

SMID Cap Value Equity

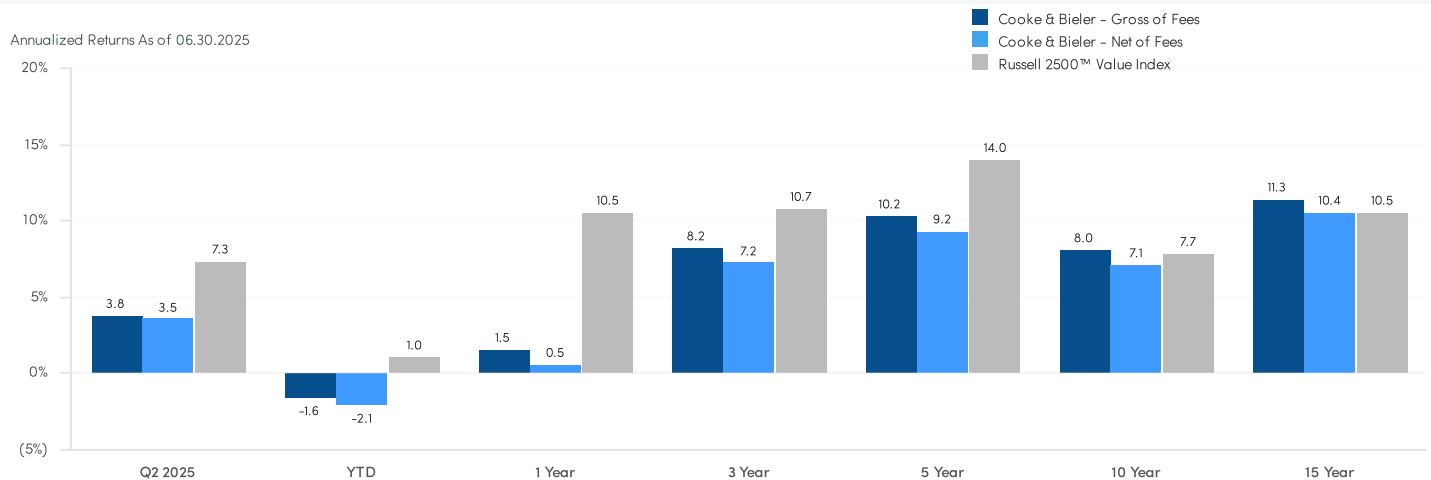
Overview

Equity markets took investors on a tumultuous ride in the second quarter. Stocks declined sharply in April on fears of an all-out global trade war stoked by the Trump Administration's newly proposed tariff rates. The S&P 500® Index declined more than 10% over the ensuing days, only to quickly and decisively reverse course in response to a tariff implementation pause. By quarter end, the S&P 500® and NASDAQ Composite Indices reached new all-time highs, overcoming considerable uncertainty associated with numerous unresolved exogenous issues, including the economic impacts of ever-changing trade policies, an ambitious budget bill, and increasing conflict in the Middle East. As the quarter progressed, investors' appetites for stocks were buoyed by signs of continued solid economic and corporate earnings growth as well as stable, if not moderating, inflation rates – the latter giving life to Fed easing narratives. Investors once again demonstrated a strong preference for larger cap growth stocks, particularly those perceived to benefit most from investments in AI capabilities. Within the value universe, investors gravitated toward smaller cap issues, presumably due to their more U.S.-centric business models. By sector, Information Technology was the overwhelming leader across most indices, accounting for two-thirds of the S&P 500® Index's total return during the quarter. Economically sensitive sectors, particularly Industrials, also tended to outperform while the bond proxies lagged. Energy and Health Care significantly underperformed as the former faced lower oil prices and the latter saw valuations pressured by tariff exposure and possible funding cuts.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy underperformed the benchmark during the volatile but ultimately strong quarter, posting a 3.75% return gross of fees (3.52% net of fees) against a 7.29% return for the Russell 2500™ Value Index. Stock selection detracted from results, while sector allocation effect was a partial positive offset. Selection was weakest among Consumer Discretionary and Financials holdings such as CarMax and Fidelity National Financial. Communication Services holdings also underperformed the benchmark. Conversely, Industrials holdings such as Woodward and API Group performed well, as did the portfolio's Real Estate holdings.

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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Five Largest Contributors/Detractors

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Woodward	3.65	34.49	117
APi Group	2.94	42.76	112
MKS	2.01	24.28	62
BrightView	1.83	29.67	51
Open Text	2.51	16.69	40

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Atlas Energy Solutions	1.62	-23.59	-48
Fidelity National Financial	2.87	-13.07	-43
Flowers Foods	2.24	-14.67	-39
Warner Music Group	2.26	-12.51	-35
CarMax	1.71	-13.74	-32

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 3.52% net of fees and 3.75% 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

Woodward (WWD), a supplier of energy and motion control systems to the aerospace and industrial industries, was the largest contributor. WWD is well positioned to benefit from the ongoing commercial aerospace recovery due to its strong content on narrowbody aircraft and positioning in the aftermarket. Execution at WWD's Industrial segment has improved, aided by productivity improvements and SKU rationalization, although it has recently faced difficult comparisons related to the volatile China on-highway natural gas engine business. WWD's consistent free cash flow generation and strong balance sheet also provide capital allocation optionality to create shareholder value.

APi Group (APG), a business services provider with expertise in fire safety, security, elevator maintenance, and a smaller special contracting unit, was the second-largest contributor. In the quarter, APG reported strong results and held a well-received investor day. APG continues to execute its inspection-first strategy, leading to a greater mix of recurring and higher margin service, inspection, and monitoring sales.

MKS (MKSI), a supplier of critical subsystems and components used in semiconductor manufacturing and electronics packaging, was the third-largest contributor. The company holds leading positions in pressure control, gas delivery, vacuum systems, and RF power, while also expanding its capabilities through strategic acquisitions. MKSI benefits from strong exposure to secular trends in advanced packaging, increased semiconductor content per system, and end-market diversification. Margin improvement and revenue growth have remained solid despite near-term headwinds, supported by disciplined execution and a broadening customer base.

Largest Detractors

Atlas Energy Solutions (AESI), a sand mining and delivery company serving the Permian Basin in Texas, was the largest detractor. AESI underperformed alongside other U.S. shale service providers as oil prices fell and shale completions activity slowed.

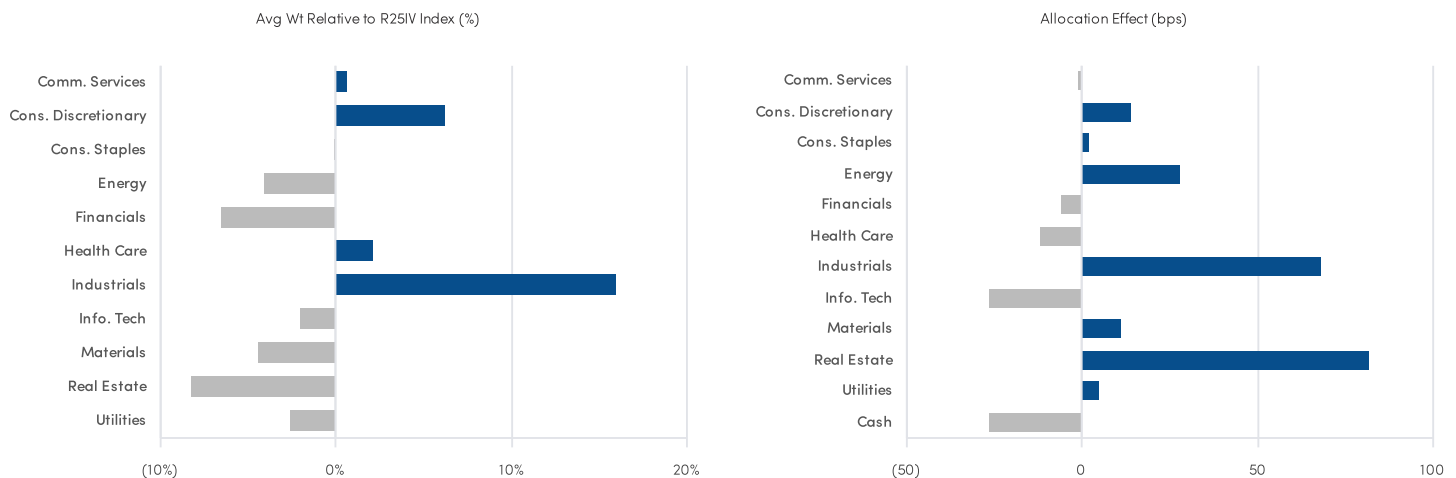
Fidelity National Financial (FNF), the largest provider of title insurance and settlement services in the U.S., with additional operations in annuities, was the second-largest detractor. Despite reporting strong margins on an absolute basis, investors were disappointed in the lack of momentum in the title segment as high mortgage rates weigh on real estate transactions. In addition, results at its majority-owned subsidiary, F&G Annuities and Life, fell short of expectations, reinforcing concerns about the quality and sustainability of that segment's earnings.

Flowers Foods (FLO), a leading packaged bread and baked goods manufacturer, was the third-largest detractor. After generating full year volume growth in its Branded Retail segment in 2024, FLO posted softer than expected results as weaker consumption trends in the packaged bread category emerged during the quarter. Although management still expects EBITDA growth in 2025, EPS will likely take a step back on higher interest costs associated with the company's recent acquisition of Simple Mills, a high margin and high growth manufacturer of natural crackers, cookies, and other baked goods. With leading national bread and organic loaf brands, as well as the promising launch of its new Wonder brand snack cakes, we continue to believe FLO can generate solid organic topline growth, return margins to historical levels, and generate high single digit earnings per share growth. With a 6% dividend yield and a historically low valuation, FLO offers a compelling total return profile.

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Sector Positioning

Sector allocation effect was positive during the second quarter, with the majority of sectors benefiting relative results. The underweight position to Real Estate contributed most, as perceived safe havens underperformed the benchmark during the risk-on rally in the back half of the quarter. The portfolio's overweight to the economically sensitive Industrials sector – one of the top performers within the benchmark – was also additive. Relatedly, an underweight to Information Technology detracted from performance as the sector significantly outperformed the overall Index.



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 sector return relative to the Russell 2500™ Value Index. The SMID Cap Value composite returned 3.52% net of fees and 3.75% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

Valvoline (VVV) operates and franchises quick lube service centers in the U.S. and Canada. Demand for oil changes has been resilient over time, and quick lube has benefited from the shift toward “do it for me” services and market share gains within that space from less convenient and/or higher cost options. VVV is well positioned to continue gaining market share within quick lube due to its strong brand, scale, focused strategy, and proven economics as well as company culture, both in store and at the franchise level. Same store sales have been positive for 18 straight years, recently aided by premiumization toward synthetic oil, maturing stores, increased non-oil change revenue services, growth of its fleet business, and net pricing. VVV appears to have a multi-year opportunity to grow its locations through a combination of company owned, franchised, and acquired stores. Strong underlying free cash flow should support opportunistic M&A and share repurchase activity.

XPO (XPO) is a transportation provider with a U.S. less-than-truckload (LTL) freight business and a European transportation business. The U.S. LTL freight subsector exhibits more rational competition and higher barriers to entry as compared to the full truckload subsector. Within U.S. LTL, XPO boasts a fully scaled national network with service that is approaching best-in-class levels, which should in turn drive margin expansion. Concerns of a prolonged trucking recession and of the ultimate service levels XPO can achieve gave us the opportunity to initiate a position.

Eliminations

American Eagle Outfitters (AEO) was eliminated due to a broken thesis, as weak execution and promotional pressure undermined confidence in sustained margin recovery.

Arrow Electronics (ARW) was eliminated to make room for better opportunities.

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Outlook

Investors could be forgiven if they greet the second half of 2025 with more exhaustion than excitement. After a first half packed with years' worth of domestic policy initiatives and reversals as well as global tensions flaring, particularly in the Middle East, investors find themselves facing roughly the same questions they were grappling with when the year started. Will the economy and consumer sentiment remain resilient in the face of policy shocks? Will the Fed ease aggressively to cushion any economic weakness, as in 2008 and 2020, or will the recent bout of inflation lead them to take a more cautious approach? And will geopolitical tension cascade into something more than the brushfire conflicts that erupted in the first half? As investors ponder these issues, they can take little comfort in valuation support as the market trades near all-time highs, especially in areas tied to AI or cryptocurrency.

As much as we all might wish for a respite, this environment seems more like a recipe for continued volatility, with investors oscillating between fear of being in the market and fear of missing out depending on the news cycle. In general, we believe our strategies are well positioned for this reality, outperforming in moments of stress and underperforming only during the growth inspired rally of the last six weeks. Fundamentally, our analysis suggests that the portfolio is less exposed to tariffs than the broader market and many of our companies' peers, reducing the risk posed by a potential trade war. Similarly, while our strategies are broadly overweight economically sensitive sectors, we believe the strong competitive positions, skilled management teams, and flexible balance sheets of our companies position them well to weather economic storms, and in some cases, take advantage of competitors' struggles. And of course, our rigorous focus on valuation means our portfolios are less exposed to valuation risk than the broader markets.

None of which is to say we take future outperformance for granted or expect it to be easy. We believe our philosophy – own good businesses with conservative balance sheets, run by skilled managements, at attractive valuations – provides a framework for success that is equally rooted in common sense and mathematical truth. Implementing this framework, however, requires deep knowledge and diligent, focused research conducted by Career Analysts with intellectual discipline and humility. While results this year have been disappointing, we remain confident in our people and remain relentlessly focused on improving the portfolio by uncovering new ideas as well as identifying existing holdings where fundamentals are not meeting our expectations.

Sources: Bloomberg, FactSet, 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 6/30/25. 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.

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