COOKE & BIELER

Q2 2023

SMID Cap Value Equity

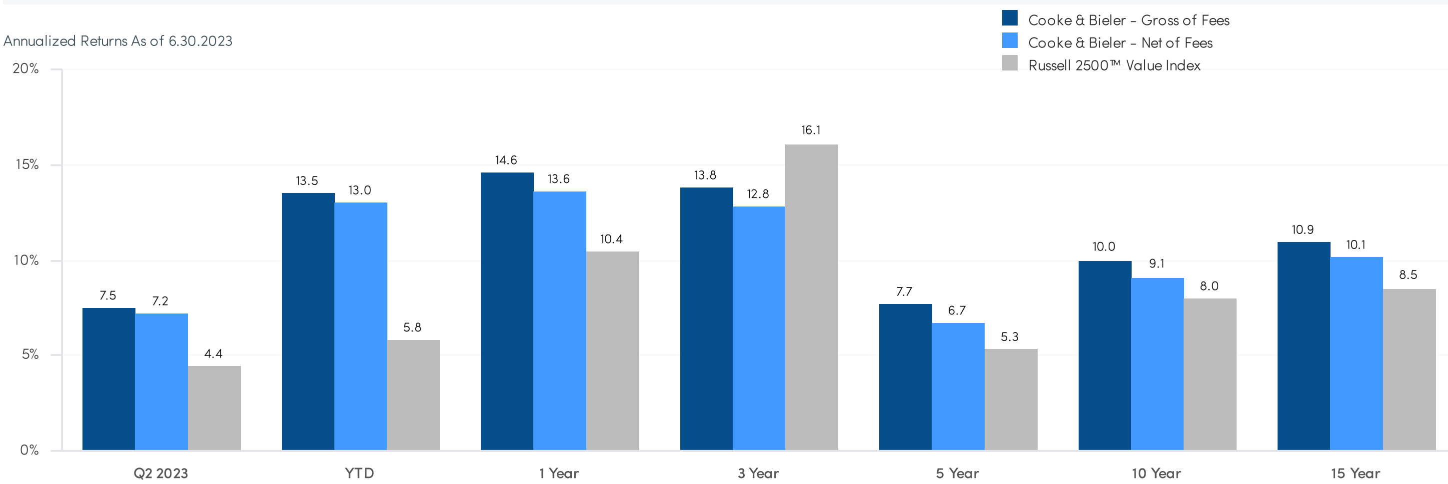
Overview

Domestic equity indices finished higher across the board in the second quarter as the tech heavy NASDAQ rode a wave of AI enthusiasm to a 13% gain. Growth beat value, and high beta issues outperformed during the period. Market cap trends were muddled with both the top and bottom ends performing well. In contrast to the growing sense of dread in commercial real estate, housing-adjacent constituents benefited from a handful of fundamental green shoots and a growing consensus that the economy was headed for a soft landing rather than a recession. An uneventful end to March's regional banking crisis further fueled the fire. Overall, market participants appeared increasingly sanguine despite persistently hawkish Fed talking points and ongoing global turmoil, including an attempted coup in Russia.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy significantly outperformed its benchmark during the second quarter, returning 7.45% gross of fees (7.21% net of fees) against a 4.37% return for the Russell 2500™ Value Index. Both stock selection effect and sector allocation effect were additive. Stock selection was beneficial in the majority of the sectors where the portfolio had weight, with Information Technology and Consumer Discretionary performing best, led by the strong performance of CarMax, Winnebago, and Onto Innovations. Industrials and Financials holdings were also contributors during the quarter. Conversely, Health Care holdings posed the largest headwind, due largely to the impact of Integra LifeSciences, the portfolio's largest detractor, as well as Perrigo. Communication Services holdings also weighed on relative results.

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)
American Woodmark	2.1	46.4	93
CarMax	2.4	30.0	68
Woodward	2.7	22.1	57
Winnebago	3.2	16.3	53
Essent	3.0	17.3	51

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Integra LifeSciences	2.3	-28.6	-74
American Eagle	2.2	-11.8	-31
Glacier Bancorp	0.7	-25.4	-24
Acuity Brands	1.8	-10.9	-21
Hanesbrands	0.9	-13.9	-16

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 7.18% net of fees and 7.42% 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

American Woodmark (AMWD), a leading kitchen and bath cabinet manufacturer with a focus on value price points, was the largest contributor. AMWD demonstrated encouraging margin progress following a period of record input cost inflation. Pricing is catching up with inflation, mix is improving, and production efficiencies are materializing, informing management's call for further margin expansion in the year ahead. At the industry level, favorable demand dynamics for new construction have also benefited investor sentiment for building product companies.

CarMax (KMX), an independent used car retailer operating through both brick & mortar and online channels, was the second-largest contributor. KMX drove share gains, maintained unit economics, and performed better than expected in the wholesale space. Management has also shown progress in controlling SG&A costs. KMX continues to invest to enhance its capabilities and has the opportunity to become the premier omni-channel value proposition.

Woodward (WWD), a supplier of energy and motion control systems to the aerospace and industrial industries, was the third-largest contributor. While industry production continues to be impacted by supply chain disruptions and labor shortages, we believe WWD is well positioned to benefit from the ongoing commercial aerospace recovery due to its strong content on narrowbody aircraft and its positioning in the aftermarket. In the quarter, WWD's earnings report showed encouraging progress towards more normal levels of output and productivity.

Largest Detractors

Integra LifeSciences (IART), an acquisitive global medical technology company, was the largest detractor. In the quarter, IART announced a voluntary recall of products manufactured in its Boston facility. The expected impact on sales and earnings is manageable, but the timing of FDA approval and required investment to remedy the issue creates uncertainty. We believe IART's strong balance sheet, stable sales base, and consistent free cash flow generation position the company to address the current issues, and valuation is attractive.

American Eagle (AEO), a leading teen and young adult retailer operating through the American Eagle and Aerie brands, was the second-largest detractor. AEO lagged as the company's first quarter sales were modestly disappointing, and management forecasted an increasingly difficult consumer environment for the rest of the year.

Glacier Bancorp (GBCI), a regional bank operating as a collection of community banks in the Mountain West, was the third-largest detractor. Having held up well in the early stages of the March bank sell off, GBCI trailed in the second quarter as investors grew concerned their use of temporary, higher-cost funding would hurt margins into 2024.

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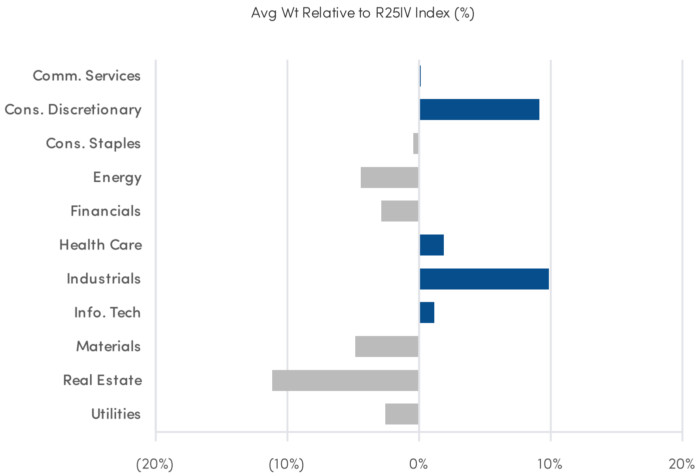
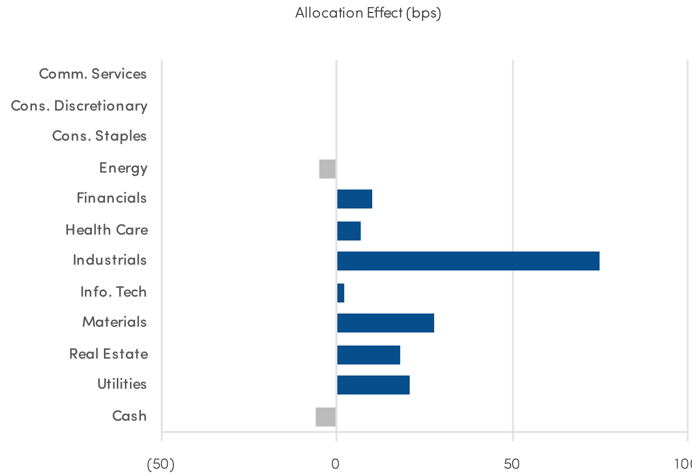
Sector Positioning

Sector allocation effect was broadly additive during the second quarter, with most sectors contributing to the portfolio's outperformance. The portfolio's significant overweight to Industrials, the top performing sector within the benchmark, was the biggest driver. The underweight to Materials was also additive, and the strategy's underweight to Utilities generated a further tailwind as the space continued to struggle with the impact of higher interest rates. Partially offsetting these results, the underweight to Energy and the impact of frictional cash in a strongly rising market posed slight headwinds.





Source: FactSet

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Initiations

There were no initiations this quarter.

Eliminations

There were no eliminations this quarter.

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Outlook

As the second quarter unfolded, investors' fears of economic recession, spreading bank failures, and a U.S. government debt default all but vanished. The result was an equity rally that while initially limited to a handful of mega cap technology stocks, ultimately grew to encompass most of the market. The forceful swing from pessimism to optimism, especially related to anything AI, leaves us somewhat concerned heading into the second half of the year. Core inflation, though moderating, remains stubbornly high, making it probable the Fed will resume raising interest rates. Fiscal support appears to be peaking, and the lagged effect of tighter monetary policy is lurking. Still, investor expectations have moved higher in the face of this uncertainty, calling for a more measured outlook on equities. We see signs of speculation in certain areas of the market, but we continue to identify quality businesses trading at reasonable valuations. The resulting combination of quality and value inherent in the portfolio leaves us optimistic that our strategy – centered on investing in conservatively financed, competitively advantaged businesses – will deliver attractive returns over time.

Sources: Bloomberg, FactSet, Wall Street Journal

Additional Cooke & Bieler SMID Cap Value Performance Disclosures