



SMID Cap Value Equity

Overview

Following a breakneck advance through the first half of the year, U.S. equity indices turned in mixed results for the third quarter. The market's tone shifted noticeably in September when investors faced increasing evidence that supply chain disruptions, rising input cost inflation, and labor shortages might negatively impact the near-term trajectory of the economic recovery. Presumably better equipped to handle such vagaries, large cap stocks generally outperformed smaller cap issues. Returns across styles, factors, and sectors were muddled. Growth outperformed value up the market cap spectrum while the opposite was true among small cap stocks. Notably, one consistent trend was Financials sector outperformance, largely driven by bank stocks.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy slightly lagged the benchmark in the third quarter, posting a return of -2.42% gross of fees (-2.64% net of fees) versus -2.07% for the Russell 2500™ Value Index. Underperformance was attributable to a negative sector allocation effect, which overwhelmed a modestly positive stock selection effect. Health Care and Consumer Discretionary holdings were the biggest tailwinds to results, led by particularly strong contributors Hill-Rom and Winnebago. Information Technology and Consumer Staples holdings were also additive. Partially offsetting these contributions, Industrials holdings lagged, especially building product companies American Woodmark and PGT Innovations, both of which experienced significant raw material inflation and supply chain disruption in the face of very strong demand. Financials and Materials holdings also detracted from relative results.

Five Largest Contributors/Detractors

| | Avg Weight (%) | Total Return (%) | Contrib. to Return (bps) | | Avg Weight (%) | Total Return (%) | Contrib. to Return (bps) |
|-----------|----------------|------------------|--------------------------|--------------------|----------------|------------------|--------------------------|
| Hill-Rom | 2.2 | 31.6 | 82 | American Eagle | 2.2 | -30.9 | -75 |
| FirstCash | 2.7 | 14.9 | 37 | American Woodmark | 2.5 | -20.0 | -54 |
| AerCap | 2.7 | 12.9 | 33 | PGT Innovations | 2.2 | -17.8 | -41 |
| Winnebago | 3.5 | 6.9 | 24 | Steelcase | 1.9 | -15.3 | -31 |
| Umpqua | 2.0 | 11.0 | 21 | Schweitzer-Mauduit | 2.1 | -13.1 | -29 |

Source: FactSet

Past performance is not indicative of future results. 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 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

Hill-Rom (HRC), a provider of hospital beds and patient monitoring devices, was the largest contributor. Baxter International recently made an attractive all-cash offer to acquire the company.

FirstCash (FCFS), the largest pawn shop operator in North America and Mexico, was the second-largest contributor. After several quarters of weak results, FCFS saw rising loan volumes heading into the third quarter as government stimulus efforts subsided. Additionally, the company's retail merchandise is entirely locally sourced, immunizing it from the supply chain issues that have been plaguing other retailers.

AerCap (AER), the largest independent aircraft lessor, was the third-largest contributor. Global air travel entered the early stages of a recovery and investors began to appreciate the stability of the aircraft leasing business model. Additionally, the company's opportunistic acquisition of General Electric's aircraft leasing business highlighted management's astute capital management and the long-term potential for the business.



SMID Cap Value Equity

Largest Detractors

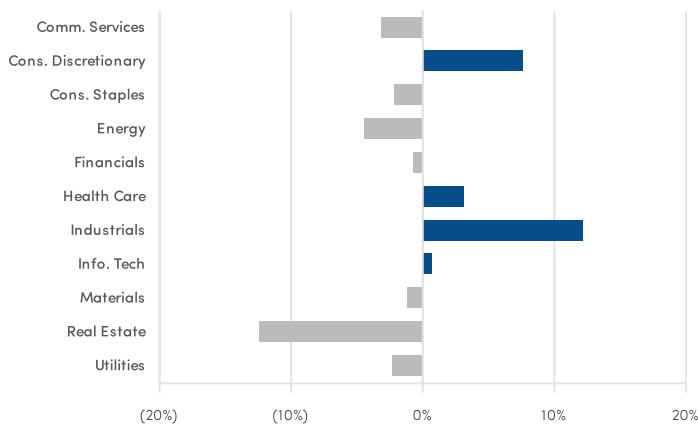
American Eagle Outfitters (AEO), a leading teen and young adult retailer operating through the American Eagle and Aerie brands, was the largest detractor. After a strong first half of the year, AEO disappointed investors by suggesting that margins would be restrained by increased shipping costs and supply chain challenges. These issues should prove temporary and should not detract from the long-term value AEO is building with its Aerie brand or the structural margin improvements they have made at their American Eagle concept.

American Woodmark (AMWD), a leading kitchen and bath cabinet manufacturer with a focus on value price points, was the second-largest detractor. AMWD has continued to benefit on the topline from strong U.S. housing and renovation demand. However, demand is outstripping throughput and the company's backlog is growing. In the meantime, rising input costs have pressured margins despite a series of price increases. Management is now more aggressively pursuing pricing on backlogged orders and margins should eventually normalize, especially given a pullback in lumber prices. Longer-term, AMWD's focus on entry-level cabinetry will benefit its competitive position as housing affordability shapes the profile of consumer demand over time.

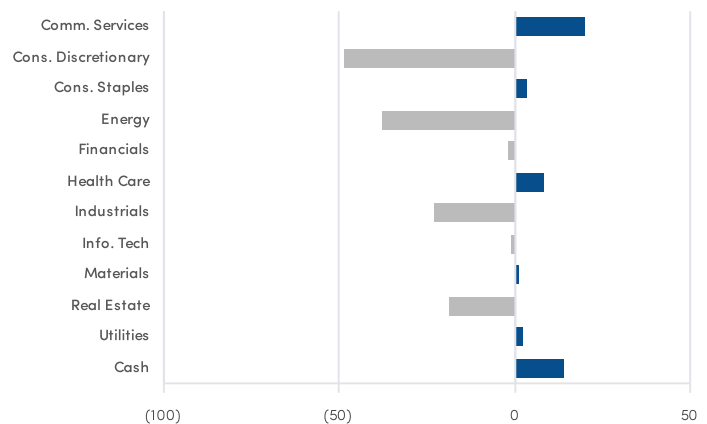
PGT Innovations (PGTI), a leading manufacturer of laminated, impact-resistant residential windows, was the third-largest detractor. PGTI has experienced further strength in demand for its impact windows in the core Florida market and a recovery in its Western division. As is the case for many building products companies in the current environment, raw material and labor inflation are outpacing manufacturer pricing efforts. Margins have suffered temporarily, but should recover in the intermediate term, while the long term secular growth profiles of the Florida housing market and impact window category remain favorable.

Sector Positioning

Avg Wt Relative to R25IV Index (%)



Allocation Effect (bps)



Source: FactSet

Past performance is not indicative of future results. 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. Please see additional performance disclosures at the end of this document.

Sector allocation effect was negative during the third quarter. Overweight positions within Consumer Discretionary and Industrials, sectors particularly hard hit by mounting supply chain issues, detracted from relative results. The underweight to Energy and Real Estate sectors, which significantly outperformed the broader benchmark, also posed portfolio headwinds. Conversely, the underweight to Communication Services, one of the worst performing sectors in the benchmark, as well as the overweight to Health Care provided a partial positive offset.





SMID Cap Value Equity

Initiations

Dentsply Sirona (XRAY) is the largest manufacturer in the still fragmented global dental products and technologies market, an attractive and secularly growing market driven in part by aging demographics in developed markets and rising standards of living in emerging markets. XRAY's brands, scale, distribution, and stickiness with over 600,000 dental professional end users allow the company to earn attractive returns on capital, and relatively low capital requirements lead to consistent and substantial levels of free cash generation. Management has focused on simplifying the business, improving profitability, and investing organically and inorganically in attractively growing products such as clear aligners and implants to help spur improved organic growth.

Gentex (GNTX) is a dominant provider of interior and exterior automatic-dimming mirrors for the automotive industry, with a 90% market share. The company also sells garage opener modules, dimmable aircraft windows, and commercial smoke detectors for the fire protection industry. GNTX's core competencies in chemistry and coatings, glass processing, electronics, vision systems, software design, and automated assembly create optionality in its core market as well as in new markets. We believe that the company's strong competitive position, good secular growth prospects, strong balance sheet, and disciplined program for returning capital to shareholders make it an attractive holding.

Eliminations

Commerce Bancshares (CBSH) was eliminated to make room for better opportunities.

Hill-Rom (HRC) reached our price target and was eliminated.

Outlook

Having spent the last year pricing in an economic recovery propelled by re-opening and massive fiscal and monetary stimulus, markets are now grappling with the shape of the post-pandemic landscape. In particular, the question of whether current rates of inflation are transitory – caused by temporary supply chain disruptions – or if they reflect deeper structural issues, has increasingly dominated investors' thinking.

The prospect of persistent inflation raises questions markets have not faced in decades and, absent a ready playbook, the markets are likely to react strongly to suggestive data points and become even more volatile. Elevated valuations and Washington's characteristically chaotic approach to policy making further enhance the possibility of a bumpy ride. Faced with this uncertainty, our focus remains on using short-term volatility to acquire attractively-valued businesses that have the balance sheets to weather short-term supply disruptions and the competitive positions to prosper in a more difficult inflationary environment. While this approach does not yield results in every quarter, it has been key to the strategy's long-term success.

Sources: APX, Bloomberg, CNBC, CNN, FactSet, Nasdaq

Past performance is not indicative of future results. 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 9/30/21. The portfolio attribution is gross of fees. 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 very 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.

[Additional Cooke & Bieler SMID Cap Value Performance Disclosures](#)