



SMID Cap Value Equity

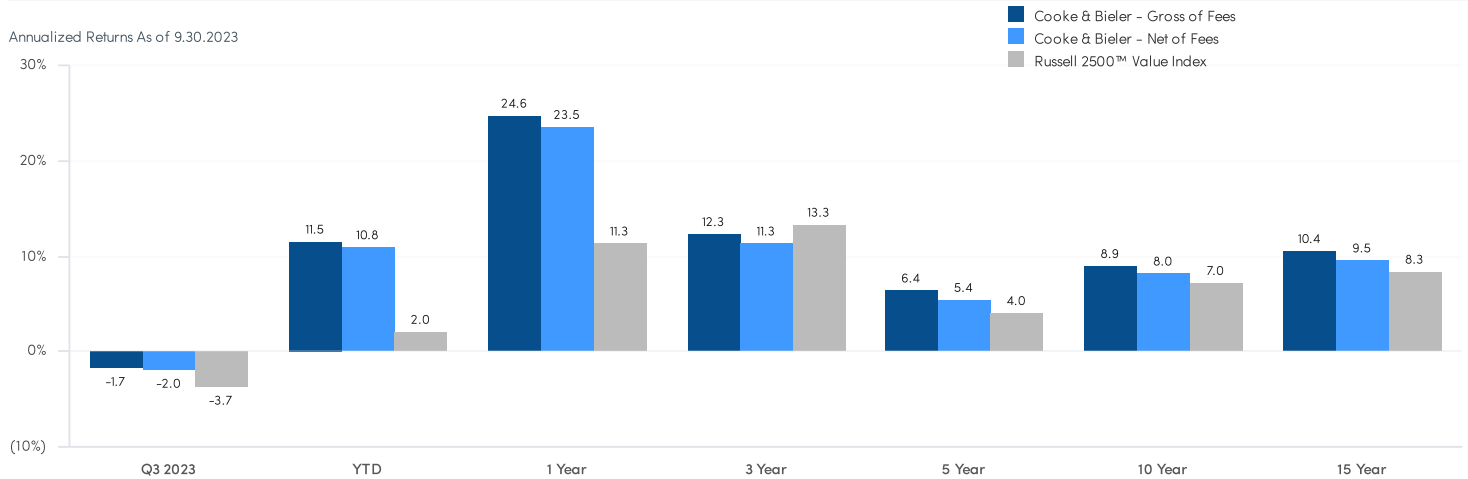
Overview

Markets continued their upward trend early in the third quarter, though rising oil prices and the prospect of persistently higher interest rates ultimately sapped investor optimism and pushed major indices down modestly for the full three-month period. The S&P 500® lost 3.6%, the tech-heavy NASDAQ fell 4.1%, and the Russell 2000® Index declined 5.5% as small caps lagged their larger counterparts. Energy was the best performing sector across the board, fueled by a 28% rise in WTI crude. Conversely, yields on 10-year Treasuries rose by nearly 90 basis points to their highest levels since 2007, sending the yield-driven Utilities and Real Estate sectors lower. Perhaps not surprisingly, mounting economic anxiety seemed to benefit stocks of higher quality businesses, as evidenced by the outperformance of companies with higher returns on capital and lower debt leverage.

Portfolio Performance & Developments

Cooke & Bieler’s SMID Cap Value Strategy outperformed the Russell 2500™ Value Index for the fourth consecutive quarter, posting a -1.73% return gross of fees (-1.96% net of fees) against a -3.66% return for the Index. Outperformance was driven entirely by positive stock selection effect, while sector allocation effect was a headwind. Portfolio holdings within the traditionally cyclical Industrials and Consumer Discretionary sectors – particularly American Eagle Outfitters and Steelcase – performed best despite ever present recession fears. Financials and Communication Services holdings were also additive. Partially offsetting these results, Information Technology holdings such as Open Text Corporation and MKS Instruments lagged the broader benchmark, as did the portfolio’s Consumer Staples holdings.

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)		Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
American Eagle	2.3	41.7	77	Omnicom	2.2	-21.2	-48
Steelcase	1.3	46.5	53	Teleflex	2.1	-19.0	-43
Fidelity National Fin.	2.3	15.7	30	CarMax	2.5	-15.7	-42
Gentex	2.8	11.4	28	Gildan Activewear	3.0	-12.8	-40
Warner Music Group	1.7	20.7	27	Open Text	2.4	-15.3	-39

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 -1.96% net of fees and -1.74% 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 Eagle Outfitters (AEO), a leading retailer of teen and young adult apparel, was the largest contributor. Having lowered expectations earlier in the year in response to an uncertain consumer environment, AEO reported better than anticipated sales and margins for their fiscal quarter ending in July. This progress enhanced the credibility of management's longer-term growth and margin targets and boosted optimism for this year's holiday season.

Steelcase (SCS), a world leader in the design, manufacturing, and marketing of office furniture, was the second-largest contributor. Stabilizing input costs and easing supply chain constraints combined with price increases and effective cost management drove much better than expected earnings during the quarter.

Fidelity National Financial (FNF), the largest U.S. title insurer, was the third-largest contributor. FNF's title revenue fell sharply year over year as higher interest rates depressed mortgage activity. The company's strong cost control, however, allowed them to produce better than expected margins while their annuity subsidiary posted strong sales results. Additionally, sentiment was undoubtedly aided by hopes that interest rates may have peaked.

Largest Detractors

Omnicom (OMC), an international advertising holding company, was the largest detractor. OMC lagged due to concerns that clients could insource portions of their programmatic spending. Additionally, investors reacted poorly to the potential decline in overall advertising spending in the case of a recession.

Teleflex (TFX), a global developer and manufacturer of a diverse portfolio of single-use medical devices used to diagnose and treat patients, primarily in acute care settings, was the second-largest detractor. TFX was negatively impacted by sentiment shift within the Health Care sector associated with normalizing procedure growth and increasing pharmaceutical treatment of obesity.

CarMax (KMX), an independent used car retailer operating through both brick & mortar and online channels, was the third-largest detractor. Unit volumes continued to disappoint due to lack of affordability in both retail and wholesale this quarter. In addition, SG&A spend remained elevated which negatively impacted otherwise good unit economics.



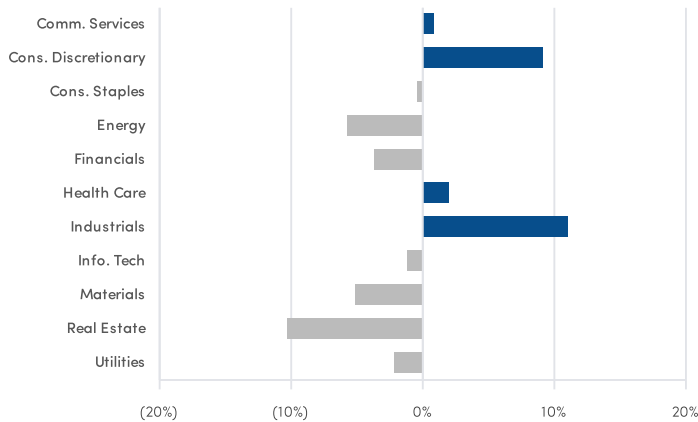


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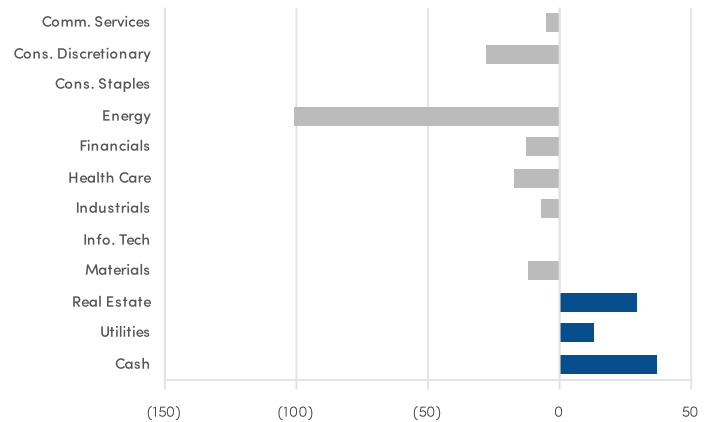
Sector Positioning

Sector allocation effect was negative during the third quarter. The most significant headwind by far came courtesy of the portfolio's underweight to Energy, which posted a double-digit return driven by rising oil prices, compared with mostly negative returns for other benchmark sectors. An overweight to Consumer Discretionary and Health Care also detracted from results. Conversely, the strategy's underweight to Real Estate and Utilities, two of the weaker performing benchmark sectors, benefited relative results during the quarter.

Avg Wt Relative to R25IV Index (%)



Allocation Effect (bps)



Source: FactSet

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Initiations

Tecnoglass (TGLS) is a vertically integrated manufacturer and installer of architectural glass and windows used in single-family residential, multifamily, and commercial applications. The company's primary manufacturing assets are located in Colombia, providing large structural cost and margin advantages relative to its competitors. Attractive demographic trends in its core Florida market, national expansion prospects, as well as large white space opportunities in the vinyl window category and builder channel give TGLS an attractive long-term growth profile. A nearly debt-free balance sheet and discounted valuation make this secular market share winner an attractive portfolio holding.

Eliminations

Arch Capital (ACGL) was eliminated to make room for better opportunities.





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Outlook

Although Cooke & Bieler's bottom-up process centers on individual company fundamentals, we remain keenly aware of the macroeconomic landscape and the hazards it may present. With the Fed having somewhat tamped inflation, the U.S. consumer displaying surprising resilience, and unemployment remaining low, the market's initial third quarter buoyancy was not entirely unfounded. That said, the recent spike in oil prices poses a clear headwind to disinflation, while the impending resumption of student loan payments could finally deplete consumers' pandemic savings buffer. Additionally, there is a growing sense that not only are policymakers' "higher for longer" talking points sincere with regards to interest rates, but many are expecting one remaining rate hike in 2023. With these developments, a soft landing scenario has become incrementally less likely. Investors have begun to rein in their expectations accordingly, but we are not yet convinced these expectations are aligned with the true risks. This disconnect strengthens the case for discerning stock selection, and we believe the style preferences displayed by markets during the quarter may prove enduring, which could benefit the portfolios going forward. Combining strong business quality, balance sheet strength, and good valuation – the intersection that Cooke & Bieler targets when choosing holdings – becomes more relevant during periods of economic turmoil.

Sources: Bloomberg, FactSet

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 9/30/23. 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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