Q2 2023

Small Cap Value Equity

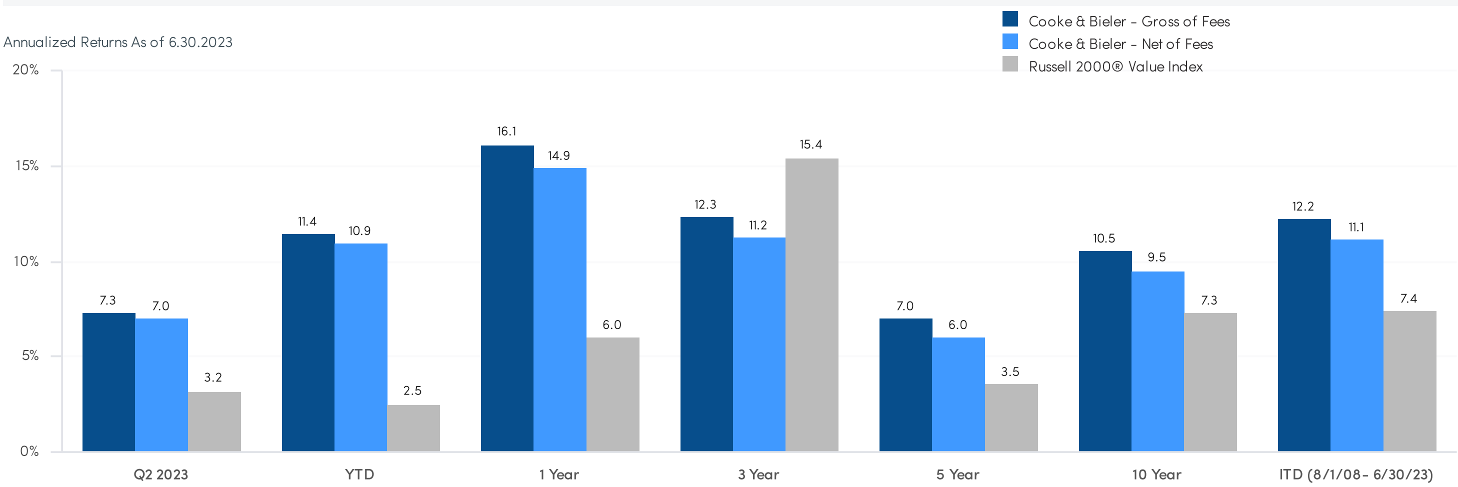
Overview

Domestic equity indices finished higher across the board in the second quarter as the tech heavy NASDAQ rode a wave of AI enthusiasm to a 13% gain. Growth beat value, and high beta issues outperformed during the period. Market cap trends were muddled with both the top and bottom ends performing well. In contrast to the growing sense of dread in commercial real estate, housing-adjacent constituents benefited from a handful of fundamental green shoots and a growing consensus that the economy was headed for a soft landing rather than a recession. An uneventful end to March's regional banking crisis further fueled the fire. Overall, market participants appeared increasingly sanguine despite persistently hawkish Fed talking points and ongoing global turmoil, including an attempted coup in Russia.

Portfolio Performance & Developments

Cooke & Bieler's Small Cap Value Strategy significantly outperformed its benchmark during the second quarter, returning 7.28% gross of fees (7.02% net of fees) against a 3.18% return for the Russell 2000® Value Index. Both stock selection effect and sector allocation effect were additive. Sector allocation drove most of the strategy's favorable outcome, though stock selection was also beneficial in the majority of the sectors where the portfolio had weight. Consumer Discretionary and Information Technology were the portfolio's best performing sectors, led by the strong performance of Dream Finders Homes, Winnebago, and Onto Innovations. Industrials and Financials holdings were also contributors during the quarter. Conversely, Health Care holdings posed the largest headwind, due largely to the impact of Integra LifeSciences, the portfolio's largest detractor, as well as Perrigo. Energy holding DMC Global also weighed on relative results.

Small 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.

Click for additional C&B Small Cap Value Performance Disclosures

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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
American Woodmark	3.3	46.4	143
Dream Finders Homes	1.8	85.3	120
National Western Life	1.3	71.0	76
Winnebago	4.4	16.3	72
Essent	3.8	17.3	66

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Integra LifeSciences	2.4	-28.6	-77
Glacier Bancorp	2.3	-25.4	-77
DMC Global	1.8	-19.4	-47
American Eagle	2.4	-11.8	-35
Hanesbrands	1.3	-13.9	-24

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 Small Cap Value institutional portfolio's net of fees return relative to the Russell 2000® 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 Small Cap Value institutional portfolio returned 7.07% net of fees and 7.33% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Small 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

American Woodmark (AWMD), a leading kitchen and bath cabinet manufacturer with a focus on value price points, was the largest contributor. AMWD demonstrated encouraging margin progress following a period of record input cost inflation. Pricing is catching up with inflation, mix is improving, and production efficiencies are materializing, informing management's call for further margin expansion in the year ahead. At the industry level, favorable demand dynamics for new construction have also benefited investor sentiment for building product companies.

Dream Finders Homes (DFH), a top 15 U.S. homebuilder with a concentration in the Southeast region, was the second-largest contributor. DFH has seen new order trends improve and cancelation rates decline as the backdrop for homebuilders has improved markedly from just a few months ago. Input cost pressure has eased, mortgage rates have stabilized, and existing home inventory remains limited. As a result, consumer demand for new residential construction is strengthening. Given DFH's asset-light business model and healthy supply of land, it is in a good position to capitalize on this strength.

National Western Life (NWLI), a family-controlled life insurer, was the third-largest contributor. During the quarter, NWLI announced their intention to pursue strategic alternatives, fueling optimism that the deeply undervalued company might be acquired or pursue other options to unlock value.

Largest Detractors

Integra LifeSciences (IART), an acquisitive global medical technology company, was the largest detractor. In the quarter, IART announced a voluntary recall of products manufactured in its Boston facility. The expected impact on sales and earnings is manageable, but the timing of FDA approval and required investment to remedy the issue creates uncertainty. We believe IART's strong balance sheet, stable sales base, and consistent free cash flow generation position the company to address the current issues, and valuation is attractive.

Glacier Bancorp (GBCI), a regional bank operating as a collection of community banks in the Mountain West, was the second-largest detractor. Having held up well in the early stages of the March bank sell off, GBCI trailed in the second quarter as investors grew concerned their use of temporary, higher-cost funding would hurt margins into 2024.

DMC Global (BOOM), a manufacturer of architectural building products, perforating guns for energy exploration, and explosion-welded metals, was the third-largest detractor. BOOM underperformed on worries that sales of its industry-leading preassembled perforating guns would slow as oil and gas fracking activity slows.

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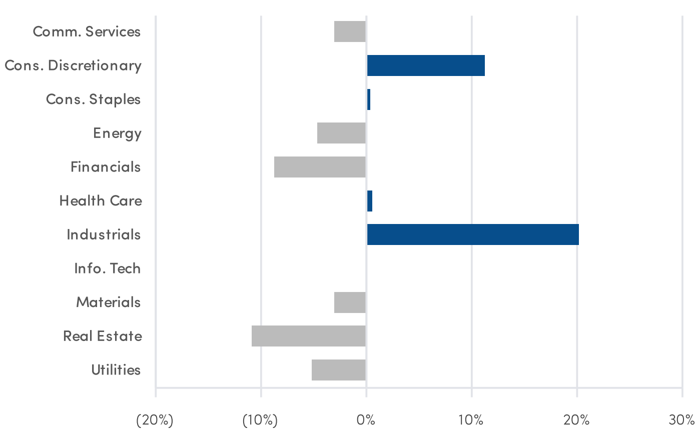
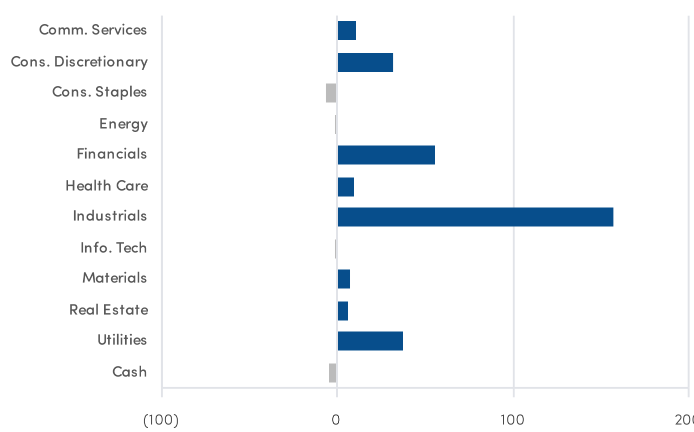
Sector Positioning

Sector allocation effect was broadly additive during the second quarter, with most sectors contributing to the portfolio's outperformance. The portfolio's significant overweight to Industrials, one of the top performing sectors within the benchmark, was the biggest driver. A substantial underweight to Financials was also additive, with many banks again posting lackluster returns following the collapse of several regional franchises earlier in the year. The strategy's underweight to Utilities generated a further tailwind as the space continued to struggle with the impact of higher interest rates. Partially offsetting these results, the overweight to Consumer Staples, the worst performing benchmark sector, and the impact of frictional cash in a strongly rising market posed slight headwinds.





Source: FactSet

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Initiations

Stewart Information Services (STC) is the fourth-largest title insurer in the U.S. Title insurance is a very competitively stable industry with the top four underwriters controlling 85% of the market. Unlike many other financial businesses related to real estate, title insurance has no direct credit exposure and, relative to most insurers, loss costs are minimal. Revenues are instead linked to real estate transactions which are at cyclical lows due to the sharp rise in mortgage rates. We believe this creates an opportunity for patient investors.

Eliminations

Enovis (ENOV) was eliminated to make room for better opportunities.

Selective Insurance (SIGI) reached its price target and was eliminated.

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Outlook

As the second quarter unfolded, investors' fears of economic recession, spreading bank failures, and a U.S. government debt default all but vanished. The result was an equity rally that while initially limited to a handful of mega cap technology stocks, ultimately grew to encompass most of the market. The forceful swing from pessimism to optimism, especially related to anything AI, leaves us somewhat concerned heading into the second half of the year. Core inflation, though moderating, remains stubbornly high, making it probable the Fed will resume raising interest rates. Fiscal support appears to be peaking and the lagged effect of tighter monetary policy is lurking. Still, investor expectations have moved higher in the face of this uncertainty, calling for a more measured outlook on equities. We see signs of speculation in certain areas of the market, but we continue to identify quality businesses trading at reasonable valuations. The resulting combination of quality and value inherent in the portfolio leaves us optimistic that our strategy – centered on investing in conservatively financed, competitively advantaged businesses – will deliver attractive returns over time.

Sources: Bloomberg, FactSet, Wall Street Journal

Additional Cooke & Bieler Small Cap Value Performance Disclosures