Q3 2022

SMID Cap Value Equity

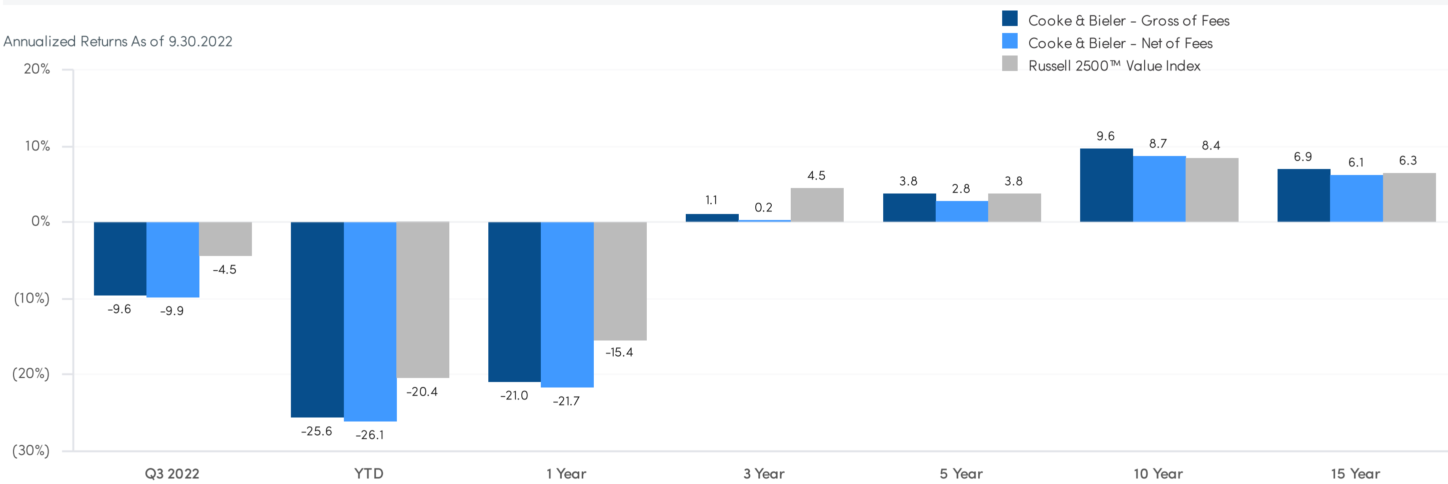
Overview

U.S. equity indices posted their third consecutive quarter of negative returns. Bonds offered little sanctuary as Fed officials raised rates for the fifth time this year and 10-year Treasury yields spiked from 3% to more than 4% before settling around 3.8%. Persistently high inflation and rising interest rates united investors in their pessimism while seemingly dividing their assessment of which ostensible safe haven was best. A global flight to safety drove the dollar to new heights, but outcomes grew muddled from there. Lower quality, non-earnings businesses tended to perform better and despite near 25% declines in underlying oil prices, Energy stocks powered through and still posted some of the top sector results. Smaller capitalization issues as well – which would otherwise lag in a risk-off environment – outperformed across styles as investors presumably focused on their greater mix of U.S. revenues. Conversely, high-yielding, domestic safe havens such as Utilities and Real Estate underperformed in the face of higher interest rates. Investors shrugged off rising rates elsewhere though, as longer duration Growth stocks bested their Value counterparts on the theory their results would be less impacted by a recession.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy returned -9.64% gross of fees (-9.85% net of fees), underperforming the Russell 2500™ Value Index which returned -4.50% during the third quarter. Negative stock selection effect more than offset positive sector allocation effect. Industrials holdings such as Stanley Black & Decker and Steelcase detracted most as investors fled the cyclically exposed sector, and Consumer Discretionary holdings like Helen of Troy and CarMax posed further headwinds as consumers reined in spending and retailers reduced inventory. Health Care and Information Technology also detracted from relative results. Conversely, Financials holdings were a continued bright spot, particularly Globe Life and FirstCash.

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 (%)	Total Return (%)	Contrib. to Return (bps)
PGT Innovations	2.4	26.0	45
Plexus	2.7	11.5	38
Winnebago	3.3	10.1	20
Armstrong World	1.8	6.0	7
Globe Life	3.3	2.5	7

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Helen of Troy	2.5	-40.6	-127
Syneos Health	2.4	-34.2	-80
Stanley Black & Decker	1.9	-29.2	-65
Steelcase	1.7	-38.4	-65
CarMax	2.2	-27.0	-64

Source: FactSet

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Largest Contributors

PGT Innovations (PGTI), a leading manufacturer of laminated, impact-resistant residential windows, was the largest contributor. PGTI saw strong volume, pricing, and margin trends across its geographies. The company continues to improve throughput and shorten lead times, helping to regain market share lost during the pandemic. Moreover, with 70% of PGTI's revenue generated in Florida, recent hurricane activity is likely to spur both near term demand for building products as well as long term interest in impact-resistant windows.

Plexus (PLXS), an outsourced design and manufacturing company that serves higher complexity markets, was the second-largest contributor. The company's continued operational execution and exposure to a growing healthcare segment attracted investors seeking out safety in a volatile market.

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the third-largest contributor. WGO generated record revenue and profitability in the quarter, with continued recreational vehicle and marine segment market share gains. Although we expect that demand will wane significantly, we believe that such a slowdown is already reflected in the company's share price, which we think presents a compelling value relative to our estimate of WGO's normalized earnings power. Investors seemed to at least partially acknowledge that value in the quarter, with management announcing a large, opportunistic share repurchase authorization.

Largest Detractors

Helen of Troy (HELE), a diversified consumer and household products company, was the largest detractor. HELE management indicated that slower ordering patterns and inventory destocking at mass market retailers was likely to weigh on revenue and margin results in upcoming quarters, particularly in categories that witnessed outsized demand during the pandemic. However, we believe that the company's market leading brands in secularly expanding categories should provide a long runway for organic and acquired growth.

Syneos Health (SYNH), a leading provider of outsourced pharmaceutical clinical trial and commercialization services, was the second-largest detractor. The stock's valuation contracted sharply in response to disappointing new business awards during the quarter and management's cautious outlook for improvement.

Stanley Black & Decker (SWK), an industrial and household tool manufacturer, was the third-largest detractor. The company's CEO announced that expectations of future performance had been scaled back as investors became increasingly concerned about a retail inventory correction.

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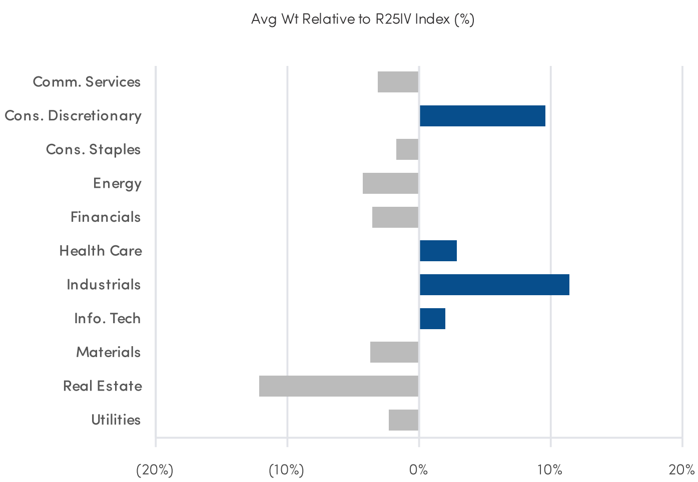
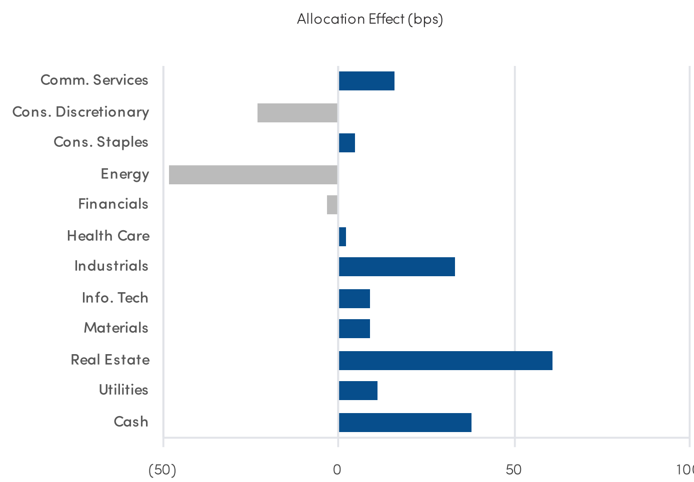
Sector Positioning

Sector allocation effect was broadly positive for the quarter, with eight out of 11 sectors contributing to relative performance. The portfolio's underweight to Real Estate, the worst performing sector within the benchmark, was the largest tailwind followed by the favorable impact of an overweight to Industrials. The underweight to Communication Services and Utilities, two of the weaker performing sectors, also contributed to relative results. An underweight to Energy, the only positively performing sector for the quarter as well as the year-to-date period, was a partial negative offset, as was the overweight to cyclically exposed Consumer Discretionary.





Source: FactSet

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Initiations

Open Text (OTEX) is a software company serving predominantly enterprise customers. The company's portfolio of products includes enterprise content management, supply chain business network, security, and digital experience software. Many of these offerings are particularly sticky with customers and OTEX enjoys overall renewal rates over 90%. OTEX enjoys high free cash flow margins which enable the business to either invest in research & development or acquire capabilities; the company has a strong track record of acquiring and successfully integrating adjacent businesses. OTEX is in the process of transitioning from selling traditional licenses to selling software subscriptions. Investor concerns that OTEX will fail to drive organic growth through this transition gave us the opportunity to initiate a position.

Stanley Black & Decker (SWK) is an industrial and household tools manufacturer with strong brands and technologies. We believe they should have a significant opportunity to expand distribution in their lawn products segment through their acquisition of MTD Products.

Eliminations

Alleghany (Y) was eliminated to make room for better opportunities following the proposed acquisition of the company by Berkshire Hathaway (BRK/B).

Amdocs (DOX) and **Leidos (LDOS)** reached their price targets and were eliminated.

Mativ (MATV), formerly Schweitzer-Mauduit (SWM), was eliminated due to what we believed was an unacceptably large increase in the company's financial leverage as a result of a business combination.

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Outlook

The widespread persistence of inflationary pressures has forced the Federal Reserve to continue aggressively tightening monetary policy, increasing both interest rates and the odds of a U.S. economic recession. This reality – along with continuing supply chain disruptions, conflict in Ukraine, and economic weakness abroad – has greatly soured investor sentiment for equities, particularly those of companies deemed to be economically sensitive. Across capitalization ranges, the Consumer Discretionary, Industrials, and Information Technology sectors have experienced year-to-date declines from 20-40% or more, with many stocks losing more than half of their value. This has presented a meaningful challenge to relative performance given the portfolio's significant exposure to the Consumer Discretionary and Industrials sectors.

Though entering a recession overweighted to cyclical sectors is not ideal, we are increasingly convinced portfolio holdings in these sectors will be an important source of portfolio returns going forward. Underperformance tends to increase our already exhaustive attention to detail – leading our Analysts to further scrutinize the portfolio, challenge their thesis drivers, and dig even deeper into underlying business models and balance sheets. Our conclusion is that though some portfolio companies will likely be impacted meaningfully by a recession, we believe they have the balance sheet strength, favorable underlying economics, competitive advantages, and management talent to weather the storm and earn solid fundamental returns over the long haul.

In aggregate, Cooke & Bieler's companies earn higher returns on capital and maintain lower debt leverage than their benchmark peers. However, in many cases portfolio holdings more exposed to recession and/or continuing supply chain disruptions and inflationary pressures now trade at low double, if not single, digit multiples of earnings. We believe the short-term oriented market is egregiously underpricing their future streams of earnings and cash flows. We have added to many of these positions, further enhancing the portfolio's appreciation potential. We continue to have great confidence that our long-term approach, supported by the conviction that comes from detailed independent research, will add value through the cycle.

Sources: Bloomberg, CNBC, FactSet, Forbes, Jefferies, New York Times, Wall Street Journal

Additional Cooke & Bieler SMID Cap Value Performance Disclosures