Cooke & Bieler

Q4 2025

SMID Cap Value Equity

Overview

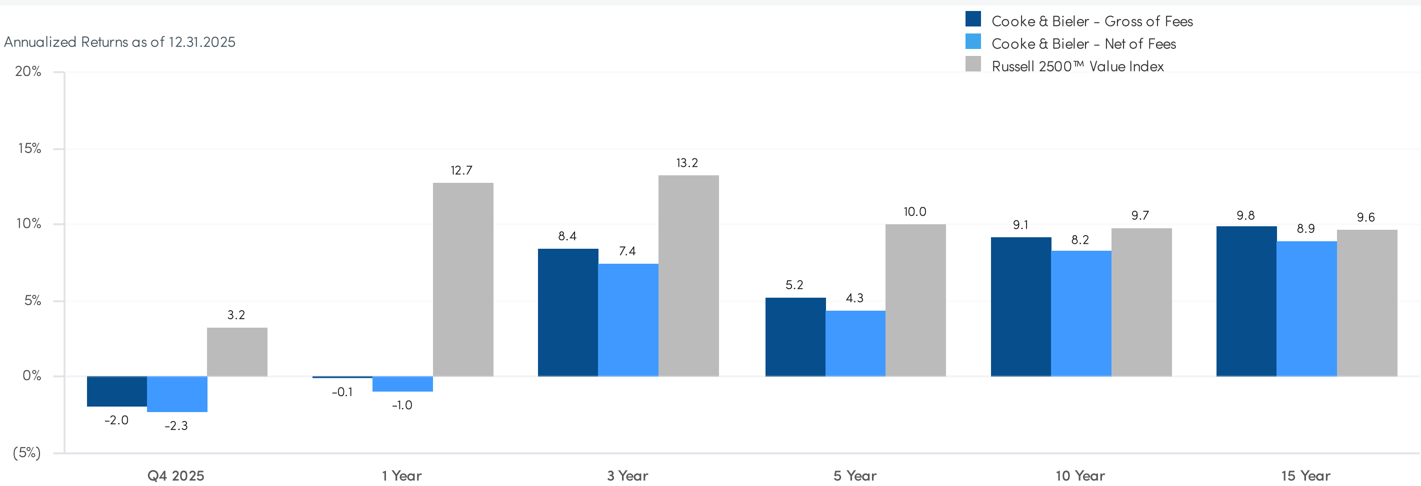
Equities shrugged off a retreat in early October and a poor start to November, closing higher for the quarter and posting the third straight year of double-digit gains for the major indices. A combination of interest rate cuts by the Federal Reserve and strong corporate profitability fueled investor eagerness to buy the dips. Among larger cap stocks, value outperformed growth. Larger stocks also generally outperformed smaller ones, though returns among the AI-fueled mega caps were mixed. Indeed, the headline numbers disguised substantial variance across sectors and a pronounced low-quality bias that persisted for much of the quarter, particularly among smaller cap names, where many non-earning and pre-revenue companies posted remarkable gains. Traditionally defensive areas generally lagged, including diversified telecommunications and cable companies along with Consumer Staples. Long-suffering Health Care investors saw some relief, though down the cap spectrum this strength was driven more by speculation in biotechnology than bargain hunting among proven businesses. A fourth straight quarterly decline in oil prices pressured Energy producers, while the failure of long-term yields to fall in response to the most recent Fed rate cut hurt stocks of homebuilders and building products companies.

Portfolio Performance & Developments

Facing many of the same challenging market conditions witnessed in the third quarter, Cooke & Bieler's SMID Cap Value Strategy significantly underperformed the Index during the fourth quarter, posting a -2.03% return gross of fees (-2.25% net of fees) against a 3.15% return for the Russell 2500™ Value Index. Stock selection effect explained nearly all of the underperformance, though sector allocation effect was also a slight headwind. Selection was weakest within Health Care, with Index holdings outperforming strategy holdings by over 25%. While several holdings such as Perrigo, Integer, and Labcorp posted negative returns, the Index constituents not held in the portfolio also weighed meaningfully on relative performance, with multiple benchmark holdings in the biotechnology, life sciences, and pharmaceutical industries posting staggering triple-digit returns. Industrials holdings such as Janus International and American Woodmark also detracted from portfolio performance, as did Consumer Discretionary and Energy holdings. Conversely, Information Technology and Real Estate holdings such as MKS and Ryman Hospitality outperformed the benchmark.

For the full year, relative performance lagged significantly, with the majority of the underperformance emerging in the second half of the year. While negative stock selection effect was the primary driver, sector allocation effect also posed a headwind. Stock selection within Health Care and Consumer Discretionary detracted most, while Energy holdings also lagged the benchmark. The portfolio's Information Technology holdings were a bright spot in 2025, with Industrials holdings also benefiting relative 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)
MKS Inc.	2.9	29.3	82
White Mountains Insurance	2.9	24.3	60
Woodward	2.6	19.8	48
Charles River Laboratories	1.8	27.5	43
Winnebago	1.8	21.2	35

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
Janus International	2.3	-33.7	-95
Dream Finders Homes	1.9	-34.0	-80
Perrigo	1.3	-36.1	-67
Burford Capital	2.0	-24.9	-56
CarMax	0.5	-31.2	-44

Source: FactSet

Largest Contributors

MKS Inc. (MKSI), a supplier of critical subsystems and components used in semiconductor manufacturing and electronics packaging, was the largest contributor. Shares advanced as the company delivered better than expected results and signaled improving demand across several end markets. Strength was driven by continued recovery in semiconductor capital equipment, solid performance in advanced packaging, and resilience in consumables tied to their Atotech acquisition. Investors were also encouraged by steady progress on debt reduction and improved balance sheet flexibility following recent refinancing actions. While certain industrial end markets remain softer and margin normalization will vary with the cycle, MKSI's scale, diversified revenue base, and exposure to secular growth in semiconductor complexity support the longer-term investment case.

White Mountains Insurance (WTM), a diversified insurance and related financial services holding company, was the second-largest contributor. WTM closed on the sale of a controlling stake in their California-based managing general agent, Bamboo, during the quarter, adding an estimated $325/share to year-end book value. WTM will receive $840 million in proceeds and retain a 15% stake, valued at approximately $250 million for an asset they acquired just six quarters ago for under $300 million. With undeployed capital now in excess of $1 billion, management launched a Dutch auction tender offer, repurchasing 2.5% of shares at prices below book value. Other operating businesses continue to perform well and we expect continued, but lumpy, gains on sale over the next several years.

Woodward (WWD), a supplier of energy and motion control systems to the aerospace and industrial industries, was the third-largest contributor. WWD is executing well and gaining market share in its Aerospace segment and remains well positioned to benefit from its strong content on narrowbody aircraft and positioning in the aftermarket. Execution at WWD's Industrial segment has improved, aided by productivity improvements and SKU rationalization, although it has recently faced difficult comparisons related to the volatile China on-highway natural gas engine business. WWD's consistent free cash flow generation and strong balance sheet provide capital allocation optionality to create shareholder value.

Largest Detractors

Janus International (JBI), a leading manufacturer of overhead doors and components for the self-storage industry, was the largest detractor. Following a series of quarterly improvements, JBI posted weaker than anticipated results, driven by the timing of certain large commercial projects that will be delayed until early 2026.

Dream Finders Homes (DFH), a top 15 U.S. homebuilder, was the second-largest detractor. DFH announced weaker year-over-year topline and margin results. A general slowdown in new home sales along with higher homebuilder incentives have pressured industry profitability in recent quarters. That said, undersupply conditions should serve as a long-term tailwind, and given DFH's asset light business model, we believe the company is well positioned to outpace industry growth.

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 and softening consumer demand for OTC products resulted in disappointing quarterly revenue growth and lowered full year EPS guidance, pushing PRGO's valuation below historic lows.

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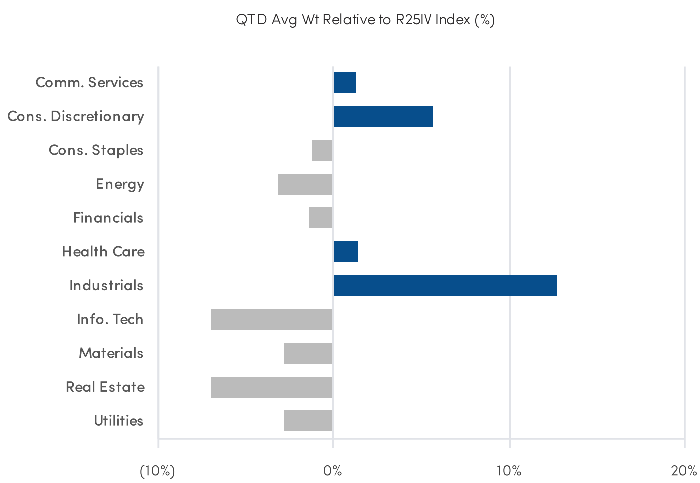
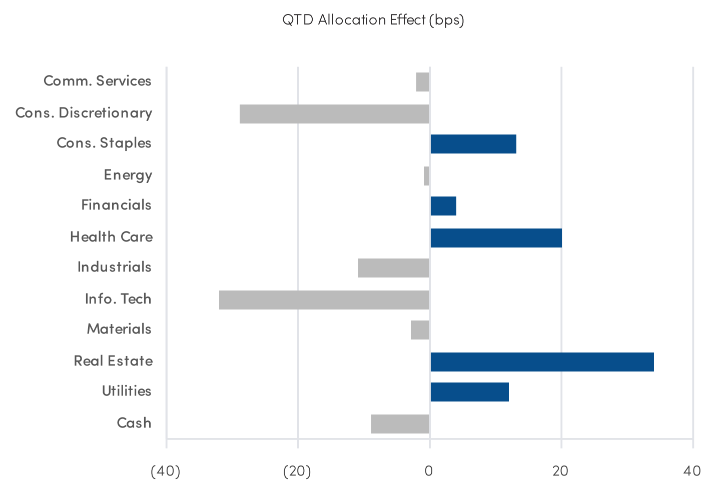
Sector Positioning

Sector allocation effect was slightly negative in the fourth quarter. An underweight to Information Technology – one of the best performing sectors – and an overweight to Consumer Discretionary – one of the worst performing sectors – posed the largest headwinds. The portfolio's overweight to Industrials also weighed on relative results. Conversely, the strategy's underweight to Real Estate benefited relative performance, as did an overweight to Health Care, which posted the best sector return in the benchmark.

For the full year, sector allocation effect was negative. An underweight to the best performing sector, Information Technology, was the largest headwind. The strategy's overweight to Consumer Discretionary also detracted from results, as did the portfolio's Utilities underweight. However, an underweight to Real Estate benefited results as inflation remained stubborn and Fed rate cuts failed to support this typically rate sensitive area of the market. The portfolio's underweight to Consumer Staples was an additional tailwind.





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 -2.25% net of fees and -2.03% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

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Initiations

Aramark (ARMK) is a global leader in the food services and facilities management industry. As one of the few scaled global players, ARMK is well positioned to provide a differentiated service to customers based on its ability and willingness to invest in technology, supply chain, procurement (including owned Group Purchasing Organization), and workforce. Executing on its strategy of gross new wins of 8-10% and client retention of mid-90%+ should lead to solid organic growth and further scale in its GPO, which provides some operating leverage. ARMK's balance sheet continues to improve, providing optionality to create shareholder value.

Avery Dennison (AVY) produces pressure sensitive materials and a variety of tickets, tags, labels, and other converted products. They are the dominant player in pressure sensitive label stock and intelligent labels. Avery is the only vertically integrated player in their core markets with know-how in adhesives and polymers. Their scale, material science expertise, and process technology capabilities drive lower costs, growth in high-value categories, and ultimately better margins and cash flows. With return on capital consistently in the mid-teens and a stable and conservative capital structure, AVY is a proven compounder. Intelligent labels have clear secular growth tailwinds from increased penetration, but a near-term slowdown afforded us the opportunity to buy this high quality business at an attractive price.

MasterBrand (MBC) is the leading manufacturer of residential kitchen and bath cabinetry in North America. We initiated a position during the quarter, transitioning our ownership of competitor and incumbent holding, American Woodmark (AMWD), to shares of MBC ahead of their planned merger in 2026. The combined entity will have a dominant position in the cabinetry industry. Despite near-term demand softness as well as the negative impact of tariffs, MBC stands to benefit from both operational cost synergies related to the merger with AMWD as well as the precarious financial position of key competitors. MBC's expansive network of 7,000 dealers will benefit from the inclusion of entry-level AMWD products while its home center business will benefit from greater bargaining power with customers such as Home Depot and Lowe's.

Middleby (MIDD) is a leader in the commercial foodservice, food processing, and residential kitchen equipment industries. An acquisitive and innovative company, MIDD has developed a formidable position as one of the largest players in the commercial foodservice equipment industry and as a large and growing competitor in the food processing industry. The company has industry-leading margins in both segments, generates strong free cash flow, and has ample white space to continue pursuing bolt-on acquisitions, particularly in its Food Processing segment. With these growth opportunities in mind, MIDD intends to spin off its Food Processing segment into a separate company in early 2026, giving it greater focus and capital flexibility to pursue M&A. The spin should also permit the legacy Commercial Foodservice segment to refocus its portfolio of brands and improve on its already attractive margins. In addition, the Commercial Foodservice segment should see favorable secular/long-cycle tailwinds over the next several years as chain QSR and fast casual restaurants expand units, integrate automation, and replace aging equipment installed following the GFC. Finally, subsequent to our initiation, MIDD sold a controlling interest in its Residential Kitchen segment at a price that underscores the value we see in the shares and reinforces the company's transition to a higher margin, commercial focus.

Eliminations

CarMax (KMX) was eliminated due to a broken thesis. During the quarter, the company announced negative comparative sales guidance, therefore likely implying ceding of market share, alongside likely increased SG&A spending.

Flowers Foods (FLO) was eliminated due to a broken thesis, given the company's elevated levels of financial leverage.

Open Text (OTEX) was eliminated to make room for better opportunities.

Steelcase (SCS) was acquired by HNI Corporation (HNI) during the quarter.

Notable Stock Updates

F&G Annuities & Life (FG) was partially spun out of its parent, Fidelity National Financial (FNF). FG primarily offers indexed annuities. We began eliminating the small position shortly after the spin-off.

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Outlook

It was a challenging year for the strategy, with a strong disconnect between the fundamental progression and share price performance of the portfolio's holdings emerging forcefully late in the third quarter, extending through most of the fourth quarter. Market behavior became more momentum and sentiment driven as the year progressed, though encouragingly, markets seemed to display greater appreciation for underlying fundamentals during the final weeks of December. Valuations also seemed to be a bigger consideration for investors at the end of the year, as some downtrodden areas of the market showed signs of life. We believe that both of these trends – heightened focus on fundamentals as well as valuation – bode well for the portfolio's holdings going forward. We have already seen some benefit in the non-biotech Health Care space, as activist involvement and asset sales highlighted the compelling value embedded in a number of portfolio holdings. More broadly, our analysis suggests that the EPS growth in 2025 for the portfolio's underlying holdings was higher than that of the Index in many cases, despite the strategy's significant underperformance for the year. Said another way, the portfolio exits the year even less expensive than it entered, while still having demonstrated solid underlying business performance. Some holdings fell so far out of favor that their absolute valuations shrank to near historic lows, despite making fundamental progress during the year. While frustrating to experience, we believe the current environment combined with the makeup of the portfolio sets us up for stronger relative performance in 2026, and we enter the new year increasingly optimistic about the portfolio's prospects.

Sources: Bloomberg, FactSet, Reuters

Additional Cooke & Bieler SMID Cap Value Performance Disclosures