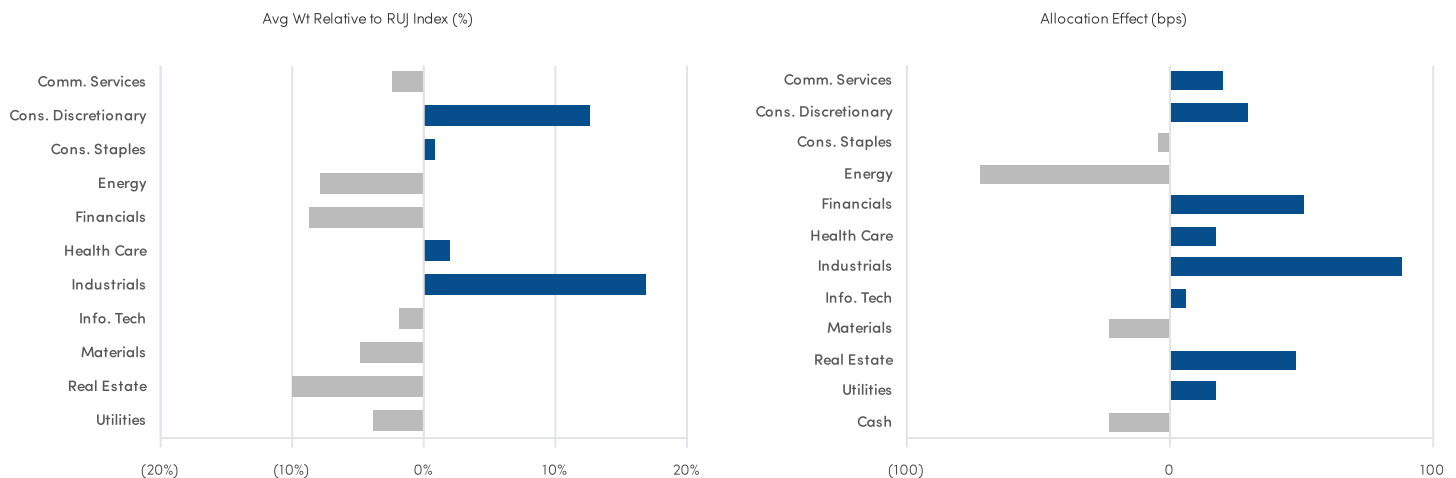
Malibu Boats (MBUU), a leading marketer and manufacturer of performance sport boats in the United States, was the third-largest detractor. MBUU lowered its full year guidance as the North American boat industry pushes to rapidly clear channel inventory following a period of robust Covid-driven demand. The company is now positioned to grow wholesale shipments in line with retail demand within the next several quarters. Shares also reacted negatively to the announcement of a CEO transition. With a debt-free balance sheet and a history of both organic market share wins and thoughtful acquisitions, MBUU presents a compelling value relative to its mid-cycle earnings power.



Small Cap Value Equity

Sector Positioning

Sector allocation effect was additive to the strategy's relative results in the first quarter, with most sectors generating positive contributions. A significant overweight to Industrials, one of the top performing benchmark sectors, was the most notable tailwind. The portfolio's underweight to Real Estate and Financials, two of the worst performing sectors within the Index, was also beneficial. An underweight to the top-performing Energy sector posed a partial offset to these positive results, as did an underweight to Materials.



Source: FactSet

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Initiations

Atlas Energy Solutions (AESI) is a sand mining and delivery company that serves both the Delaware and Midland basins of the Permian, providing the sand used as proppant in the fracking of shale wells. AESI operates cost-advantaged sand mines situated within the Permian and is constructing the Dune Express, a conveyor belt which will reduce the cost of delivering sand to its customers in the heart of the Delaware basin. We believe the margin expansion benefits of the Dune Express are not fully appreciated, giving us the opportunity to initiate a position.

CONMED (CNMD) is a developer, manufacturer, and marketer of primarily single-use devices, equipment, and implants used in surgical procedures. The company has been comprehensively transformed over the past decade through investments in new product development, sales and marketing, and acquisitions. Organic revenue growth has accelerated, and margins have increased. Going forward we believe market share gains in solid growth end markets and mix/efficiency driven gross margin improvement, combined with operating expense leverage, will drive double-digit EPS and cash flow growth. Increasing concerns – overblown in our view – about competition for the company's AirSeal product have created an opportunity to invest in CNMD at an attractive valuation.

Janus International (JBI) is a turnkey solutions provider that dominates the market for self-storage facility componentry and services, with a growing presence in the broader commercial overhead door market. While its portfolio of products and services is virtually unmatched, JBI still has attractive whitespace opportunities in categories such as self-storage access control and smart locks where it can grow content per unit as well as introduce higher margin subscription revenue streams. The company should also benefit over time from key demand drivers including greater existing home turnover, an aging self-storage installed base, and recent large-scale M&A activity among its customers.

Eliminations

Acuity Brands (AYI) and **FirstCash (FCFS)** reached their price targets and were eliminated.



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Notable Stock Updates

PGT Innovations (PGTI) was acquired by Miter Brands in March in an all-cash transaction.

Outlook

Equity markets reacted positively to solid economic reports and better than expected corporate earnings during the quarter. The risk of imminent recession seems low, supply chains continue to improve, and artificial intelligence is stoking optimism about long term productivity growth, providing a promising backdrop for equity investors. The broadening of the rally across economic sectors, market caps, and styles towards the end of the quarter was also encouraging. However, market participants, in their zeal to capitalize on the situation, have pushed up valuations – not egregiously in most cases, but certainly to elevated levels relative to historical norms. Seemingly overlooked during the quarter was the Fed’s acknowledgement that rate cuts will be deferred and limited until inflation has more clearly moderated, suggesting that the more favorable economic backdrop could be offset by persistently higher interest rates. Geopolitical crises and political dysfunction also remain concerning. All things considered, we believe selectivity and risk control are increasingly important in the current investing environment. At Cooke & Bieler these considerations start with our valuation discipline and rigorous process, focused on investing in well managed, financially strong companies with competitively advantaged businesses that generate attractive returns on capital and strong cash flows. With that focus in mind, typical Cooke & Bieler investments target both downside protection in protracted down markets and longer-term upside as they compound value, which we believe will bode well given the current environment.

Sources: Bloomberg, FactSet

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 Small 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 Small Cap Value institutional portfolio for the quarter ending 3/31/24. 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 2000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler’s Small 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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