Q1 2024

SMID Cap Value Equity

Overview

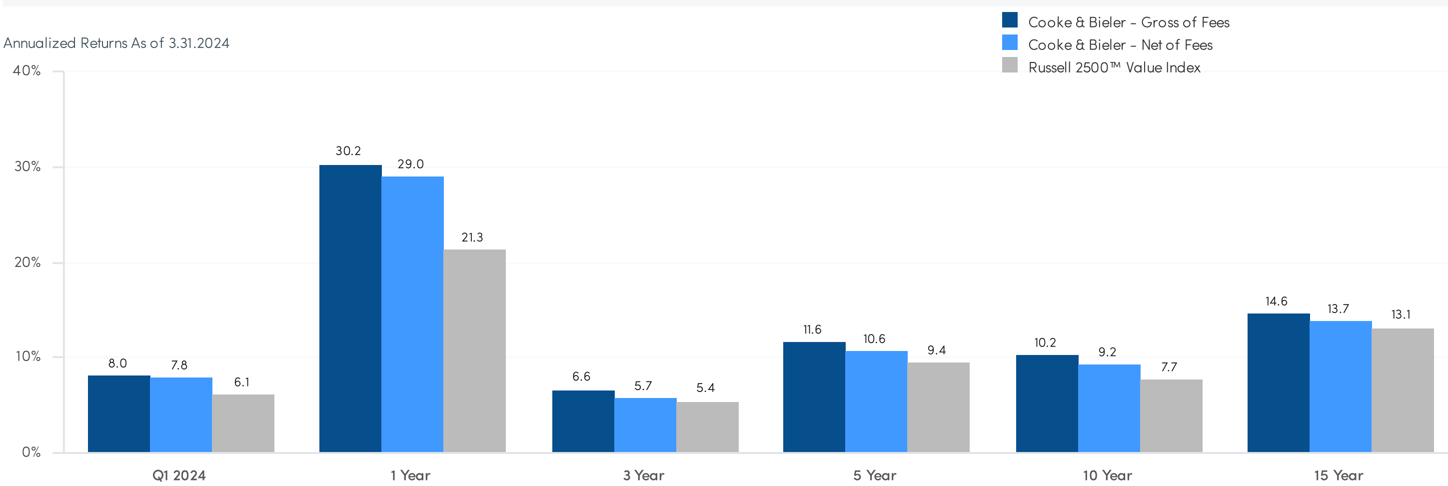
Despite incrementally less dovish signals from the Fed, U.S. equities continued to rally strongly, ending the quarter at all-time highs. Mixed inflation data caused expectations for rate cuts to be pushed out to the second half of 2024, with investors taking the news as a sign that a soft landing scenario may remain on the table. While consumer spending and the economy overall have been stronger than originally feared, the market narrative is increasingly dependent on economic performance without a monetary policy pivot.

Against this backdrop, larger cap and growth equities tended to outperform in the first quarter, as did stocks of high-quality businesses with lower levels of debt leverage. Energy performed especially well, and broad-based strength in Industrials led the value indices to overall positive results. Participation was more widespread than in 2023, though at least four of last year's Magnificent Seven continued their stunning rise. Contrary to trends witnessed last quarter, REITs and Utilities underperformed given a less accommodating interest rate outlook and higher Treasury yields. Companies with commercial real estate exposure and reliance on residential real estate transactions also lagged in an otherwise robust market.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy posted positive absolute and relative returns in the first quarter, generating 8.00% gross of fees (7.76% net of fees) against a 6.07% return for the Russell 2500™ Value Index. Outperformance was primarily driven by positive sector allocation, though stock selection effect was also beneficial. In a continuation of the favorable results generated in 2023, stock selection among Industrials holdings such as BWX Technologies and AerCap generated the most significant tailwind. Communication Services holdings also contributed. Conversely, stock selection within the portfolio's Health Care positions, particularly Integra LifeSciences and Teleflex, was the largest relative performance headwind.

SMID 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)
BWX Technologies	1.7	33.9	59
American Eagle	2.6	22.4	58
AerCap	3.4	16.8	54
Armstrong World	2.1	26.4	53
RenaissanceRe	2.7	19.9	52

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Integra LifeSciences	2.2	-18.8	-47
Columbia Banking	1.2	-26.2	-45
Malibu Boats	1.5	-21.2	-25
Open Text	2.8	-7.2	-23
Teleflex	2.2	-9.3	-21

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 SMID Cap Value institutional portfolio's gross of fees return relative to the Russell 2500™ 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 SMID Cap Value institutional portfolio returned 7.77% net of fees and 8.00% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's SMID 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

BWX Technologies (BWXT), a provider of nuclear reactors for submarines and aircraft carrier propulsion, was the largest contributor. Years of elevated organic and inorganic investment are beginning to bear fruit, leading to improved diversification, organic growth, and free cash flow. In the quarter, BWXT held a well-received investor day where management provided positive additional detail on its core naval offering, BWX Medical, microreactors, and small modular reactors.

American Eagle Outfitters (AEO), a leading teen and young adult retailer operating through the American Eagle and Aerie brands, was the second-largest contributor. AEO reported good results for the important holiday quarter with both sales and margins exceeding expectations. Management also laid out a medium term plan for further growth and margin expansion which encouraged investors.

AerCap (AER), the largest independent aircraft lessor, was the third-largest contributor. AER reported strong results boosted by sales of older aircraft and an insurance recovery related to planes stranded in Russia due to the Ukraine conflict. Management took advantage of the strong results and discounted valuation to aggressively repurchase shares, boosting book value per share and our estimate of intrinsic value.

Largest Detractors

Integra LifeSciences (IART), an acquisitive global medical technology company, was the largest detractor. IART's results continue to be negatively impacted by last year's voluntary recall and temporary halt of manufacturing at its Boston facility. Uncertainty remains over the timing and effectiveness of a return to commercial distribution, and back-half weighted guidance has been viewed with skepticism by investors given recent execution missteps. We believe IART's valuation is attractive and their stable sales base, consistent free cash flow generation, and solid balance sheet position the company to address the current issues.

Columbia Banking System (COLB), a regional bank headquartered in Washington State and focused on the Pacific Northwest, was the second-largest detractor. COLB disappointed investors by lowering their net interest income expectations for the coming year due to higher than expected funding costs. In addition, while credit costs remain benign overall, investors were concerned by the company's move to increase loan loss reserves in the fourth quarter.

Malibu Boats (MBUU), a leading marketer and manufacturer of performance sport boats in the United States, was the third-largest detractor. MBUU lowered its full year guidance as the North American boat industry pushes to rapidly clear channel inventory following a period of robust Covid-driven demand. The company is now positioned to grow wholesale shipments in line with retail demand within the next several quarters. Shares also reacted negatively to the announcement of a CEO transition. With a debt-free balance sheet and a history of both organic market share wins and thoughtful acquisitions, MBUU presents a compelling value relative to its mid-cycle earnings power.

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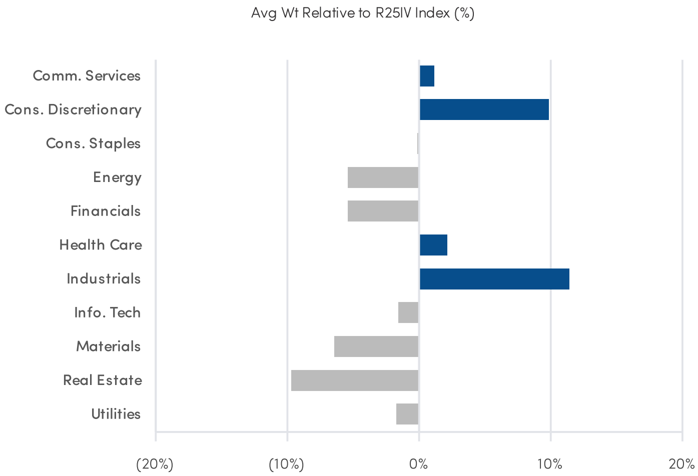
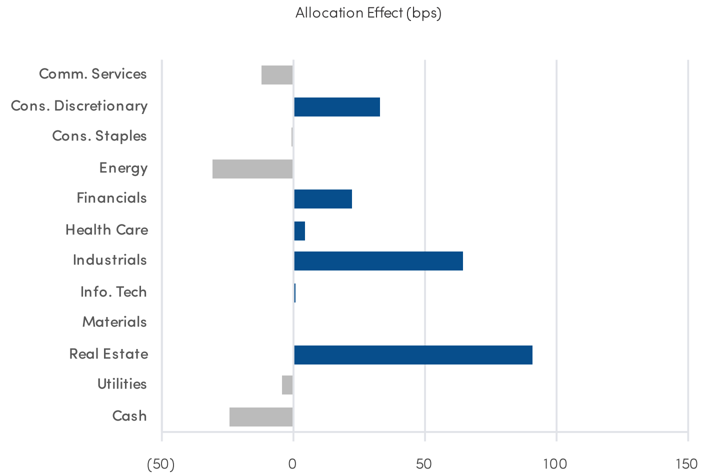
Sector Positioning

Sector allocation effect was additive to the strategy's relative results in the first quarter. The portfolio's underweight to Real Estate, one of the worst performing sectors within the Index, was the most notable tailwind. The significant overweight to Industrials and Consumer Discretionary, two of the strongest benchmark sectors, also proved beneficial. An underweight to the top-performing Energy sector posed a partial offset to these positive results, as did an overweight to Communication Services.





Source: FactSet

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Initiations

Dream Finders Homes (DFH) is a top 15 U.S. homebuilder with a concentration in the South and Southeast regions. 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, mitigates risk in the event of an industry downturn, and drives above average returns on equity. A concentration on geographies with stronger population growth trends and a focus on entry-level homes where demand is strongest should permit DFH to grow more rapidly than the overall industry. Additionally, as the company builds more scale in existing markets, its gross margin profile should expand and approach that of its peers. We were able to initiate the position at an attractive valuation when market expectations for monetary policy easing shifted in the first quarter.

Enerpac Tool Group (EPAC) is a leading global manufacturer of high pressure hydraulic tools, controlled force products, and solutions for positioning heavy loads. EPAC's high quality products and strong brand, scale, and distribution enable the business to generate attractive gross margins, ROIC, and free cash flow through the cycle. The current CEO continues to execute on a business transformation plan that should yield structural improvements in profitability, organic growth, and free cash flow. EPAC also has a conservative balance sheet, providing optionality for disciplined M&A and continued share repurchases.

Janus International (JBI) is a turnkey solutions provider that dominates the market for self-storage facility componentry and services, with a growing presence in the broader commercial overhead door market. While its portfolio of products and services is virtually unmatched, JBI still has attractive whitespace opportunities in categories such as self-storage access control and smart locks where it can grow content per unit as well as introduce higher margin subscription revenue streams. The company should also benefit over time from key demand drivers including greater existing home turnover, an aging self-storage installed base, and recent large-scale M&A activity among its customers.

Eliminations

Acuity Brands (AYI) and **FirstCash (FCFS)** reached their price targets and were eliminated.

Whirlpool (WHR) was eliminated due to a broken thesis, specifically concerns over their balance sheet.

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Outlook

Equity markets reacted positively to solid economic reports and better than expected corporate earnings during the quarter. The risk of imminent recession seems low, supply chains continue to improve, and artificial intelligence is stoking optimism about long term productivity growth, providing a promising backdrop for equity investors. The broadening of the rally across economic sectors, market caps, and styles towards the end of the quarter was also encouraging. However, market participants, in their zeal to capitalize on the situation, have pushed up valuations – not egregiously in most cases, but certainly to elevated levels relative to historical norms. Seemingly overlooked during the quarter was the Fed's acknowledgement that rate cuts will be deferred and limited until inflation has more clearly moderated, suggesting that the more favorable economic backdrop could be offset by persistently higher interest rates. Geopolitical crises and political dysfunction also remain concerning. All things considered, we believe selectivity and risk control are increasingly important in the current investing environment. At Cooke & Bieler these considerations start with our valuation discipline and rigorous process, focused on investing in well managed, financially strong companies with competitively advantaged businesses that generate attractive returns on capital and strong cash flows. With that focus in mind, typical Cooke & Bieler investments target both downside protection in protracted down markets and longer-term upside as they compound value, which we believe will bode well given the current environment.

Sources: Bloomberg, FactSet

Additional Cooke & Bieler SMID Cap Value Performance Disclosures