



Small Cap Value Equity

Overview

Following a breakneck advance through the first half of the year, U.S. equity indices turned in mixed results for the third quarter. The market's tone shifted noticeably in September when investors faced increasing evidence that supply chain disruptions, rising input cost inflation, and labor shortages might negatively impact the near-term trajectory of the economic recovery. Presumably better equipped to handle such vagaries, large cap stocks generally outperformed smaller cap issues. Returns across styles, factors, and sectors were muddled. Growth outperformed value up the market cap spectrum while the opposite was true among small cap stocks. Notably, one consistent trend was Financials sector outperformance, largely driven by bank stocks.

Portfolio Performance & Developments

Cooke & Bieler's Small Cap Value Strategy lagged the benchmark in the third quarter, returning -3.80% gross of fees (-4.04% net of fees) against -2.98% for the Russell 2000® Value Index. Both stock selection and sector allocation effect were headwinds. Within stock selection, Industrials holdings detracted most, especially building product companies American Woodmark and PGT Innovations, both of which experienced significant raw material inflation and supply chain disruption in the face of very strong demand. Energy and Materials holdings also detracted from relative results. The portfolio's Health Care holdings were a partial positive offset, led by particularly strong contributor Hill-Rom.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Hill-Rom	2.2	31.6	82
FirstCash	3.7	14.9	51
Umpqua	3.3	11.0	34
Winnebago	4.2	6.9	30
WSFS Financial	2.7	10.5	30

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
American Eagle	2.3	-30.9	-77
DMC Global	1.9	-34.3	-76
American Woodmark	3.4	-20.0	-74
Stoneridge	1.6	-30.9	-56
PGT Innovations	2.7	-17.8	-52

Source: FactSet

Past performance is not indicative of future results. 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 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

Hill-Rom (HRC), a provider of hospital beds and patient monitoring devices, was the largest contributor. Baxter International recently made an attractive all-cash offer to acquire the company.

FirstCash (FCFS), the largest pawn shop operator in North America and Mexico, was the second-largest contributor. After several quarters of weak results, FCFS saw rising loan volumes heading into the third quarter as government stimulus efforts subsided. Additionally, the company's retail merchandise is entirely locally sourced, immunizing it from the supply chain issues that have been plaguing other retailers.

Umpqua (UMPQ), a regional bank with operations throughout the Pacific Northwest, was the third-largest contributor. UMPQ participated in a strong bank rally as recent initiatives to boost its commercial lending and trim expenses have shown initial signs of success.





Small Cap Value Equity

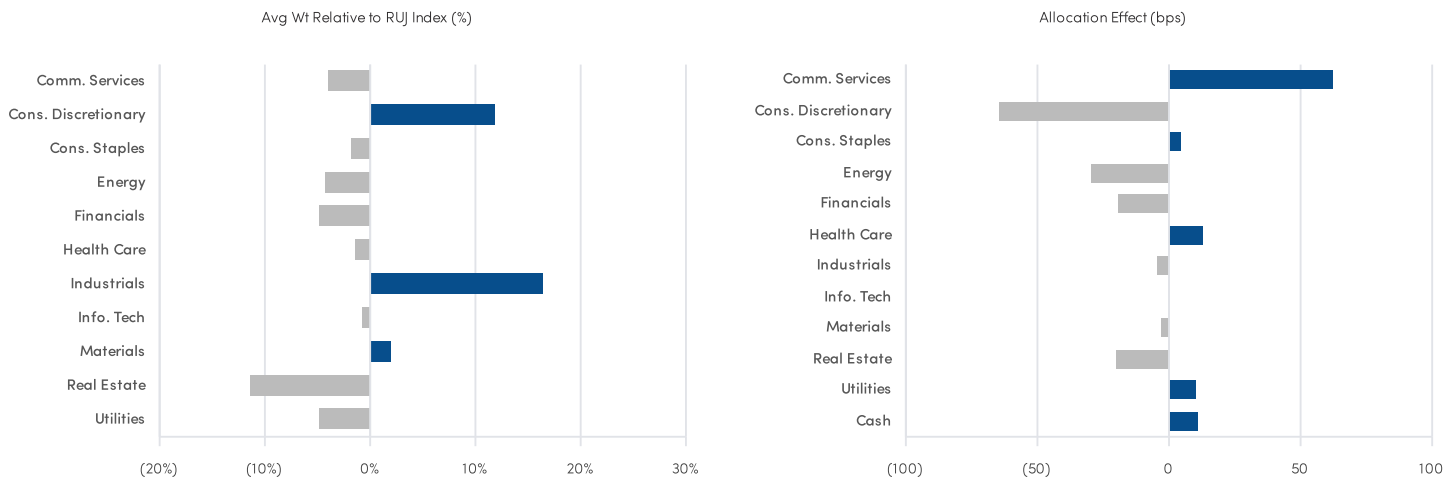
Largest Detractors

American Eagle Outfitters (AEO), a leading teen and young adult retailer operating through the American Eagle and Aerie brands, was the largest detractor. After a strong first half of the year, AEO disappointed investors by suggesting that margins would be restrained by increased shipping costs and supply chain challenges. These issues should prove temporary and should not detract from the long-term value AEO is building with its Aerie brand or the structural margin improvements they have made at their American Eagle concept.

DMC Global (BOOM), an explosives specialist selling primarily to the oil and gas exploration market, was the second-largest detractor. Investors began to worry that the company's industry-leading preassembled perforating guns were losing market share, dragging down the stock price in the quarter.

American Woodmark (AMWD), a leading kitchen and bath cabinet manufacturer with a focus on value price points, was the third-largest detractor. AMWD has continued to benefit on the topline from strong U.S. housing and renovation demand. However, demand is outstripping throughput and the company's backlog is growing. In the meantime, rising input costs have pressured margins despite a series of price increases. Management is now more aggressively pursuing pricing on backlogged orders and margins should eventually normalize, especially given a pullback in lumber prices. Longer-term, AMWD's focus on entry-level cabinetry will benefit its competitive position as housing affordability shapes the profile of consumer demand over time.

Sector Positioning



Source: FactSet
Past performance is not indicative of future results. 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. Please see additional performance disclosures at the end of this document.

Sector allocation effect was negative during the third quarter. An overweight to Consumer Discretionary, a sector particularly hard hit by mounting supply chain issues, detracted most from relative results. The portfolio's underweight to Energy, Real Estate, and Financials, sectors that all outperformed the broader benchmark, also posed a headwind. Conversely, the underweight to Communication Services, by far the worst performing sector in the benchmark, as well as the underweight to Health Care and Utilities, provided a partial positive offset.





Small Cap Value Equity

Initiations

Dream Finders Homes (DFH) is a top 15 U.S. homebuilder with a concentration in the Southeast region. DFH operates an asset-light homebuilding model, utilizing option contracts to secure lots. This strategy permits the company to control and develop more lots than otherwise possible and mitigates risk in the event of a downturn. In addition, a concentration on geographies with better population growth trends and a focus on entry-level homes where demand is strongest should permit DFH to grow more rapidly than the industry as a whole. As DFH builds more scale in existing markets, the company also has an opportunity to expand its margin profile from 7% today to at least 10% over the next several years. We believe the market is overlooking DFH's company-specific merits and growth profile in the face of difficult comparisons for the homebuilding industry and trepidation related to broader housing affordability.

Perrigo (PRGO) is the leading U.S. manufacturer of over-the-counter (OTC) store brand medicines and markets a portfolio of leading OTC self-care brands in Europe. The company has significantly transformed over the past several years under the leadership of CEO Murray Kessler and should be positioned to deliver mid-to-high single digit EPS growth through a combination of organic revenue growth, operating margin expansion, and capital allocation, including the recently announced acquisition of HRA Pharma.

Eliminations

Hill-Rom (HRC) reached our price target and was eliminated.

Outlook

Having spent the last year pricing in an economic recovery propelled by re-opening and massive fiscal and monetary stimulus, markets are now grappling with the shape of the post-pandemic landscape. In particular, the question of whether current rates of inflation are transitory – caused by temporary supply chain disruptions – or if they reflect deeper structural issues, has increasingly dominated investors' thinking.

The prospect of persistent inflation raises questions markets have not faced in decades and, absent a ready playbook, the markets are likely to react strongly to suggestive data points and become even more volatile. Elevated valuations and Washington's characteristically chaotic approach to policy making further enhance the possibility of a bumpy ride. Faced with this uncertainty, our focus remains on using short-term volatility to acquire attractively-valued businesses that have the balance sheets to weather short-term supply disruptions and the competitive positions to prosper in a more difficult inflationary environment. While this approach does not yield results in every quarter, it has been key to the strategy's long-term success.

Sources: APX, Bloomberg, CNBC, CNN, FactSet, Nasdaq

Past performance is not indicative of future results. 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 9/30/21. 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 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 very 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](#)