

Small Cap Value Equity

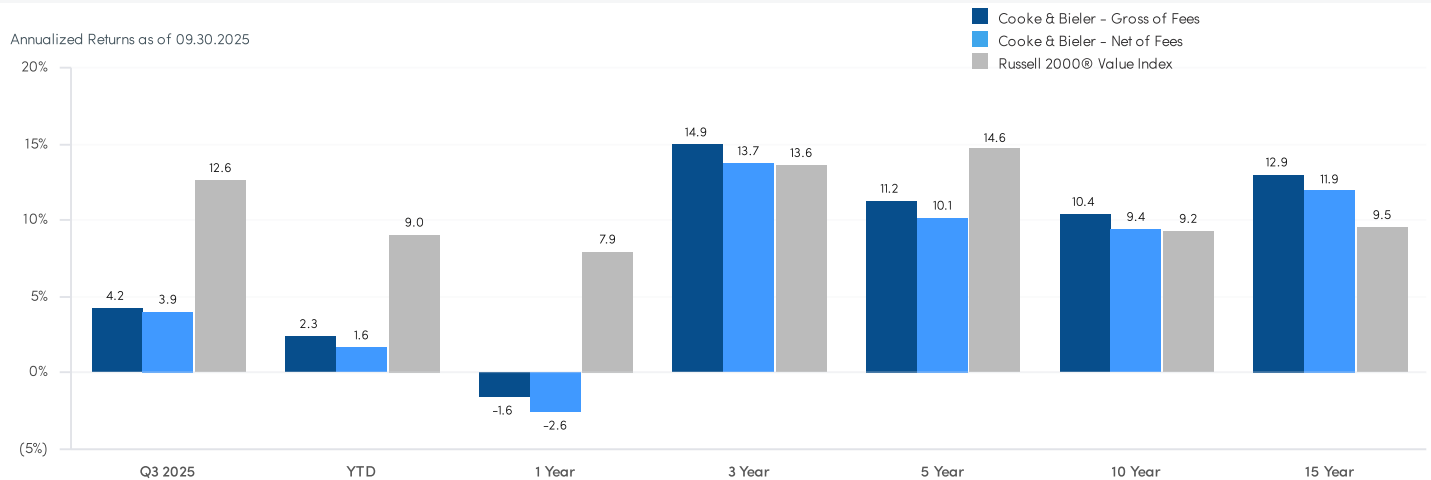
Overview

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 Small Cap Value Strategy significantly underperformed the benchmark during the third quarter, posting a 4.16% return gross of fees (3.91% net of fees) against a 12.60% return for the Russell 2000® Value Index. The quarter was marked by relatively large swings in relative performance, dictated mostly by style factors and changes in market sentiment. Negative stock selection in every sector represented in the portfolio suggests our style was out of favor, despite most portfolio companies showing solid fundamental progress. Overall, negative stock selection effect was the primary driver of underperformance, though sector allocation effect was a headwind as well. Stock selection was weakest by far within the Health Care sector due to errors of commission and omission – portfolio holdings Perrigo, Dentsply Sirona, and Integer all posted disappointing double-digit declines for the quarter, while benchmark holdings in non-earning and often non-revenue generating biotech and biopharma companies skyrocketed on increasing M&A speculation. A number of meaningful decliners elsewhere – BrightView in Industrials, Burford Capital in Financials, Flowers Foods in Consumer Staples, and Atlas Energy Solutions in Energy – also contributed to the poor stock selection result. In other instances, portfolio holdings simply did not keep pace, including within the white-hot Materials and Information Technology sectors.

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.

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Five Largest Contributors/Detractors

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Steelcase	1.6	66.4	116
Gildan Activewear	3.8	17.9	60
MKS	2.5	24.8	57
American Woodmark	2.4	25.1	55
Janus International	2.7	21.3	54

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
BrightView	2.2	-19.5	-45
Burford Capital	2.1	-16.1	-38
Perrigo	2.1	-15.6	-36
Dentsply Sirona	1.7	-19.1	-36
Integer Holdings	1.8	-16.0	-33

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 3.91% net of fees and 4.16% 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

Steelcase (SCS), a leader in the design, manufacturing, and marketing of office furniture, was the largest contributor. During the quarter, the company announced it would be acquired by competitor HNI at a substantial premium to the stock's recent valuation.

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

MKS (MKSI), a supplier of critical subsystems and components used in semiconductor manufacturing and electronics packaging, was the third-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.

Largest Detractors

BrightView (BV), the largest commercial landscaping company in the U.S., was the largest detractor. A top contributor last quarter, BV preannounced and reported earnings and sales that were weaker than anticipated. BV's maintenance services business experienced lower discretionary spend and its development sales were lower due to project delays. Despite lower sales, margins continue to march higher. BV's stock price continues to be more volatile than underlying fundamentals.

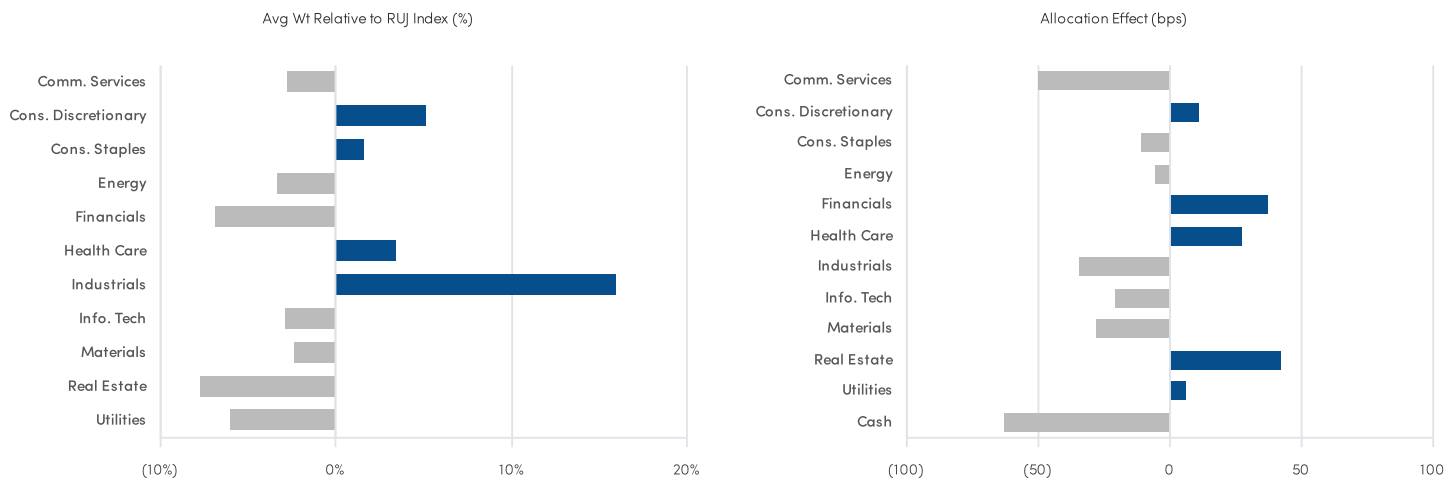
Burford Capital (BUR), a market leader in the litigation finance industry, was the second-largest detractor. Headline news surrounding their largest litigation matter – YPF – was above average during the quarter. Following a June court order for Argentina to turn over its shares in YPF to partially satisfy the multi-billion dollar judgment in favor of BUR, the 2nd circuit U.S. Court of Appeals ordered a stay shortly thereafter. Increased uncertainty surrounding the political environment in Argentina added to the uncertainty around the ultimate timing of settling this significant claim.

Perrigo (PRGO), the dominant provider of store brand OTC products in the U.S. and UK and a leading provider of branded Self-Care products, primarily in Europe, was the third-largest detractor. Continuing challenges in the company's infant formula business resulted in disappointing quarterly revenue growth, pushing PRGO's valuation to historic lows.

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Sector Positioning

Sector allocation effect was negative during the quarter. The portfolio's underweight to Communication Services – the best performing sector within the benchmark – was the largest headwind. An overweight to Industrials and underweight to Materials also hindered performance. Conversely, the portfolio's underweight to Real Estate and Financials – two of the benchmark's weakest sectors – provided a partial positive offset.



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 3.91% net of fees and 4.16% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

HNI (HNI) is a leading designer and provider of commercial office furnishings and the leading U.S. manufacturer and marketer of hearth products. Driven by the realization of operating efficiencies and cost synergies associated with the 2023 acquisition of Kimball, the company has grown at a strong double-digit rate the past three years. HNI recently announced plans to acquire Steelcase (SCS) in a cash and stock deal. Despite their relatively large sizes in the office furniture industry, the companies are complementary from a product, channel, and geographic perspective, mitigating merger disruption risks. The combined entity will be well positioned to grow revenues as companies redesign and outfit workplaces to draw employees back into offices, and management should be able to realize significant cost synergies applying processes established during the Kimball merger. Though the market did not seem to approve, we applaud management's use of equity capital and commitment to balance sheet strength and flexibility. We believe the SCS acquisition and continuing demand recovery for office furniture position HNI to continue growing earnings at a double-digit rate over the intermediate term.

Simpson Manufacturing (SSD) is a leading provider of structural connectors, fasteners, and anchors for wood and concrete construction. With dominant market share in North America, a growing presence in Europe, and strong channel relationships, SSD benefits from pricing power and steady growth that tends to outpace housing starts. The company's broad SKU base, code approvals, and customer service create significant competitive barriers, while recent investments in software and design tools further strengthen its value proposition. SSD's consistently strong margins, disciplined capital allocation, and opportunities for expansion into commercial and OEM markets make it a high-quality business positioned for above-market growth.

Eliminations

APi Group (APG) was eliminated after its market capitalization grew beyond the strategy's appropriate range.

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

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

Woodward (WWD) was eliminated after its market capitalization grew beyond the strategy's appropriate range.



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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 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 9/30/25. 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.

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