COOKE & BIELER

Q1 2023

Small Cap Value Equity

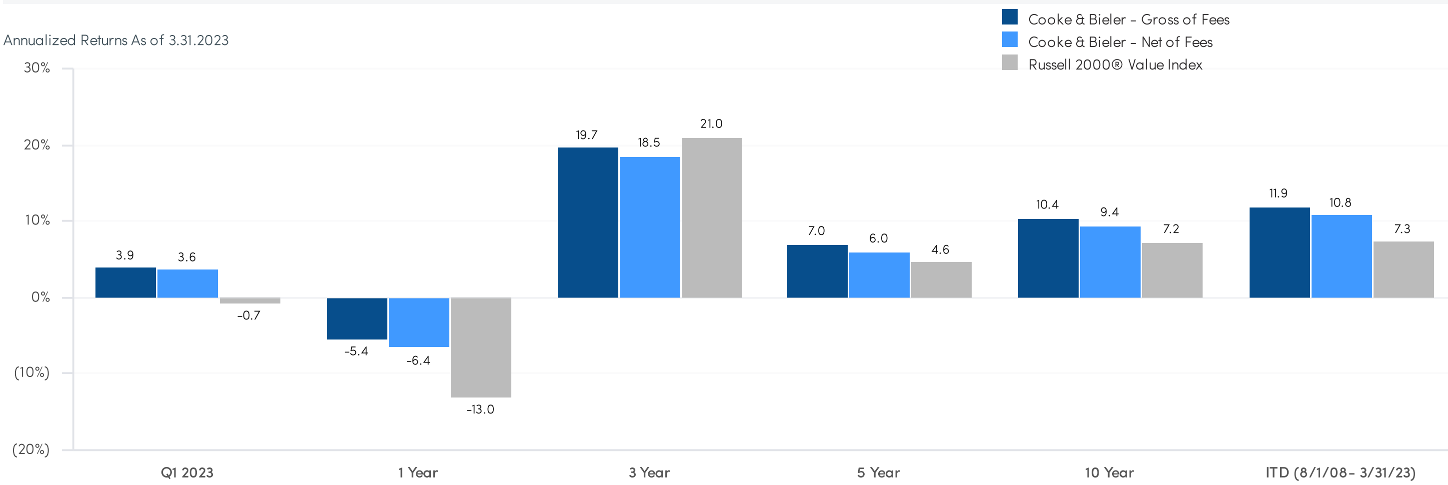
Overview

The first three months of 2023 have already taken markets on an eventful ride. Initially, investors indulged the bullish peak inflation and soft landing narratives that emerged in late 2022, fueling a broad rally through the end of January. Higher than expected inflation reports in early February, though, tempered that enthusiasm and spurred a retreat when hawkish Federal Reserve commentary pushed interest rates higher. By early March, that retreat further deteriorated into a deeper sell-off when several regional banks unexpectedly failed. Almost as quickly, fear gave way to optimism that the crisis would not be systemic. The Fed used its balance sheet to inject substantial liquidity into the banking system and investors embraced the possibility that central banks would change policy course sooner than later. The resulting late quarter market surge ultimately pushed most major equity indices into positive territory. Returns across investment styles, market capitalizations, and economic sectors varied widely, with growth indices advancing sharply, value indices posting flattish results, and large cap stocks outperforming small cap issues. At the sector level, the biggest winners were Information Technology, Communication Services, and Consumer Discretionary constituents – many of which posted double-digit returns. Energy stocks, on the other hand, followed the prevailing trend of last year's leaders becoming this year's laggards, while concerns about the liquidity of smaller banks weighed on Financials stocks at the lower end of the capitalization spectrum.

Portfolio Performance & Developments

Cooke & Bieler's Small Cap Value Strategy significantly outperformed the benchmark during the volatile first quarter, posting a 3.87% return gross of fees (3.62% net of fees) against the Russell 2000® Value Index's -0.66% return. Sector allocation effect and stock selection effect were both additive to relative results, with sector allocation being the primary driver. Industrials and Health Care holdings – namely PGT Innovations, ESAB, and Dentsply Sirona – were the most significant contributors. Financials holdings also added to results. Conversely, Consumer Discretionary holdings continued to struggle, with Helen of Troy, Stoneridge, and Hanesbrands detracting most as investors continued to grapple with a potential recession amid mixed economic data.

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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Contributors & Detractors

Largest Contributors

PGT Innovations (PGTI), a leading manufacturer of laminated, impact resistant windows, was the largest contributor. PGTI generated strong quarterly results in an environment that has been challenging for most building products companies. Organic sales continued to grow thanks to the company's niche focus in attractive geographies as well as early signs of outsized strength for its impact-resistant windows following hurricane-driven awareness in the prior quarter. Additionally, potential interest from a strategic acquirer in late March pushed the share price higher.

ESAB (ESAB), a manufacturer of welding and gas control equipment and consumables, was the second-largest contributor. Investors rewarded ESAB for strong execution, resulting in organic revenue growth and margin expansion. Following their recent spin-off, management continues to improve its communication to investors – particularly related to bolt-on opportunities within the gas controls space – improving investor sentiment.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the third-largest contributor. GIL is weathering current consumer softness well, posting resilient margins and winning market share in both its core printwear apparel business and its retail innerwear segment. Management guided to flat earnings in the upcoming fiscal year, reassuring investors that the company's margin improvements over the last few years should prove sustainable.

Largest Detractors

Columbia Banking System (COLB), a regional bank operating primarily in the Pacific Northwest, was the largest detractor. Shares of COLB sold off along with other regional banks amid investor concerns about capital and liquidity following several high-profile regional bank failures. Importantly, as a result of the merger with Umpqua Holdings, the company's balance sheet was largely marked to market in late February, leaving the company with few of the embedded losses that have concerned investors lately.

WSFS Financial (WSFS), a leading mid-Atlantic regional bank headquartered in Wilmington, Delaware, was the second-largest detractor. Shares declined in tandem with the broader regional banking universe as investors grew alarmed about capital and liquidity following several high-profile regional bank failures. While no bank is immune to a potential run due to the largely emotional nature of any financial panic, we believe WSFS is well positioned with a solid capital position and strong liquidity.

Helen of Troy (HELE), a diversified consumer and household products company, was the third-largest detractor. HELE posted weaker year-over-year results despite stronger than expected demand for cold and flu products. Additionally, in early March, the CFO departed and shares retreated on the news. In the interim, the company will be in the capable hands of its previous long-time CFO. In the longer term, we believe recent free cash flow strength should continue and the company should return to its history of margin improvement.

Sector Positioning

Sector allocation effect was additive during the first quarter. Significant overweight positions in Industrials and Consumer Discretionary, two sectors with strong performance within the benchmark, were the largest tailwinds. An underweight to Financials, the worst performing benchmark sector, was also additive as the sector saw instances of indiscriminate selling following the collapse of multiple regional banks. The strategy is significantly underweight Financials as a whole, as well as being underweight banks specifically, though we believe those in the portfolio are better capitalized and more conservatively positioned than the broader industry. Somewhat offsetting these positive results, the underweight to Materials, one of the better performing sectors within the benchmark, detracted from results, as did the underweight to Real Estate.

Small Cap Value Equity

Initiations & Eliminations

Initiations

APi Group (APG) is an acquisitive business services provider with expertise in fire safety and security, along with a smaller specialty contracting unit servicing primarily telecom and utility companies. The company's inspection-first strategy and its recent acquisition of Chubb Fire & Security have increased its percentage of recurring, higher margin service revenue to 50% of sales. We believe that the continued outgrowth of service-focused revenue and internal investment on Chubb should lead to sustainable profitability improvement.

Flowers Foods (FLO) is North America's second-largest packaged bread manufacturer, with 17% branded market share and a portfolio that includes the number one bread, number one organic loaf bread, and number one gluten-free loaf bread. The company has benefited from a decades-long wave of industry consolidation and has now sufficiently scaled its national distribution network. Innovation and brand strength matter in the retail packaged bread industry and we believe the company's earnings over the next several years should benefit from a shift toward higher margin categories.

Integer Holdings (ITGR) is the world's leading medical device outsourced design and manufacturing company. The company's technologies, manufacturing capabilities, components, and finished devices are ubiquitous and found in almost every major medical device brand. We believe revenue and margin pressures stemming from the pandemic and input cost inflation are easing, clearing a path to sustained, above average earnings growth.

Eliminations

Syneos Health (SYNH) was eliminated due to diminished confidence in the company's long-term fundamental prospects.

Notable Stock Updates

Columbia Banking System (COLB) is a regional bank headquartered in Tacoma, Washington, serving primarily the Pacific Northwest. The company completed its merger with previous portfolio holding **Umpqua Holdings (UMPQ)** during the quarter, with the combined entity retaining the Columbia Banking System name. COLB primarily serves high net worth individuals and families as well as small- and medium-sized businesses. The combined business is strongly capitalized and well positioned to grow both deposits and loans over time.

Ritchie Bros. Auctioneers (RBA) owns and operates the leading auction marketplace for used construction, agricultural, mining, and transportation equipment. RBA completed its acquisition of previous portfolio holding **IAA (IAA)** in a stock-and-cash transaction during the quarter. We believe that the combination should accelerate RBA's promising satellite yard strategy and improve IAA's ability to service insurance customers during catastrophic events. We believe there are also significant opportunities for RBA's strong management team to create shareholder value by executing on cost and revenue synergies.

Outlook

Having shrugged off the failure of several regional banks and the forced consolidation of a large Swiss banking house, markets enter the second quarter with strong momentum. For the moment, investors seem inclined to take a constructive view of most developments, with strong data taken as a sign of economic resilience and weak data, or signs of financial stress, taken as evidence the Federal Reserve will soon end its year-long series of rate increases. There are clearly risks to this buoyant mood, however, as the effects of the Fed's dramatic tightening program are still materializing and we think more negative surprises seem likely. That said, we have long maintained that it is more productive to focus on company-specific fundamentals than to guess at macroeconomic outcomes. As always, we believe competitively advantaged businesses that create value for their customers, are conservatively managed, and are appropriately financed will generate attractive returns for their shareholders over time if purchased judiciously. Viewed in this light, economic dislocation creates more opportunities than risks for patient and disciplined investors.

Sources: Bloomberg, FactSet, The New York Times

Additional Cooke & Bieler Small Cap Value Performance Disclosures