

Small Cap Value Equity

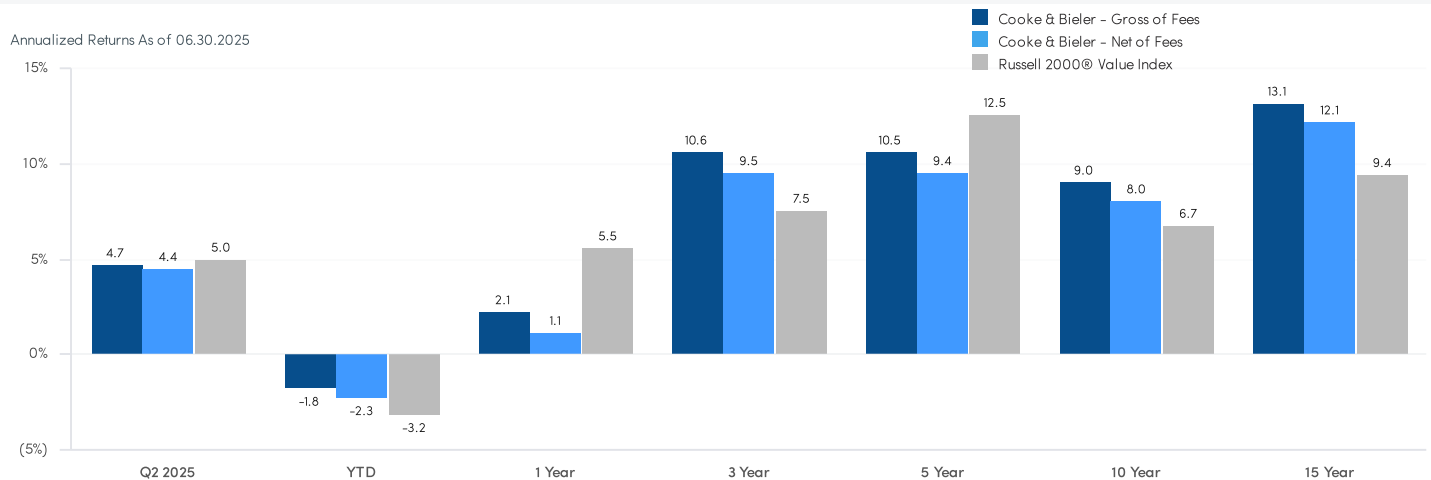
Overview

Equity markets took investors on a tumultuous ride in the second quarter. Stocks declined sharply in April on fears of an all-out global trade war stoked by the Trump Administration's newly proposed tariff rates. The S&P 500® Index declined more than 10% over the ensuing days, only to quickly and decisively reverse course in response to a tariff implementation pause. By quarter end, the S&P 500® and NASDAQ Composite Indices reached new all-time highs, overcoming considerable uncertainty associated with numerous unresolved exogenous issues, including the economic impacts of ever-changing trade policies, an ambitious budget bill, and increasing conflict in the Middle East. As the quarter progressed, investors' appetites for stocks were buoyed by signs of continued solid economic and corporate earnings growth as well as stable, if not moderating, inflation rates – the latter giving life to Fed easing narratives. Investors once again demonstrated a strong preference for larger cap growth stocks, particularly those perceived to benefit most from investments in AI capabilities. Within the value universe, investors gravitated toward smaller cap issues, presumably due to their more U.S.-centric business models. By sector, Information Technology was the overwhelming leader across most indices, accounting for two-thirds of the S&P 500® Index's total return during the quarter. Economically sensitive sectors, particularly Industrials, also tended to outperform while the bond proxies lagged. Energy and Health Care significantly underperformed as the former faced lower oil prices and the latter saw valuations pressured by tariff exposure and possible funding cuts.

Portfolio Performance & Developments

Cooke & Bieler's Small Cap Value Strategy underperformed the benchmark during the volatile but ultimately strong quarter, posting a 4.66% return gross of fees (4.40% net of fees) against a 4.97% return for the Russell 2000® Value Index. Stock selection detracted from results, while sector allocation effect was a partial positive offset. Selection was weakest among Consumer Discretionary and Financials holdings such as Hanesbrands and White Mountains Insurance. Health Care holdings also underperformed the benchmark. Conversely, Industrials holdings such as Woodward and APi Group performed well, as did the portfolio's Real Estate holdings.

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. 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.

[Click for additional C&B Small Cap Value Performance Disclosures](#)



Small Cap Value Equity

Five Largest Contributors/Detractors

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Woodward	3.65	34.49	118
API Group	2.88	42.76	112
Air Lease	3.60	21.54	77
MKS	1.98	24.28	56
BrightView	1.83	29.67	52

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Atlas Energy Solutions	1.96	-23.59	-58
Varex Imaging	1.05	-25.26	-46
Flowers Foods	2.36	-14.67	-42
CONMED	2.30	-13.44	-39
Hanesbrands	1.26	-20.62	-34

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 gross of fees return relative to the Russell 2000® Value Index. The Small Cap Value composite returned 4.40% net of fees and 4.66% 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

Woodward (WWD), a supplier of energy and motion control systems to the aerospace and industrial industries, was the largest contributor. WWD is well positioned to benefit from the ongoing commercial aerospace recovery due to its strong content on narrowbody aircraft and positioning in the aftermarket. Execution at WWD's Industrial segment has improved, aided by productivity improvements and SKU rationalization, although it has recently faced difficult comparisons related to the volatile China on-highway natural gas engine business. WWD's consistent free cash flow generation and strong balance sheet also provide capital allocation optionality to create shareholder value.

APi Group (APG), a business services provider with expertise in fire safety, security, elevator maintenance, and a smaller special contracting unit, was the second-largest contributor. In the quarter, APG reported strong results and held a well-received investor day. APG continues to execute its inspection-first strategy, leading to a greater mix of recurring and higher margin service, inspection, and monitoring sales.

Air Lease (AL), one of the largest independent aircraft leasing companies, was the third-largest contributor. The stock rose following a significant insurance settlement tied to aircraft stranded in Russia, which enhanced the company's capital flexibility. Core results were solid, with improving lease revenue trends, disciplined fleet growth, and steady utilization. Management reiterated expectations for yield improvement through 2025, supported by a favorable supply-demand environment and limited new aircraft availability. While return on equity remains a work in progress, the company is well positioned to compound book value and selectively deploy capital through fleet expansion or share repurchases.

Largest Detractors

Atlas Energy Solutions (AESI), a sand mining and delivery company serving the Permian Basin in Texas, was the largest detractor. AESI underperformed alongside other U.S. shale service providers as oil prices fell and shale completions activity slowed.

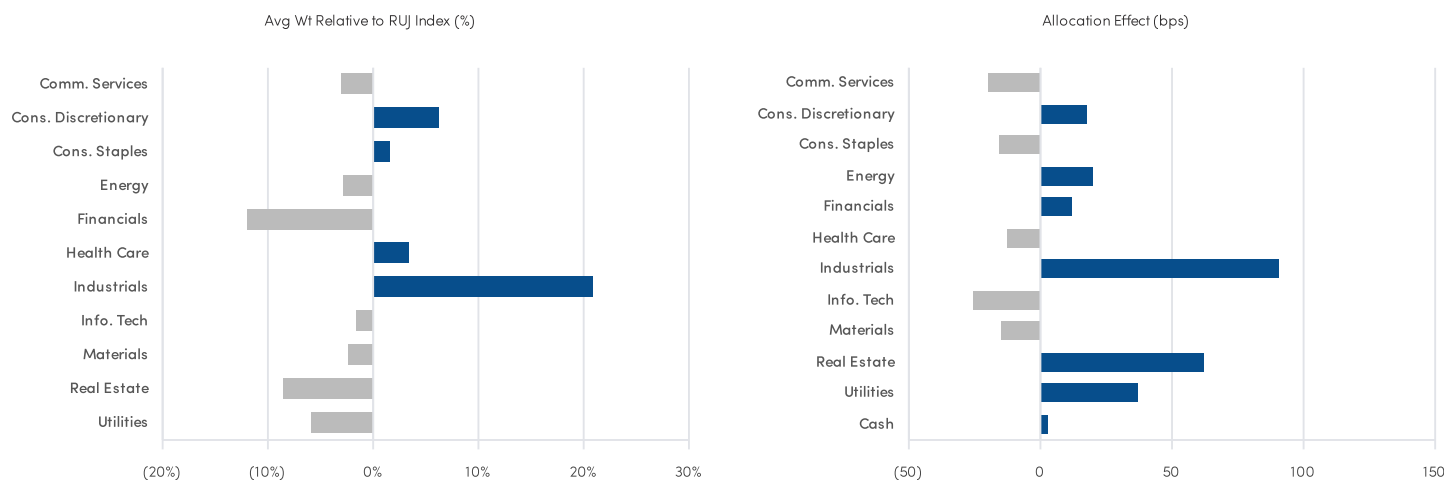
Varex Imaging (VREX), a leading global independent provider of x-ray imaging components, was the second-largest detractor. Though the company reported better than expected results for its most recent quarter, investor sentiment again turned negative during the period when management warned that the threat of high tariff rates on goods imported into China from the U.S. was causing customers to delay orders and wind down inventory, pressuring VREX's near-term revenue.

Flowers Foods (FLO), a leading packaged bread and baked goods manufacturer, was the third-largest detractor. After generating full year volume growth in its Branded Retail segment in 2024, FLO posted softer than expected results as weaker consumption trends in the packaged bread category emerged during the quarter. Although management still expects EBITDA growth in 2025, EPS will likely take a step back on higher interest costs associated with the company's recent acquisition of Simple Mills, a high margin and high growth manufacturer of natural crackers, cookies, and other baked goods. With leading national bread and organic loaf brands, as well as the promising launch of its new Wonder brand snack cakes, we continue to believe FLO can generate solid organic topline growth, return margins to historical levels, and generate high single digit earnings per share growth. With a 6% dividend yield and a historically low valuation, FLO offers a compelling total return profile.

Small Cap Value Equity

Sector Positioning

Sector allocation effect was positive during the second quarter. An overweight to the economically sensitive Industrials sector – one of the top performers within the benchmark – contributed most. Underweight positions in Real Estate and Utilities were also additive, as perceived safe havens underperformed the benchmark during the risk-on rally in the back half of the quarter. Relatedly, an underweight to Information Technology detracted from performance as the sector significantly outperformed the overall Index. The portfolio's Communication Services underweight also posed a headwind to 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 Small Cap Value institutional portfolio's gross of fees sector return relative to the Russell 2000® Value Index. The Small Cap Value composite returned 4.40% net of fees and 4.66% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

Charles River Laboratories International (CRL) is the world's largest provider of outsourced nonclinical services, spanning drug discovery, safety assessment, and manufacturing. CRL's comprehensive, integrated portfolio and global scale give it important competitive advantages, making it the scientific partner of choice for emerging biotech and global biopharma companies. Increasing biopharma R&D spending, greater use of outsourcing, market share gains, and commercialization of cell and gene therapies create a strong long-term demand backdrop for CRL, which should allow it to sustain its enviable record of above average organic growth. Demand weakness coming out of the pandemic created earnings headwinds, which pressured the stock considerably. Recent regulatory support for new alternative safety assessment models further pressured the stock, creating a very attractive valuation entry point given our views that demand weakness is temporary, and incorporation of new models will be a negligible, if not manageable, headwind for CRL.

Open Text (OTEX) is a software company serving predominantly enterprise customers. The company's wide portfolio of products includes enterprise content management, security, and supply chain business network software. Many of these offerings are particularly sticky and OTEX enjoys renewal rates of over 90%. The firm has a strong track record of successfully acquiring and integrating adjacent businesses, and is also in the process of transitioning from selling traditional licenses to selling software subscriptions. Investor concerns that OTEX has faltered with its acquisition of Micro Focus gave us the opportunity to initiate a position.

Small Cap Value Equity

Initiations (continued)

Teleflex (TFX) is a global developer and manufacturer of a diverse portfolio of single-use medical devices used to diagnose and treat patients, primarily in acute care settings, around the world. Over the past decade, management has used the company's strong free cash flow generation and balance sheet to acquire revenue growth and margin accretive devices, supplementing its established portfolio of industry-leading catheters. Though several parts of TFX's broadened portfolio are experiencing temporary growth headwinds, we believe the company is well positioned to compound value at an attractive rate over the long term. In the meantime, management and the board are taking actions, including accelerated share repurchases and possible sales or spin offs of certain businesses, to support shareholder value creation.

Valvoline (VVV) operates and franchises quick lube service centers in the U.S. and Canada. Demand for oil changes has been resilient over time, and quick lube has benefited from the shift toward "do it for me" services and market share gains within that space from less convenient and/or higher cost options. VVV is well positioned to continue gaining market share within quick lube due to its strong brand, scale, focused strategy, and proven economics as well as company culture, both in store and at the franchise level. Same store sales have been positive for 18 straight years, recently aided by premiumization toward synthetic oil, maturing stores, increased non-oil change revenue services, growth of its fleet business, and net pricing. VVV appears to have a multi-year opportunity to grow its locations through a combination of company owned, franchised, and acquired stores. Strong underlying free cash flow should support opportunistic M&A and share repurchase activity.

Eliminations

American Eagle Outfitters (AEO) was eliminated due to a broken thesis, as weak execution and promotional pressure undermined confidence in sustained margin recovery.

Outlook

Investors could be forgiven if they greet the second half of 2025 with more exhaustion than excitement. After a first half packed with years' worth of domestic policy initiatives and reversals as well as global tensions flaring, particularly in the Middle East, investors find themselves facing roughly the same questions they were grappling with when the year started. Will the economy and consumer sentiment remain resilient in the face of policy shocks? Will the Fed ease aggressively to cushion any economic weakness, as in 2008 and 2020, or will the recent bout of inflation lead them to take a more cautious approach? And will geopolitical tension cascade into something more than the brushfire conflicts that erupted in the first half? As investors ponder these issues, they can take little comfort in valuation support as the market trades near all-time highs, especially in areas tied to AI or cryptocurrency.

As much as we all might wish for a respite, this environment seems more like a recipe for continued volatility, with investors oscillating between fear of being in the market and fear of missing out depending on the news cycle. In general, we believe our strategies are well positioned for this reality, outperforming in moments of stress and underperforming only during the growth inspired rally of the last six weeks. Fundamentally, our analysis suggests that the portfolio is less exposed to tariffs than the broader market and many of our companies' peers, reducing the risk posed by a potential trade war. Similarly, while our strategies are broadly overweight economically sensitive sectors, we believe the strong competitive positions, skilled management teams, and flexible balance sheets of our companies position them well to weather economic storms, and in some cases, take advantage of competitors' struggles. And of course, our rigorous focus on valuation means our portfolios are less exposed to valuation risk than the broader markets.

None of which is to say we take future outperformance for granted or expect it to be easy. We believe our philosophy – own good businesses with conservative balance sheets, run by skilled managements, at attractive valuations – provides a framework for success that is equally rooted in common sense and mathematical truth. Implementing this framework, however, requires deep knowledge and diligent, focused research conducted by Career Analysts with intellectual discipline and humility. While we are pleased the strategy has outperformed for the year to date period, we remain relentlessly focused on improving the portfolio by uncovering new ideas and identifying existing holdings where fundamentals are not meeting our expectations.

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 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 6/30/25. 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 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.

Additional Cooke & Bieler Small Cap Value Performance Disclosures