Q3 2024

SMID Cap Value Equity

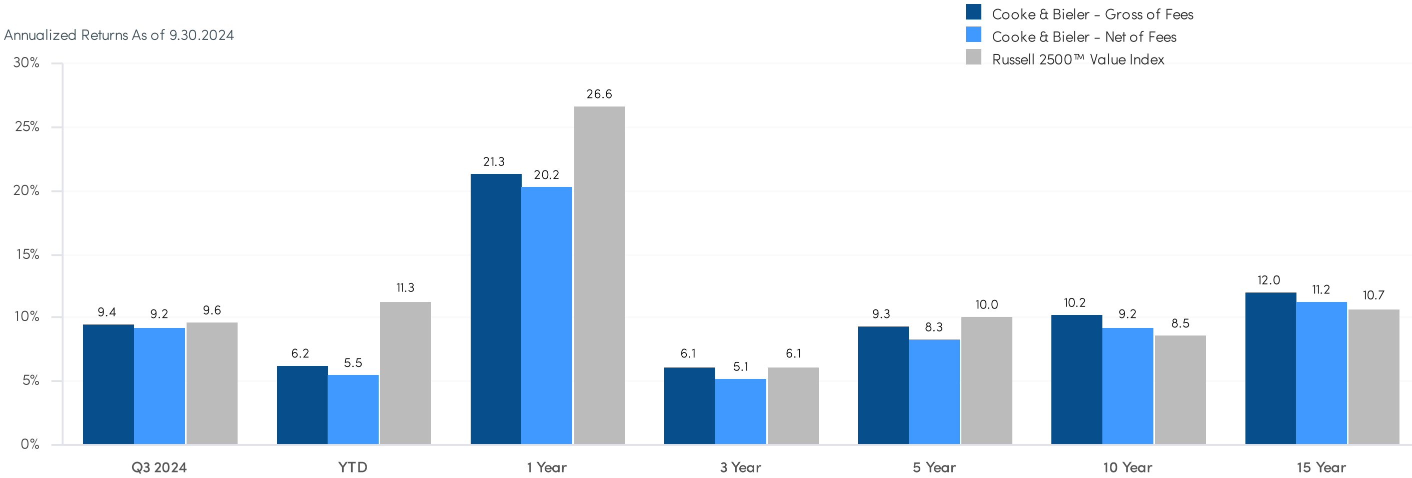
Overview

Equity markets advanced sharply in the third quarter as continuing economic momentum and solid corporate earnings growth dispelled fears of an imminent recession. At the same time, diminishing inflationary pressures stoked optimism for a more supportive monetary policy. The Federal Reserve's decision in September to start the easing cycle with a bold 50 basis point rate cut confirmed as much, pushing major market indices to near record highs by the end of the quarter. The rally included all economic sectors except Energy, where lower oil and gas prices dampened sentiment. Unlike the first half of the year when a handful of mega cap stocks drove the market, underlying market dynamics and leadership changed significantly in Q3. The rally became broad-based, with the S&P 500® Equal Weight Index up 9.59% versus 5.89% for the capitalization-weighted S&P 500® Index. The market also reversed course from a style standpoint as value indices outperformed growth indices meaningfully, in large part due to growth's concentration in tech stocks which were among the biggest laggards for the quarter. Conversely, value indices benefited from greater exposure to Financials, Industrials, Utilities, and Real Estate, all of which surged on improving prospects for a soft landing and declining interest rates.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy posted strong absolute performance but lagged on a relative basis during the quarter, returning 9.39% gross of fees (9.15% net of fees) against a 9.63% return for the Russell 2500™ Value Index. Sector allocation effect and stock selection effect both detracted slightly from relative results. Stock selection among the portfolio's Health Care holdings, especially Integra LifeSciences and Varex Imaging, was the most significant driver of underperformance. Industrials and Communication Services holdings also underperformed the benchmark. Conversely, stock selection among Financials holdings such as Fidelity National Financial and RenaissanceRe generated the most notable positive offset. Energy holdings were also additive.

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.

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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Gildan Activewear	4.2	24.6	96
Dream Finders Homes	2.2	40.0	78
Tecnoglass	2.0	36.8	71
Fidelity Nat'l. Financial	2.8	26.3	69
RenaissanceRe	3.1	21.8	63

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Helen of Troy	0.9	-41.9	-127
Janus International	2.2	-20.2	-53
Integra LifeSciences	0.7	-29.8	-35
APi Group	2.3	-12.5	-30
Gentex	1.9	-11.9	-23

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 9.04% net of fees and 9.28% 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

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the largest contributor. The quarter marked the return of GIL's founder to the CEO role, removing a key overhang that had burdened sentiment since the end of 2023. Fundamentals remain strong as well, as GIL continues to win meaningful market share in its various end markets – benefiting from the demise of one competitor and the weakening financial position of another – while also posting notable margin progress. Management continues to repurchase shares aggressively, deploying the company's ample free cash flow and balance sheet flexibility.

Dream Finders Homes (DFH), a top 15 U.S. homebuilder with a concentration in the Southeast, was the second-largest contributor. DFH recovered after weak share price performance in the previous quarter, driven by improved deliveries, resilient gross margins, and the potential benefit of declining mortgage rates on the overall housing market. Management also reiterated its full year guidance for 13% growth in deliveries.

Tecnoglass (TGLS), a vertically integrated manufacturer of residential and commercial windows, was the third-largest contributor. TGLS reported a record backlog in its non-residential business and record order growth in its residential window business. With currency headwinds now subsiding, margins are poised to expand. Shares also likely benefited from news of a takeout offer and a strategic review. With buybacks on hold during the strategic review period, the company's cash position continues to build, and management has expressed its intention to eventually resume repurchase activity.

Largest Detractors

Helen of Troy (HELE), a diversified consumer and household products company, was the largest detractor. HELE issued disappointing guidance that pointed to heightened competition and weakening brand momentum in certain product categories. Temporary operational setbacks at its new distribution facility compounded these issues and disrupted the early signs of recovery HELE had displayed in recent quarters. Increased brand investment, while likely the correct long-term action, also pressured margins in the quarter.

Janus International (JBI), a turnkey solutions provider for self-storage facility componentry and services, was the second-largest detractor. JBI posted lower sales and operating income in the quarter, driven primarily by weaker retail-to-storage conversion activity in their Restore, Rebuild, & Replace segment. More broadly, higher interest rates are delaying projects and anemic housing turnover is weighing on the pricing power of their customers. That said, JBI's dominant competitive position remains intact, their keyless entry system, NOKE, continues to increase penetration, and occupancy rates at self-storage facilities are relatively high. Given the installed base and the likely recovery in historically low housing turnover, long-term demand for self-storage capacity and renovation activity remains promising.

Integra LifeSciences (IART), an acquisitive global medical technology company, was the third-largest detractor. In the quarter, IART announced a new compliance master plan to address issues beyond its past problems at its Boston facility, causing investor concern.

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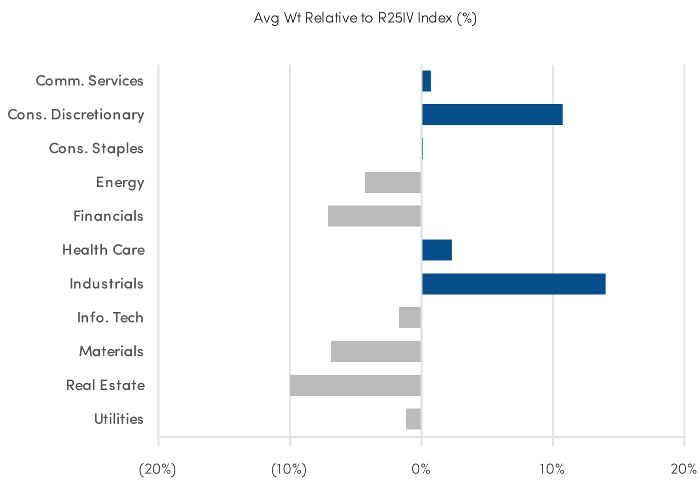
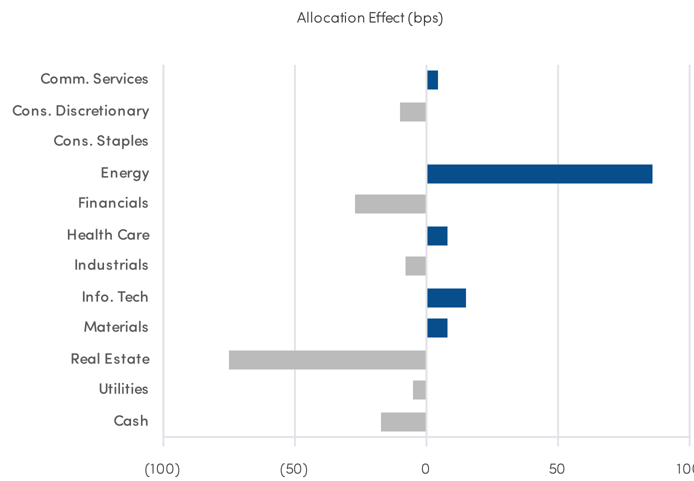
Sector Positioning

Sector allocation effect was slightly negative during the quarter. An underweight to Real Estate posed the largest headwind as the sector outperformed the broader benchmark in reaction to easing monetary policy. The portfolio's underweight to Financials and overweight to Consumer Discretionary also detracted from relative performance. The most notable bright spot was an underweight to Energy, the only benchmark sector to post a negative absolute return as sentiment within the oil and gas space weakened. The portfolio's underweight to Information Technology also benefited relative performance.





Source: FactSet

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Initiations

Charles River Laboratories International (CRL) is the world's largest provider of outsourced nonclinical services, spanning drug discovery, safety assessment, and manufacturing. CRL's comprehensive, integrated portfolio and global scale give it important competitive advantages, making it the scientific partner of choice for emerging biotech and global biopharma companies. Increasing biopharma R&D spending, greater use of outsourcing, market share gains, and commercialization of cell and gene therapies create a strong long-term demand backdrop for CRL, which should allow it to sustain its enviable record of above average organic growth. Demand weakness coming out of the pandemic created earnings headwinds, which pressured the stock considerably. We believe the current challenges are temporary and see the stock's reduced valuation as a reasonable entry point.

Eliminations

Helen of Troy (HELE) was eliminated due to a broken thesis, caused by heightened competition in several of its product categories. While the company is investing heavily in both brand support and new product development, we lost confidence that those investments would prove as effective as they have been in past periods and that HELE could return to sustainable growth.

Integra LifeSciences (IART) was eliminated due to a broken thesis, caused by recent execution missteps and spreading product quality and compliance issues.

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Outlook

With inflation seemingly tamed, the economy still growing, and the Federal Reserve demonstrating its willingness to aggressively combat any signs of weakness, the stars appear aligned for equity investors. However, optimism should not give way to complacency – valuations, particularly in technology, remain high, and not all risks can be managed by the Federal Reserve. In our experience, it generally pays to be cautious when others are exuberant. Recent evidence that investors have broadened their horizons beyond a handful of perceived AI winners is encouraging, but we believe this is only the beginning of what may be a long process. The extended period of dominance by the Magnificent Seven has created significant opportunity in the vast areas of the market not involved in training large language models or selling chips to those that do. We believe this creates tremendous opportunities for diligent stock selection underpinned by thorough, disciplined research. We continue to actively seek out quality companies overlooked by other investors that can create long-term value for shareholders. Meanwhile, we meticulously monitor existing holdings to ensure they are tracking with our expectations, eliminating those whose prospects have dimmed or were improperly assessed, in favor of better opportunities. This process is not always as glamorous as more thematic approaches, but we believe it is key to adding value over time.

Sources: Bloomberg, FactSet

Additional Cooke & Bieler SMID Cap Value Performance Disclosures