



# Small Cap Value Equity

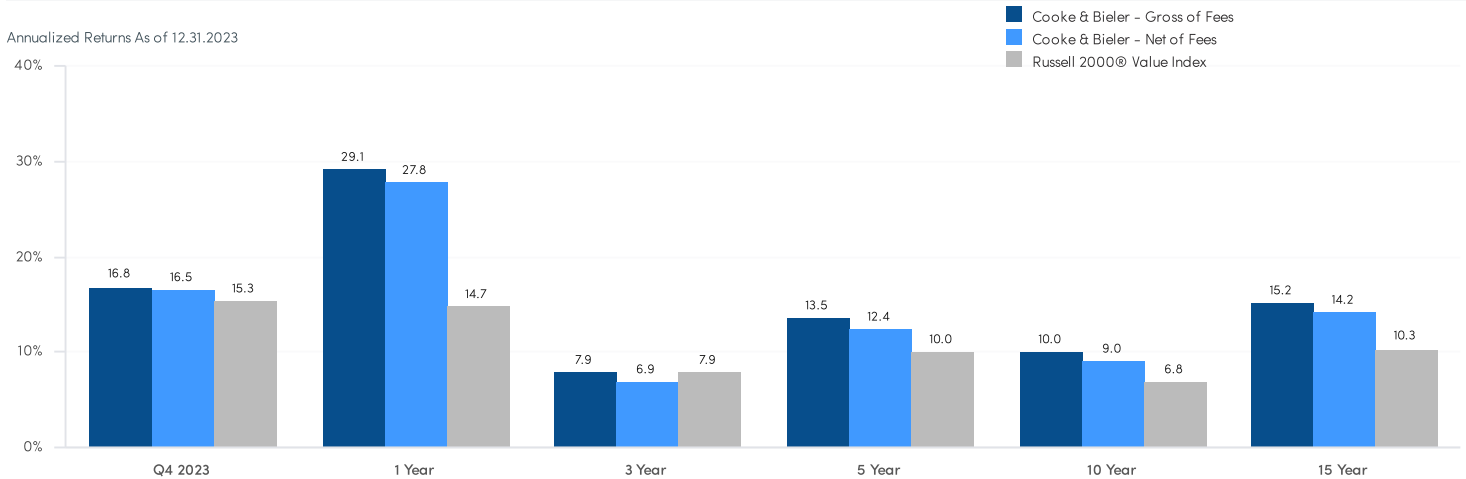
## Overview

The U.S. stock market advanced sharply during the fourth quarter with all major indices posting double-digit returns. After a weak start to the quarter, sentiment improved markedly in early November following initial indications that the Fed’s tightening cycle could be over. The rally strengthened and broadened from there, fueled by continuing economic momentum, encouraging signs of disinflation, and declining interest rates. Dovish Fed commentary in December further emboldened investors with the prospect of interest rate cuts in 2024. Aside from the Energy sector which struggled due to lower oil prices, the Q4 rally was all encompassing, favoring stocks of smaller, less profitable, and more financially levered companies. Growth outperformed value outside of the small end of the market cap spectrum. Relative performance among economic sectors generally reflected the increasing likelihood of continuing economic growth and lower interest rates, as evidenced by the outperformance of Financials and Real Estate.

## Portfolio Performance & Developments

Cooke & Bieler’s Small Cap Value Strategy generated strong absolute and relative results in the final quarter of the year, returning 16.82% gross of fees (16.54% net of fees) against a 15.26% return for the Russell 2000® Value Index. In a reversal from trends seen last quarter, positive sector allocation effect drove all of the portfolio’s outperformance in Q4. Stock selection effect was a modest headwind, with Health Care holdings posing the most significant drag, especially Perrigo and Dentsply Sirona. Energy and Consumer Discretionary holdings also detracted from results. Partially offsetting these negative results, the portfolio’s Industrials holdings outperformed the benchmark, with notable strength among building products companies such as PGT Innovations and Armstrong World Industries. For the full year period, the portfolio significantly outperformed the Index, with both stock selection and sector allocation effect contributing meaningfully to results – selection within Industrials and Financials as well as the overweight to Industrials and Consumer Discretionary were the most notable tailwinds. Stock selection within Energy and Consumer Discretionary were the largest offsets to these positive results.

## Small Cap Value Equity Composite Performance



Source: FactSet and Russell®  
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)
Glacier Bancorp	3.2	47.7	146
Dream Finders Homes	2.0	59.6	123
PGT Innovations	2.4	46.5	97
Winnebago	4.1	22.4	93
Columbia Banking	2.3	33.4	78

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
DMC Global	2.0	-23.3	-80
Stoneridge	1.6	-2.7	-13
Arrow Electronics	1.8	-2.6	-6
Gentex	2.2	0.5	-6
Perrigo	2.2	1.4	-4

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 16.15% net of fees and 16.43% 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](mailto:contact@cooke-bieler.com).

## Largest Contributors

**Glacier Bancorp (GBCI)**, a regional bank operating as a collection of community banks in the Mountain West, was the largest contributor. GBCI reported stabilizing deposit trends and is well positioned to benefit from a fall in interest rates.

**Dream Finders Homes (DFH)**, a top 15 U.S. homebuilder with a concentration in the Southeast region, was the second-largest contributor. DFH reported strong delivery and order growth, which put the company on track to exceed its full year guidance. Shares also benefited from lower mortgage rates and the prospect of more dovish monetary policy, both of which bode well for housing affordability and demand.

**PGT Innovations (PGTI)**, a leading manufacturer of impact-resistant windows, was the third-largest contributor. PGTI's shares benefited from competing takeout offers as well as broadly improving sentiment surrounding residential new construction.

## Largest Detractors

**DMC Global (BOOM)**, a manufacturer of architectural building products, perforating guns, and explosion-welded metals, was the largest detractor. BOOM underperformed as sales of its building products and perforating guns slowed with their respective end markets.

**Stoneridge (SRI)**, a provider of control devices and electronic and vision systems to the commercial trucking industry, was the second-largest detractor. SRI has suffered due to component shortages in electronics as well as general inflation. Margin improvement has taken longer than expected due to these factors, though the mix of new products remains encouraging.

**Arrow Electronics (ARW)**, a distributor of electronic components and a solution provider to value added technology resellers, was the third-largest detractor. After a period of strong growth in the semiconductor capital equipment space, ARW has reached the other side of the cycle, with demand for ARW's products coming back down to more normal levels. Investors are uncertain and somewhat concerned about the magnitude of the down cycle as well as the increase in ARW's debt levels due to aggressive share buybacks.



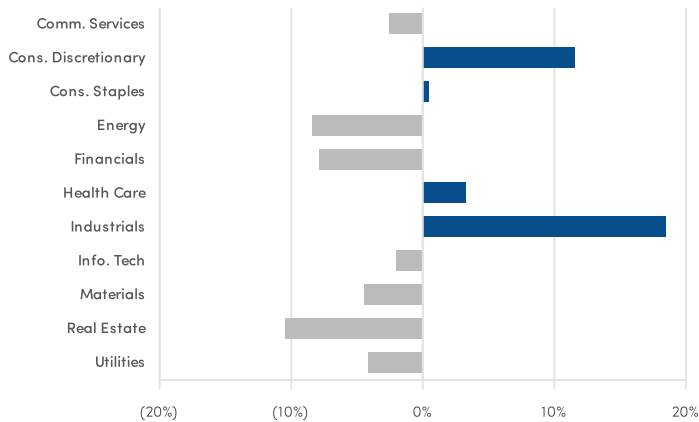


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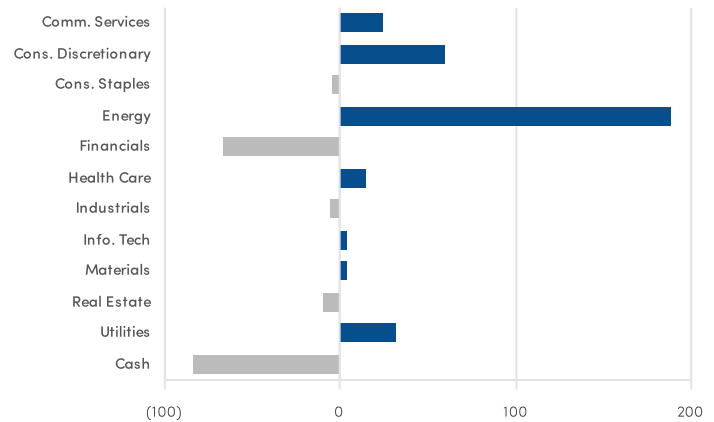
## Sector Positioning

Sector allocation effect was positive for the quarter, with the majority of sectors contributing to the strategy’s outperformance. The most significant tailwind to results came from the portfolio’s underweight to Energy, the only benchmark sector to post a negative absolute fourth quarter return. An overweight to Consumer Discretionary as well as an underweight to Utilities and Communication Services also benefited relative results. Conversely, the portfolio’s underweight to Financials – the best performing sector within the Index – detracted from relative performance, as did an underweight to Real Estate.

Avg Wt Relative to RUI Index (%)



Allocation Effect (bps)



Source: FactSet

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## Initiations

**Hasbro (HAS)** is a leading global play and entertainment company with a broad and deep portfolio of brands and entertainment properties spanning toys, traditional and digital games, licensed products, and television and film entertainment. The stock’s valuation contracted significantly as the company struggled with weak demand for traditional toys and games and bloated inventory. We believe that the company's long-term fundamentals are solid and near-term results should improve significantly as management’s inventory reduction and cost management actions take hold.

## Eliminations

**H.B. Fuller (FUL)**, **National Western Life Group (NWL)**, and **Onto Innovation (ONTO)** reached their price targets and were eliminated.





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## Outlook

Markets enter 2024 against a promising economic backdrop. Having seemingly tamed inflation with minimal economic slowing, the Fed is expected to cut rates as early as this spring. Rate sensitive industries such as banking, housing, and real estate would clearly benefit, and the fourth quarter's strong rally anticipates some of this good news. Taking a slightly longer view, equity indices are broadly unchanged from the start of 2022 when inflation was still accelerating and central bankers were just pivoting to a more hawkish stance, suggesting there is room for further upside if macro conditions cooperate. While some high-profile growth stocks appear priced for perfection, we continue to find value in other areas where investor expectations remain more muted. That said, the market's inflation expectations have been almost uniformly wrong over the last several years, and geopolitical crises and domestic political dysfunction also remain concerns. As such, risk control is a priority, and at Cooke & Bieler it starts with our insistence on attractive valuations, strong cash flows, and conservative balance sheets. We believe this focus on downside protection combined with our emphasis on identifying businesses that can compound value across economic environments is particularly well suited to the challenges that may await in the new year.

Sources: Bloomberg, FactSet, The 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 12/31/23. 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](mailto:contact@cooke-bieler.com).

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