

SMID Cap Value Equity

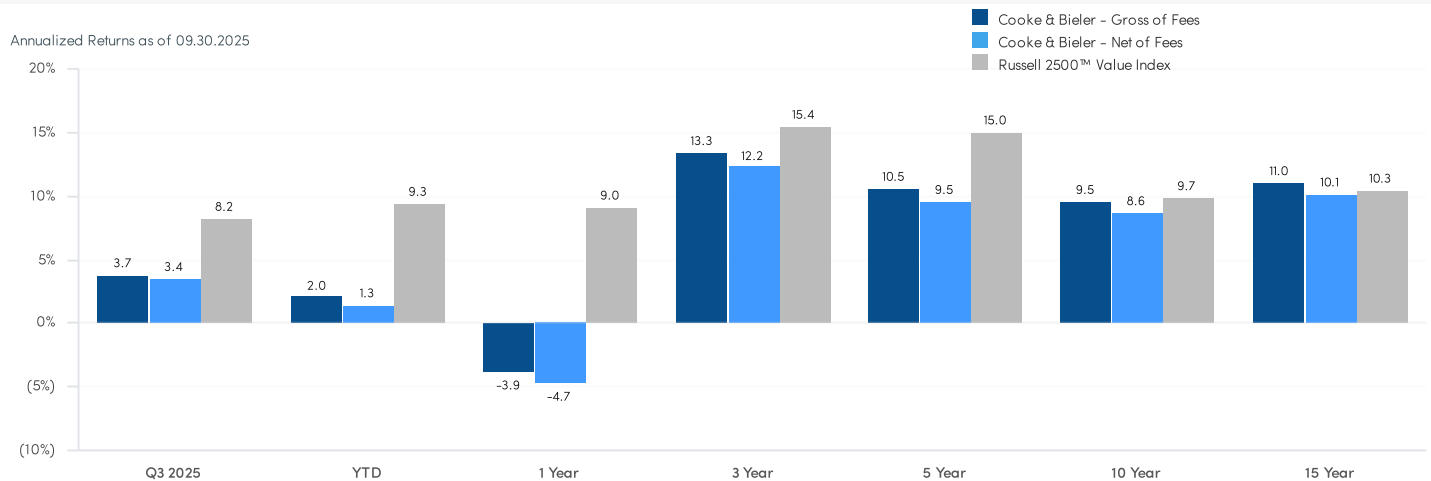
Overview

Investors were focused on the growing likelihood of more accommodative monetary policy in the third quarter, though the underlying drivers of these expectations shifted as the quarter progressed. Promising inflation data released in early August and the prospect of a Goldilocks outcome gave way to softening employment data and a cautionary central bank forecast later in the month. Despite this shifting narrative, expectations for lower interest rates remained relatively unchanged. This expectation, aided by corporate earnings performance that was generally better than even pre-Liberation Day guideposts, inspired a broad-based rally for U.S. equities. By the end of the quarter, signs of speculation were apparent. Trading volume in single-stock call options and leveraged ETFs surged, funds poured into AI-themed and precious metal ETFs, and small cap indices rose meaningfully. The powerful rally in smaller stocks was propelled by higher beta stocks of lower quality companies – particularly non-earners – with higher levels of debt. Biotech, software, and metals & mining stocks were notable standouts here. And although market leaders differed across the capitalization ranges, perceived safe havens such as Consumer Staples and even apparent beneficiaries of a lower interest rate regime such as REITs were consistent laggards.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy significantly underperformed the benchmark during the third quarter, posting a 3.65% return gross of fees (3.42% net of fees) against an 8.17% return for the Russell 2500™ Value Index. The quarter was marked by relatively large swings in relative performance, dictated mostly by style factors and changes in market sentiment. Negative stock selection in nearly every sector represented in the portfolio suggests our style was out of favor, despite most portfolio companies showing solid fundamental progress. Overall, negative stock selection effect was the primary driver of underperformance, though sector allocation effect was a modest headwind as well. Stock selection was weakest within the Health Care sector due to errors of commission and omission – portfolio holdings Perrigo and Dentsply Sirona posted disappointing double-digit declines for the quarter, while benchmark holdings in non-earning and often non-revenue generating biotech and biopharma companies skyrocketed on increasing M&A speculation. A number of meaningful decliners elsewhere – CarMax and LKQ in Consumer Discretionary, BrightView in Industrials, and Burford Capital in Financials – also contributed to the poor stock selection result. In other instances, portfolio holdings simply did not keep pace, including within the Energy and Real Estate sectors. Partially offsetting these losses, holdings such as MKS, Open Text, and Warner Music Group within Information Technology and Communication Services sectors were contributors to results.

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)
Steelcase	1.5	66.4	97
Gildan Activewear	3.6	17.9	58
MKS	2.5	24.8	57
Janus International	2.7	21.3	55
Open Text	2.2	29.1	55

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
CarMax	1.7	-33.2	-63
BrightView	1.9	-19.5	-40
Perrigo	1.9	-15.6	-34
Burford Capital	1.8	-16.1	-32
LKQ	1.6	-16.7	-31

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 3.42% net of fees and 3.65% 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

Steelcase (SCS), a leader in the design, manufacturing, and marketing of office furniture, was the largest contributor. During the quarter, the company announced it would be acquired by competitor HNI at a substantial premium to the stock's recent valuation.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the second-largest contributor. Investors responded favorably to GIL's announced acquisition of Hanesbrands. The combination should be significantly accretive to GIL on the basis of cost synergies as well as new opportunities in the retail activewear end markets.

MKS (MKS), a supplier of critical subsystems and components used in semiconductor manufacturing and electronics packaging, was the third-largest contributor. The shares advanced following better than expected quarterly results, supported by revenue growth of nearly 10% and strong margin performance. Fundamentals are supported by secular drivers, including increasing semiconductor content per system, advanced packaging adoption, and diversification across adjacent markets. Management's operational discipline has been evident in consistent free cash flow generation, even as leverage remains elevated following the Atotech acquisition. While debt paydown has been gradual, refinancing efforts have reduced covenant risk and improved balance sheet flexibility. MKS's scale and breadth of capabilities position it to continue capturing share from larger semiconductor equipment customers, while consumables in the Atotech segment provide a measure of cyclical resilience.

Largest Detractors

CarMax (KMX), the largest used vehicle retailer in the U.S., was the largest detractor. Shares declined after the company reported weaker profitability and unit growth, reflecting both softer demand and operational headwinds. Management cited a pull-forward of sales in the prior quarter tied to tariff speculation, which left the company over-inventoried and pressured retail margins. Inventory depreciation and the need to adjust pricing weighed further on results. Additionally, elevated SG&A impacted operating income. Although CarMax has continued to demonstrate discipline in its core unit economics and maintained attractive gross profit per unit over time, the company's ability to drive share gains remains the key variable for longer-term success. Competition from online-focused peers such as Carvana, which is now showing both profitability and unit growth, heightens pressure on KMX to reassert its competitive advantage.

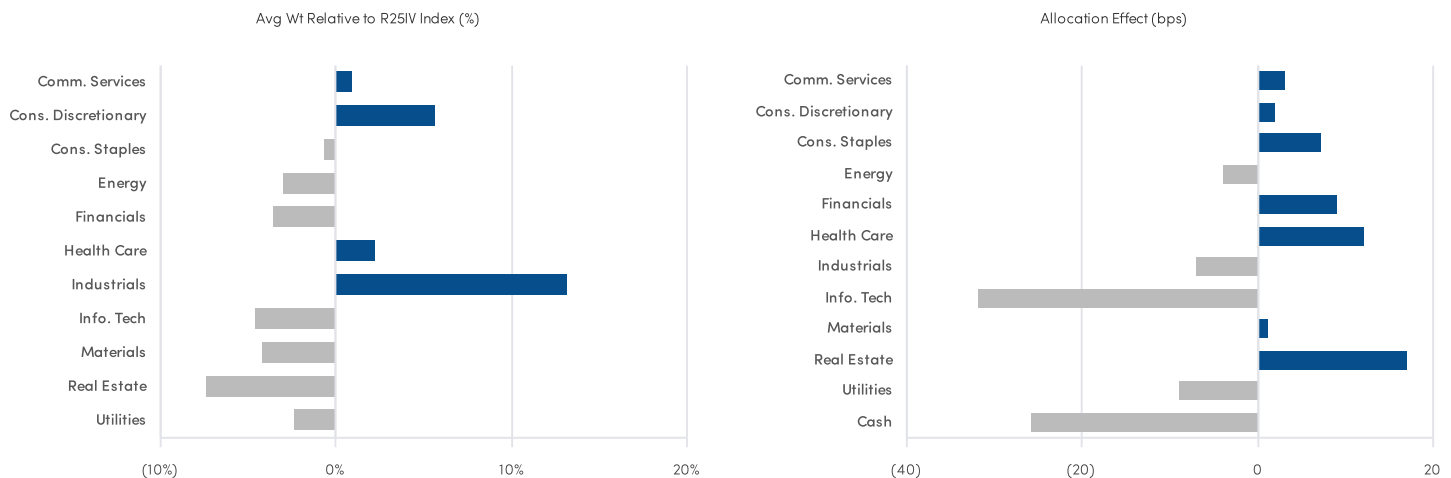
BrightView (BV), the largest commercial landscaping company in the U.S., was the second-largest detractor. A top contributor last quarter, BV preannounced and reported earnings and sales that were weaker than anticipated. BV's maintenance services business experienced lower discretionary spend and its development sales were lower due to project delays. Despite lower sales, margins continue to march higher. BV's stock price continues to be more volatile than underlying fundamentals.

Perrigo (PRGO), the dominant provider of store brand OTC products in the U.S. and UK and a leading provider of branded Self-Care products, primarily in Europe, was the third-largest detractor. Continuing challenges in the company's infant formula business resulted in disappointing quarterly revenue growth, pushing PRGO's valuation to historic lows.

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Sector Positioning

Sector allocation effect was modestly negative during the quarter. The portfolio's underweight to Information Technology and Utilities – two of the strongest sectors within the benchmark, both of which have benefited from the increasing use of AI – posed the largest headwind. An overweight to Industrials also hindered performance. Conversely, the portfolio's underweight to Real Estate and overweight to Health Care were the largest tailwinds.



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 3.42% net of fees and 3.65% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

HNI (HNI) is a leading designer and provider of commercial office furnishings and the leading U.S. manufacturer and marketer of hearth products. Driven by the realization of operating efficiencies and cost synergies associated with the 2023 acquisition of Kimball, the company has grown at a strong double-digit rate the past three years. HNI recently announced plans to acquire Steelcase (SCS) in a cash and stock deal. Despite their relatively large sizes in the office furniture industry, the companies are complementary from a product, channel, and geographic perspective, mitigating merger disruption risks. The combined entity will be well positioned to grow revenues as companies redesign and outfit workplaces to draw employees back into offices, and management should be able to realize significant cost synergies applying processes established during the Kimball merger. Though the market did not seem to approve, we applaud management's use of equity capital and commitment to balance sheet strength and flexibility. We believe the SCS acquisition and continuing demand recovery for office furniture position HNI to continue growing earnings at a double-digit rate over the intermediate term.

Integer Holdings (ITGR) is one of the world's leading medical device outsourced design and manufacturing companies. Its technologies, manufacturing capabilities, components, and finished devices are ubiquitous and found in almost every major medical device brand. Favorable underlying economics are protected by numerous important competitive advantages, including unrivaled global scale and capacity, breadth and depth of products and capabilities, proprietary technologies, and manufacturing reliability. The company has strong visibility into mid-to-high single digit organic revenue growth and the opportunity to leverage operating costs. Despite very strong fundamentals, the stock recently declined precipitously on concerns about modest growth deceleration and the upcoming planned CEO transition, creating the opportunity to invest in this quality company at a meaningfully discounted valuation.

Eliminations

Hanesbrands (HBI) was eliminated ahead of its announced acquisition by Gildan Activewear (GIL).



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Outlook

Our investment approach – centered on investing in quality companies at attractive valuations based on long-term fundamentals – can struggle in risk-on environments dominated by thematic and momentum driven trading schemes. The more market participants are motivated by fear of missing out and avidly chasing popular trends, the more out of sync we are. We readily admit we do not know when the environment will turn constructive for our style. However, we are confident it will shift at some point, and when it does, we believe we will be favorably situated. Paraphrasing economist Ben Graham, the stock market is a sentiment driven voting machine in the short run and a cash flow weighing machine in the long run. By remaining steadfastly committed to our approach, even during challenging times when our style is out of favor, we have crafted a portfolio full of attractively valued stocks of companies generating above average returns on capital, underpinned by durable competitive advantages, skilled management teams, and flexible balance sheets. Most of them performed well fundamentally during the quarter and are well positioned to continue growing earnings and cash flow at above average rates. In many cases, far afield from the frenzied corners of the market where stock prices have soared, these stocks are trading for undemanding valuations, simultaneously providing potential downside protection as well as long-term upside. We see the portfolio's current combination of quality and value as unusually attractive and are confident we are stacking the scale.

Sources: Bloomberg, FactSet, Morningstar, Reuters, Strategas

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 9/30/25. 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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