



# SMID Cap Value Equity

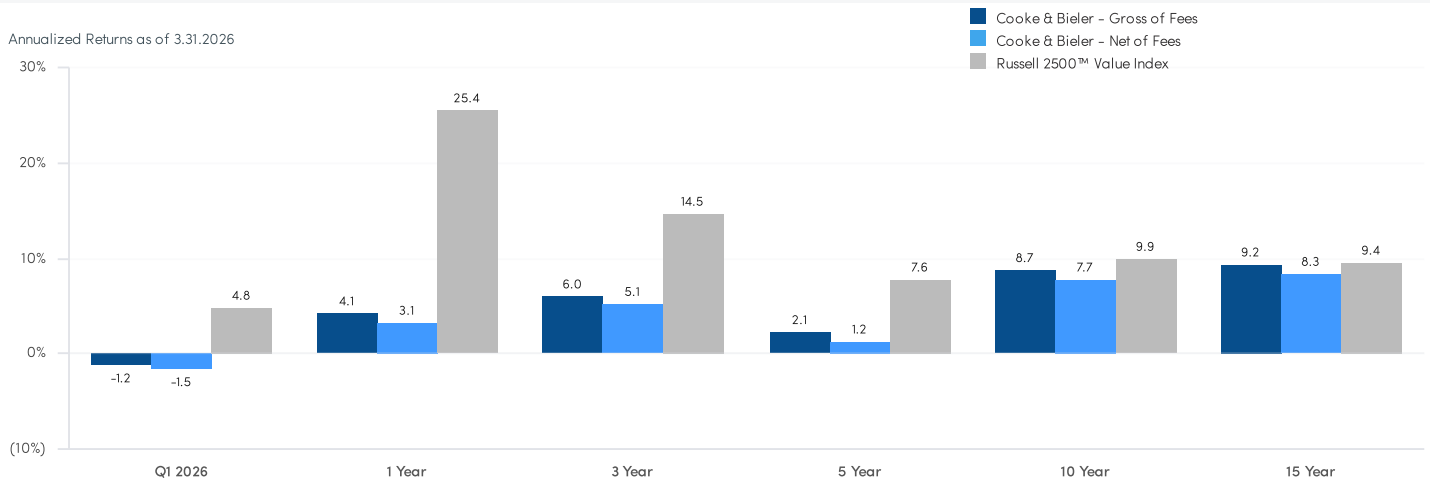
## Overview

The U.S. stock market began the new year on firm footing, supported by generally favorable underlying macroeconomic conditions and solid corporate earnings growth. Midway through the quarter, equities had advanced broadly, led by value stocks and particularly smaller cap issues. However, the backdrop shifted as concerns about potential disruption from AI surfaced, dampening what had been a longstanding source of investor enthusiasm. Conditions deteriorated further following the late-February conflict with Iran, which drove oil prices higher, raised recession and stagflation concerns, and reduced expectations for near-term Federal Reserve easing. Aside from Energy stocks – which surged in response to the higher oil prices – equities declined broadly during the month of March, briefly pushing several major indices into correction territory. The market’s strong showing in the final day of the quarter was enough to put returns into the mixed range, characterized by meaningful dispersion across indices, styles, sectors, and individual stocks. Most notably, value significantly outperformed growth, and small cap outpaced large cap. Energy, Utilities, and other commodity producers outperformed forcefully, and Financials, Consumer Discretionary, and Health Care stocks underperformed. Meanwhile, performance within the Information Technology sector varied greatly. Stocks of companies seen as enablers of AI investment surged, mostly represented in value indices. Creators of AI models, mostly represented in growth indices, declined – albeit from elevated levels – and weighed meaningfully on Index returns.

## Portfolio Performance & Developments

Cooke & Bieler’s SMID Cap Value Strategy significantly underperformed the Russell 2500™ Value Index during the volatile quarter, ultimately posting a -1.23% return gross of fees (-1.45% net of fees) against a 4.77% benchmark return, despite handily beating the Index in the first half of the period. Both stock selection effect and sector allocation effect detracted from results. Stock selection in Industrials lagged most, with economically sensitive holdings within building products, commercial services, and machinery industries like Janus International, MasterBrand, HNI, and ESAB pulling back meaningfully. Communication Services holdings Warner Music Group and Omnicom also lagged the broader market, and Financials and Materials holdings were additional detractors from performance. Conversely, Information Technology and Consumer Discretionary holdings such as MKS and Hasbro were modest tailwinds.

## SMID 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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# SMID Cap Value Equity

## Five Largest Contributors/Detractors

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)		Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
MKS Inc.	2.3	44.0	128	Burford Capital	1.9	-49.3	-110
Atlas Energy Solutions	1.4	39.3	49	Gildan Activewear	4.2	-10.5	-44
Rush Enterprises	1.9	22.9	39	Janus International	1.9	-21.3	-39
Woodward	2.4	18.5	37	Fidelity National Financial	2.8	-14.1	-38
Hasbro	1.7	14.9	31	Winnebago	2.0	-22.9	-38

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. The SMID Cap Value composite returned -1.45% net of fees and -1.23% 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](mailto:contact@cooke-bieler.com).

## Largest Contributors

**MKS Inc. (MKS)**, a supplier of critical subsystems and components used in semiconductor manufacturing and electronics packaging, was the largest contributor. The stock benefited from improving sentiment around a semiconductor capital equipment upcycle. Recent memory shortages caused by increased AI use have investors anticipating greater equipment spending by memory players. In addition, ongoing debt reduction and strong free cash flow generation have improved balance sheet flexibility and reinforced confidence in the company's ability to benefit from the cycle's recovery.

**Atlas Energy Solutions (AES)**, a sand mining and delivery company serving the Permian, was the second-largest contributor. The stock outperformed alongside other holdings in the Energy sector as crude oil prices moved above \$100 per barrel, driving improved sentiment across the oilfield services and upstream supply chain. Investors responded positively to the implications of higher oil prices on drilling and completion activity, which directly supports demand for sand and related logistics services. In addition, AES continues to benefit from its cost-advantaged positioning in the Permian Basin, particularly through its Dune Express conveyor system, which enhances delivery efficiency and supports market share gains even in a mixed operating environment.

**Rush Enterprises (RUSHA)**, the largest commercial truck dealer in North America, was the third-largest contributor. U.S. Class 8 truck orders improved in recent months, boosting investor sentiment following an extended freight recession and uncertainty related to potential tariff impacts as well as the timing and extent of upcoming emissions standards. More importantly, RUSHA continues to execute on initiatives tied to its Parts & Services business. These higher margin, more recurring sales leverage the company's expansive service-equipped dealer network, and represent nearly two-thirds of RUSHA's gross profit.

## Largest Detractors

**Burford Capital (BUR)**, a market leader in the litigation finance industry, was the largest detractor. Shares fell sharply after a late-March appellate ruling reversed a favorable lower court judgment in their case against the Argentine government related to the 2012 nationalization of oil company YPF. While the ruling does not eliminate the possibility BUR will collect material sums, it does greatly reduce confidence in the value and timing of their largest claim. The new YPF ruling will drive a reversal of non-cash unrealized gains on BUR's financials, which could impact their ability to deploy new capital. That said, we believe considerable value remains embedded in the capital they have already deployed in their base business.

**Gildan Activewear (GIL)**, the largest basic apparel manufacturer, was the second-largest detractor. GIL completed its acquisition of Hanesbrands, a combination that should be significantly accretive to GIL both from cost synergies as well as new opportunities in the retail activewear end markets. Investors' near-term concern about integration risks as well as broader consumer trepidation weighed on shares in the quarter.

**Janus International (JBI)**, a leading manufacturer of overhead doors and components for the self-storage industry, was the third-largest detractor. JBI posted quarterly results slightly ahead of management's previous guidance. Although consolidated guidance calls for growth in 2026, organic guidance is closer to flat as new construction activity in the self-storage industry remains subdued. However, continued large scale consolidation among self-storage operators bodes well for the pipeline of renovation projects, while JBI's keyless entry installed base is growing solidly and should turn profitable this year.

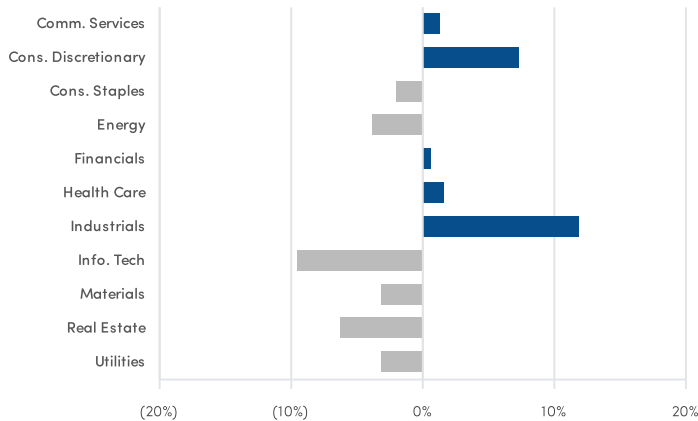


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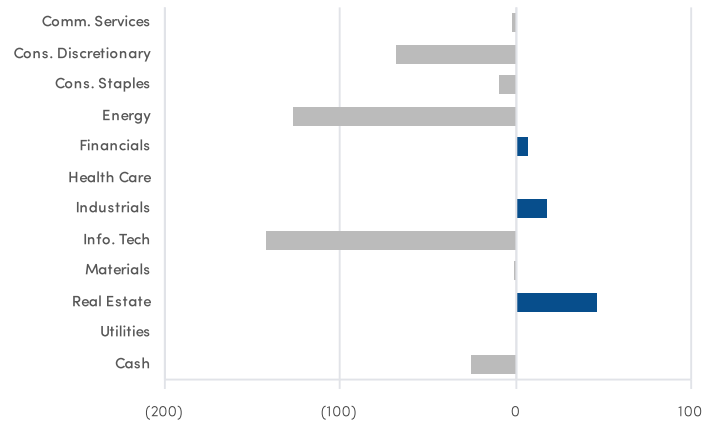
## Sector Positioning

Sector allocation effect was broadly negative during the quarter, with the most pronounced negative impact stemming from the strategy's underweight to Information Technology and Energy. While the portfolio's lone Information Technology holding outperformed the overall benchmark sector return, the significant underweight to the second best performing sector posed the largest headwind to allocation results. Meanwhile, as oil prices soared following the closure of the Strait of Hormuz, Energy holdings within the benchmark posted a 41.20% return – by far the top performing sector – against a 39.28% return for the strategy's lone Energy holding. The overweight to Consumer Discretionary – the worst performing benchmark sector – also weighed on results as cyclical stocks faltered against a weakening economic outlook. Conversely, the underweight to Real Estate and overweight to Industrials were partial positive offsets.

QTD Avg Wt Relative to R25IV Index (%)



QTD Allocation Effect (bps)



Source: FactSet

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## Initiations

**Lithia Motors (LAD)** is a leading automotive dealer with locations in the United States, the United Kingdom, and Canada. LAD is a well-run, diversified auto dealer trading at an attractive valuation. Franchise agreements in the U.S. provide auto dealers exclusive rights to sell new, certified pre-owned, and some services for specified OEM brands in a specific geographic area. Additionally, auto OEMs must approve all dealer acquisitions, which provides an advantage for well-capitalized dealers with a proven track record. LAD is run with an owner-operator mentality including contrarian, flexible, and shareholder-friendly capital allocation. After a recent investment phase that included significant inorganic and organic investments, LAD appears to have shifted its significant free cash flow generation to repurchasing its attractively valued stock. Looking ahead, LAD should continue to repurchase shares and further consolidate a large, fragmented market.

**MarketAxess (MKTX)** is a leading operator of electronic fixed income marketplaces, with particular strength in corporate credit markets and international bond markets. Bond markets remain mostly voice and text based, creating a long runway for growth for electronic marketplaces. However, after having pioneered the all-to-all trading protocol which allowed participants to buy and sell from any other participant in the marketplace rather than needing to place trades through a dealer, MKTX fell behind in innovation. The company was late to offer protocols such as portfolio trading – allowing groups of bonds to be sold simultaneously – and capabilities such as net spotting – integrating rates and credit in one platform to allow users to isolate credit spreads in real time. This reluctance to innovate led to market share losses in their core credit business and caused the stock to sharply underperform over the last five years. Current CEO Chris Concannon now has the company more focused on innovation and solving customers' needs, and the company has had early success in several promising initiatives. With valuation at all-time lows, no debt, and improving fundamentals, we believe the stock represents a compelling opportunity.





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## Eliminations

**American Woodmark (AMWD)** was eliminated in advance of its pending acquisition by MasterBrand (MBC) for better opportunities.

**Atmos Energy (ATO)** and **XPO (XPO)** reached their price targets and were eliminated.

**F&G Annuities & Life (FG)** was partially spun out from Fidelity National Financial (FNF) and subsequently eliminated.

## Outlook

The market exited the first quarter concerned about the duration and outcome of the war with Iran as well as its effect on oil prices, the potential for AI to disrupt a broad swath of industries from enterprise software to real estate brokers, and a growing risk of recession. With momentum still driving market dynamics, developments tend to be exaggerated and the consequences of being on the wrong side of a market narrative can be severe. In this environment, it is difficult not to shorten one's investment time horizon or seek to guess the next headline. This instinct becomes more pronounced when relative performance has been significantly challenged. Our experience tells us this reflex is a mistake. While frustrated by the recent performance of our portfolios, which are positioned almost exactly contrary to recent market preferences — broadly overweight cyclical businesses, underweight momentum, underweight Energy, and underexposed to AI euphoria — we remain confident in the quality of the businesses we own and their potential to create value for shareholders over time. Analysts have combed through each holding, updated estimates of earnings power, and scrutinized each company's ability to weather difficult economic times. While each stock is unique, we believe the portfolio's holdings have created and will continue to create fundamental value faster than their Index peers, and that overall recent underperformance is a sign of opportunity, not distress. Nowhere is this more evident than in Health Care, a space that has underperformed for five years. While the sector's initial selloff was an understandable recalibration following the pandemic, it has increasingly become a momentum-driven phenomenon, especially surprising because it is generally recession resistant, less susceptible to AI disruption, and not energy intensive. Yet, valuations today sit at decade lows in a number of cases, while the businesses continue to generate growing earnings and cash flow. In our view, driven by our experience over the last 75 years, guessing when momentum will shift is fruitless. However, we believe the math of fundamental value creation always wins in the end, and owners of these businesses will reap handsome rewards over time.

Sources: Bloomberg, FactSet, Reuters, 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 SMID 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 SMID Cap Value institutional portfolio for the quarter ending 3/31/26. 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 2500™ Value Index. 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](mailto:contact@cooke-bieler.com).

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