



SMID Cap Value Equity

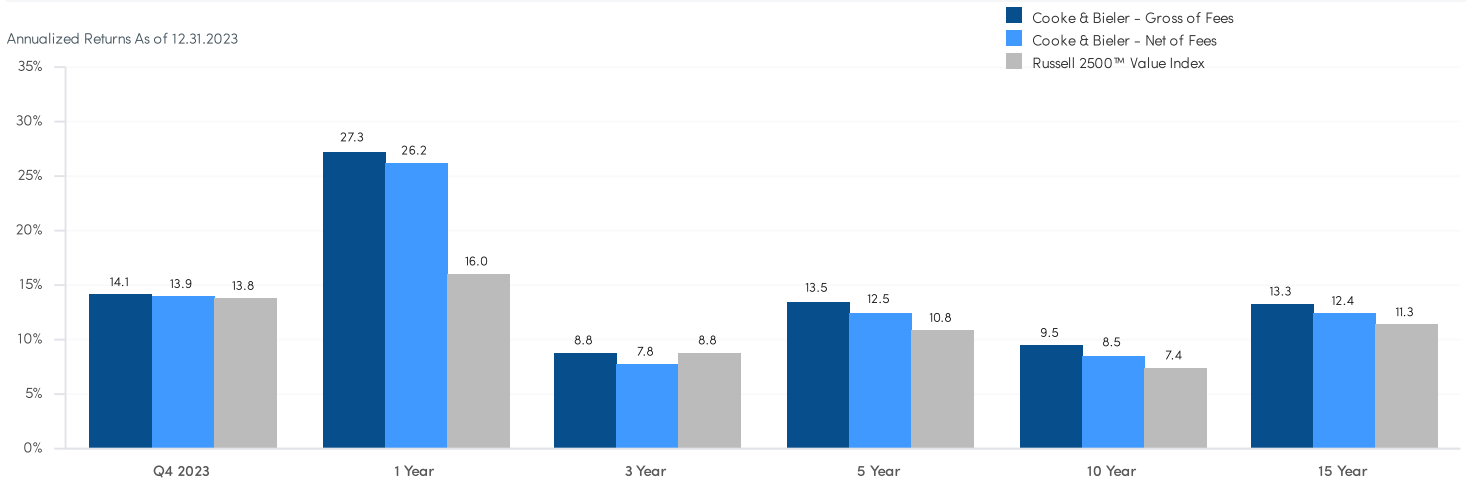
Overview

The U.S. stock market advanced sharply during the fourth quarter with all major indices posting double-digit returns. After a weak start to the quarter, sentiment improved markedly in early November following initial indications that the Fed’s tightening cycle could be over. The rally strengthened and broadened from there, fueled by continuing economic momentum, encouraging signs of disinflation, and declining interest rates. Dovish Fed commentary in December further emboldened investors with the prospect of interest rate cuts in 2024. Aside from the Energy sector which struggled due to lower oil prices, the Q4 rally was all encompassing, favoring stocks of smaller, less profitable, and more financially levered companies. Growth outperformed value outside of the small end of the market cap spectrum. Relative performance among economic sectors generally reflected the increasing likelihood of continuing economic growth and lower interest rates, as evidenced by the outperformance of Financials and Real Estate.

Portfolio Performance & Developments

Cooke & Bieler’s SMID Cap Value Strategy generated positive absolute and relative results in the final quarter of the year, returning 14.13% gross of fees (13.89% net of fees) against a 13.76% return for the Russell 2500™ Value Index. Stock selection effect and sector allocation effect both contributed to the portfolio’s outperformance. The portfolio’s Industrials holdings were the most significant contributors to stock selection, with notable strength among building products companies such as PGT Innovations and Armstrong World Industries. Communication Services holdings also contributed to results. Conversely, the portfolio’s Consumer Discretionary holdings such as Hasbro and Whirlpool were the most significant drag on selection effect, and Financials holdings also detracted. For the full year period, the portfolio significantly outperformed the Index, with both stock selection and sector allocation effect contributing meaningfully to results – stock selection within Industrials and Financials as well as an overweight to Industrials and Consumer Discretionary were the most notable tailwinds. Stock selection within Consumer Discretionary and Health Care were the largest offsets to these positive results.

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)
PGT Innovations	2.9	46.5	113
Winnebago	3.2	22.4	72
Armstrong World	1.8	36.9	68
Gildan Activewear	3.2	18.5	66
American Eagle	2.5	28.0	66

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Hasbro	1.7	-21.8	-57
Whirlpool	1.0	-7.7	-16
Markel	1.9	-3.7	-9
Arrow Electronics	2.1	-2.5	-7
Gentex	2.2	0.6	-5

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 13.77% net of fees and 14.02% 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

PGT Innovations (PGTI), a leading manufacturer of impact-resistant windows, was the largest contributor. PGTI's shares benefited from competing takeover offers as well as broadly improving sentiment surrounding residential new construction.

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the second-largest contributor. WGO reported encouraging market share trends in a weak environment. Additionally, some early signs of retail recovery have emerged for certain WGO brands, and the dealer destocking cycle appears to have bottomed, paving the way for a return to wholesale shipment growth.

Armstrong World Industries (AWI), the leading North American manufacturer of non-residential ceiling systems, was the third-largest contributor. AWI saw sales and earnings reach new highs despite a challenging backdrop for non-residential construction. Following a year of rapidly rising natural gas prices, AWI's robust pricing power is now more clearly translating into bottom line results, putting normalized margins within sight for the first time since prior to the pandemic.

Largest Detractors

Hasbro (HAS), a leading global play and entertainment company with a broad and deep portfolio of brands and entertainment properties, was the largest detractor. Investor sentiment soured during the quarter when management lowered guidance for the important holiday season due to weak retail demand trends.

Whirlpool (WHR), a global manufacturer and marketer of home appliances, was the second-largest detractor. WHR posted disappointing results during the quarter, but the company is beginning to post modest improvement on all fronts, albeit more slowly than anticipated. WHR grew market share in North America while posting consolidated revenue growth and operating margin expansion. This progress should persist into 2024 and demand should improve with higher homebuilder activity.

Markel (MKL), a P&C specialty lines insurer, was the third-largest detractor. Lower reserve releases during the quarter increased investor concerns that their pre-2020 casualty book might not develop as favorably as expected. Importantly, loss costs for these policies remain better than management's original underwriting expectations, and we do not believe the quarter imperils our long-term thesis.



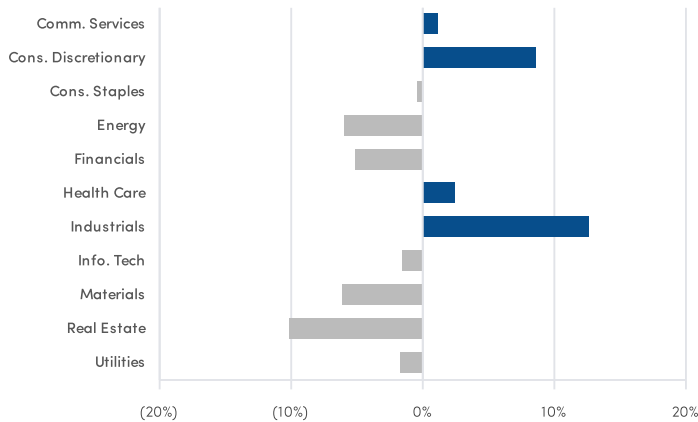


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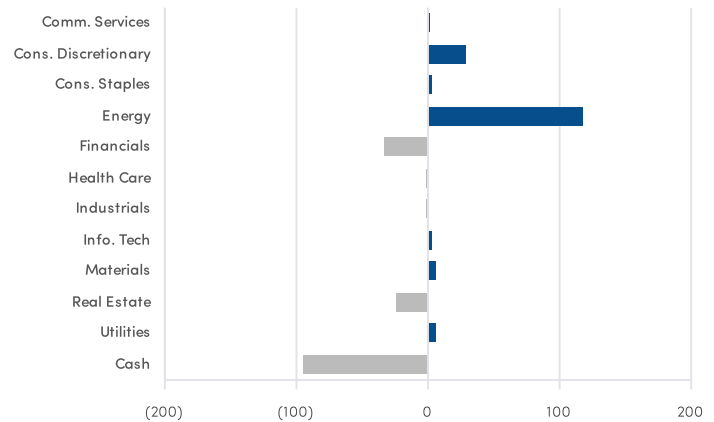
Sector Positioning

Sector allocation effect was slightly positive for the quarter, with the majority of sectors contributing to the strategy's outperformance. The most significant tailwind to results came from the portfolio's underweight to Energy, the only benchmark sector to post a negative absolute fourth quarter return. The portfolio's overweight to Consumer Discretionary and underweight to Utilities also benefited relative results. Conversely, an underweight to Financials – the best performing sector within the Index – detracted from relative results, as did an underweight to Real Estate.

Avg Wt Relative to R25IV Index (%)



Allocation Effect (bps)



Source: FactSet

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Initiations

LKQ (LKQ) is in the business of rebuilding, refurbishing, and distributing aftermarket auto parts. We believe LKQ has significant competitive advantages due to its ability to source used and compromised vehicles at a scale unmatched by its competitors. We also believe LKQ will benefit as insurers increasingly begin to accept recycled parts for auto repairs.

Malibu Boats (MBUU) is an innovative market share leader and gainer in the performance sport boat category, a category that is itself winning share within the broader U.S. powerboat industry. MBUU has a significant portfolio of intellectual property on which nearly every competitor in the ski/wake category pays a royalty. Bolt-on acquisitions of capacity-constrained brands in differentiated growth categories should add to earnings power. Demand normalization following a pandemic-driven surge has pushed MBUU's valuation to attractive levels, permitting us to initiate a position in the strategy.

Eliminations

Cboe Global Markets (CBOE), **H.B. Fuller (FUL)**, and **Onto Innovation (ONTO)** reached their price targets and were eliminated.





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Outlook

Markets enter 2024 against a promising economic backdrop. Having seemingly tamed inflation with minimal economic slowing, the Fed is expected to cut rates as early as this spring. Rate sensitive industries such as banking, housing, and real estate would clearly benefit, and the fourth quarter's strong rally anticipates some of this good news. Taking a slightly longer view, equity indices are broadly unchanged from the start of 2022 when inflation was still accelerating and central bankers were just pivoting to a more hawkish stance, suggesting there is room for further upside if macro conditions cooperate. While some high-profile growth stocks appear priced for perfection, we continue to find value in other areas where investor expectations remain more muted. That said, the market's inflation expectations have been almost uniformly wrong over the last several years, and geopolitical crises and domestic political dysfunction also remain concerns. As such, risk control is a priority, and at Cooke & Bieler it starts with our insistence on attractive valuations, strong cash flows, and conservative balance sheets. We believe this focus on downside protection combined with our emphasis on identifying businesses that can compound value across economic environments is particularly well suited to the challenges that may await in the new year.

Sources: Bloomberg, FactSet, The Wall Street Journal

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 12/31/23. 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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