



# All Cap Value Equity

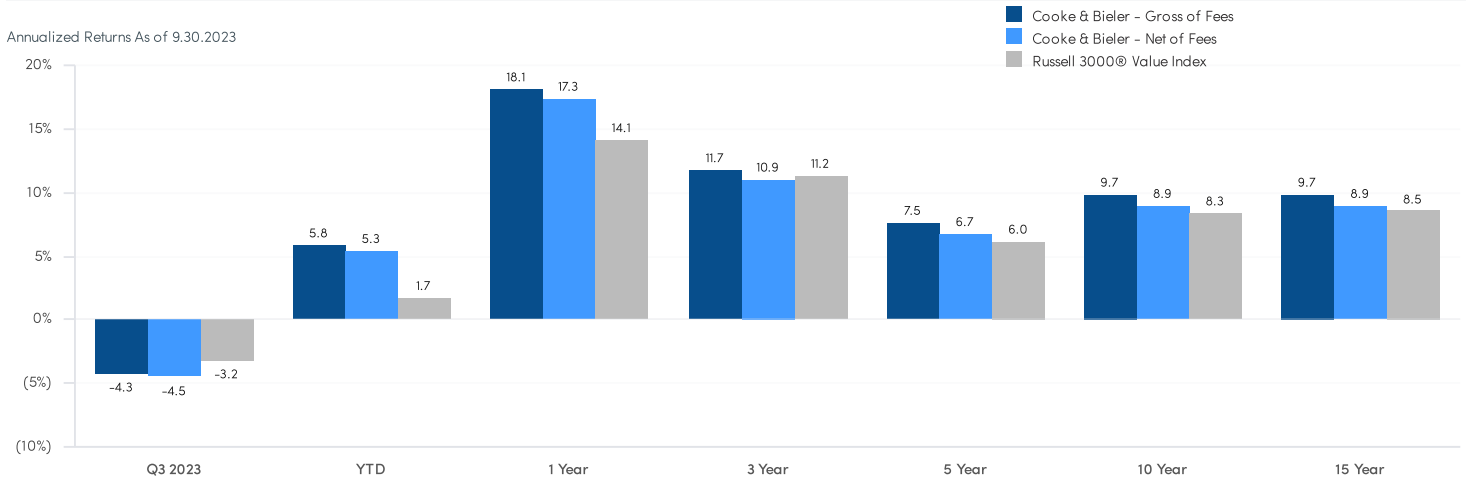
## Overview

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 All Cap Value Strategy underperformed the Russell 3000® Value Index in the quarter, posting a -4.30% return gross of fees (-4.49% net of fees) against a -3.15% return for the Index. Underperformance was primarily driven by negative stock selection effect, though sector allocation effect was also a headwind. Information Technology holdings – particularly MKS Instruments and Arrow Electronics – detracted most. Health Care holdings also underperformed the benchmark after posting strong relative performance in the second quarter, with HCA Healthcare and Baxter International the most notable laggards. Partially offsetting these results, Industrials and Financials holdings were comparative bright spots, particularly Fidelity National Financial and ESAB Corporation.

## All 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)
Fidelity National Fin.	2.2	15.8	28	Omnicom	2.4	-21.1	-52
ConocoPhillips	2.0	16.6	28	CarMax	2.3	-15.6	-38
Chubb	2.5	8.4	19	HCA Healthcare	2.0	-18.9	-38
Helen of Troy	2.5	7.8	17	MKS Instruments	1.6	-19.9	-34
Activision Blizzard	1.3	12.1	14	Winnebago	2.9	-10.5	-30

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 All Cap Value institutional portfolio's gross of fees return relative to the Russell 3000® 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 All Cap Value institutional portfolio returned -4.46% net of fees and -4.28% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's All 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](mailto:contact@cooke-bieler.com).

## Largest Contributors

**Fidelity National Financial (FNF)**, the largest U.S. title insurer, was the 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.

**ConocoPhillips (COP)**, one of the largest international E&P companies with a scaled and well-diversified portfolio of assets, was the second-largest contributor. COP was early among the E&P companies to recognize the importance of both return on and return of capital and thus engaged in countercyclical M&A to establish their advantaged position. COP continues to return healthy cash flows to shareholders while keeping their low cost of supply.

**Chubb (CB)**, a leading global property and casualty insurer, was the third-largest contributor. Strong underwriting results and higher interest rates led to strong fundamental returns. Investor sentiment improved as the existing strong pricing environment is expected to continue in the near and intermediate term.

## 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.

**CarMax (KMX)**, an independent used car retailer operating through both brick & mortar and online channels, was the second-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.

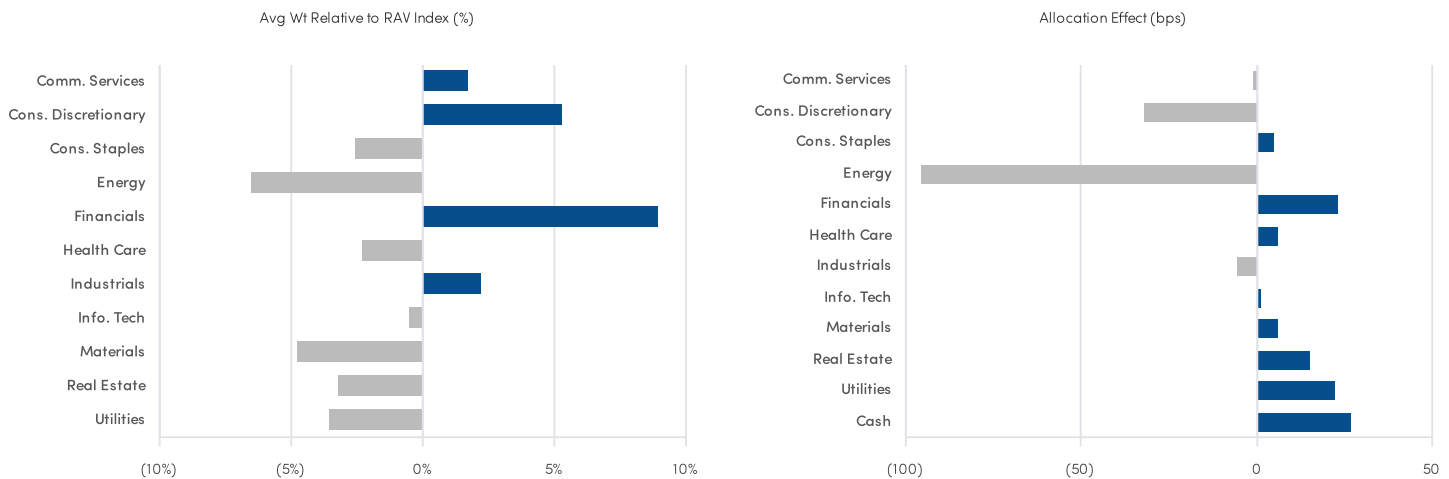
**HCA Healthcare (HCA)**, leading owner and operator of health care networks, was the third-largest detractor. HCA was negatively impacted by sentiment shift within the Health Care sector associated with normalizing procedure growth and increasing pharmaceutical treatment of obesity.



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## Sector Positioning

Sector allocation effect was modestly negative during the third quarter. The most significant headwind came courtesy of an underweight to Energy, which turned in a double-digit return driven by rising oil prices, easily surpassing the negative returns posted by all other benchmark sectors. An overweight to traditionally cyclical sectors Consumer Discretionary and Industrials also detracted from results. Conversely, the strategy's overweight to Financials, the second best performing benchmark sector, benefited relative results during the quarter, as did the underweight to bond proxy sectors Utilities and Real Estate.



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 All Cap Value institutional portfolio's gross of fees sector return relative to the Russell 3000® Value Index. The representative All Cap Value institutional portfolio returned -4.46% net of fees and -4.26% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

## Initiations

**Kenvue (KVUE)**, recently split off from **Johnson & Johnson (JNJ)**, is a diversified developer, manufacturer, and marketer of self-care, skin, health, and beauty care, and essential health care consumer products. The company generally participates in above average growth categories with limited private label offerings and boasts numerous category leading brands, including Tylenol, Neutrogena, Aveeno, Listerine, and Johnson's. As a newly independent entity, we believe the company will benefit from increased focus and aligned incentives and view the company as a dependable grower.

**Teleflex (TFX)** is a manufacturer of a diverse portfolio of single-use, disposable medical devices and products used primarily in critical care settings around the world. Over the past decade, management has used the company's strong free cash flow generation and balance sheet to broaden its portfolio through margin accretive acquisitions, supplementing its established portfolio of industry-leading catheters. We believe that the combination should produce attractive organic revenue and earnings growth over time.

## Eliminations

**Essent (ESNT)** was eliminated to make room for better opportunities.

## Notable Stock Updates

**Kenvue (KVUE)**, a diversified developer, manufacturer, and marketer of self-care, skin, health, and beauty care, and essential health care consumer products, was spun off from long-term holding **Johnson & Johnson (JNJ)** in a tender exchange offer.





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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 All 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 All 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 3000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's All 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](mailto:contact@cooke-bieler.com).

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