



Small Cap Value Equity

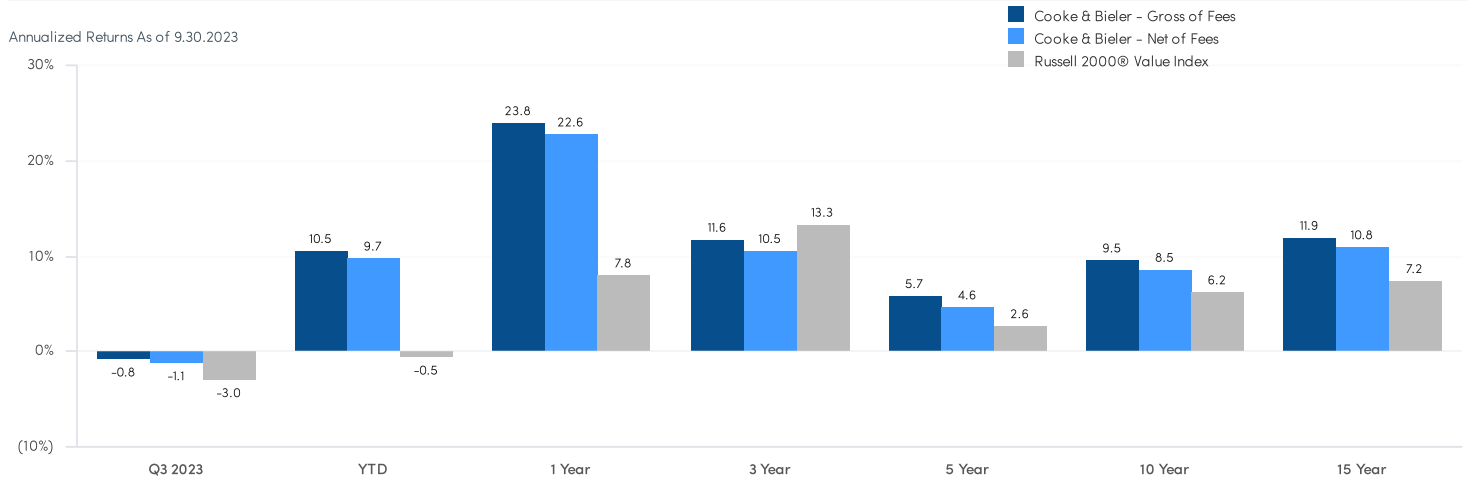
Overview

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 Small Cap Value Strategy outperformed the Russell 2000® Value Index for the fourth consecutive quarter, posting a -0.84% return gross of fees (-1.09% net of fees) against a -2.96% return for the Index. Outperformance was driven entirely by positive stock selection effect, while sector allocation effect was a headwind. Portfolio holdings within the traditionally cyclical Industrials and Consumer Discretionary sectors – particularly American Eagle Outfitters and Steelcase – performed best despite ever present recession fears. Health Care and Energy holdings were also additive. Partially offsetting these results, Consumer Staples holdings such as Flowers Foods and Ingredion lagged the broader benchmark, as did the portfolio’s Information Technology holdings.

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.
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Five Largest Contributors/Detractors

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
American Eagle	2.4	41.7	82
DMC Global	2.1	37.5	58
Steelcase	1.3	46.5	54
Gentex	2.9	11.4	29
Helen of Troy	3.4	7.6	28

	Avg Weight (%)	Net Total Return (%)	Net Contrib. to Return (bps)
Winnebago	4.2	-10.7	-43
Tecnoglass	1.1	-34.5	-40
Varex Imaging	1.9	-20.5	-40
Gildan Activewear	2.9	-12.8	-39
MKS Instruments	1.7	-20.0	-35

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 -1.01% net of fees and -0.76% 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 Eagle Outfitters (AEO), a leading retailer of teen and young adult apparel, was the largest contributor. Having lowered expectations earlier in the year in response to an uncertain consumer environment, AEO reported better than anticipated sales and margins for their fiscal quarter ending in July. This progress enhanced the credibility of management's longer-term growth and margin targets and boosted optimism for this year's holiday season.

DMC Global (BOOM), a manufacturer of architectural building products, perforating guns, and explosion-welded materials, was the second-largest contributor. BOOM's margin recovery assured the market of the company's pricing power across its three segments.

Steelcase (SCS), a world leader in the design, manufacturing, and marketing of office furniture, was the third-largest contributor. Stabilizing input costs and easing supply chain constraints combined with price increases and effective cost management drove much better than expected earnings during the quarter.

Largest Detractors

Winnebago (WGO), a leading manufacturer of recreational vehicles and towables, was the largest detractor. WGO continues to post relatively strong margins against a significant pullback in wholesale orders for recreational vehicles. While RV manufacturers appear to be acting rationally by helping dealers clear aging inventory and positioning the industry for an eventual recovery, WGO surrendered some of its first half outperformance due to mounting concerns related to the broader health of the consumer.

Tecnoglass (TGLS), a vertically integrated manufacturer and installer of architectural glass and windows used in single-family residential, multifamily, and commercial applications, was the second-largest detractor. TGLS again posted strong double-digit revenue growth and robust year-over-year margin expansion, as well as announced its entry into the vinyl window market, more than doubling its addressable market. Although the company raised its full year earnings guidance, management indicated that a strengthening Colombian peso would put modest pressure on margins in the back half of the year. Investor disappointment permitted us to build out our new position.

Varex Imaging (VREX), a leading global independent provider of x-ray imaging components, was the third-largest detractor. Though the company delivered better than expected results for its most recent quarter, investor sentiment turned negative when management warned that recent anti-corruption measures taken by the Chinese government might impact near-term demand for VREX's products in the region.

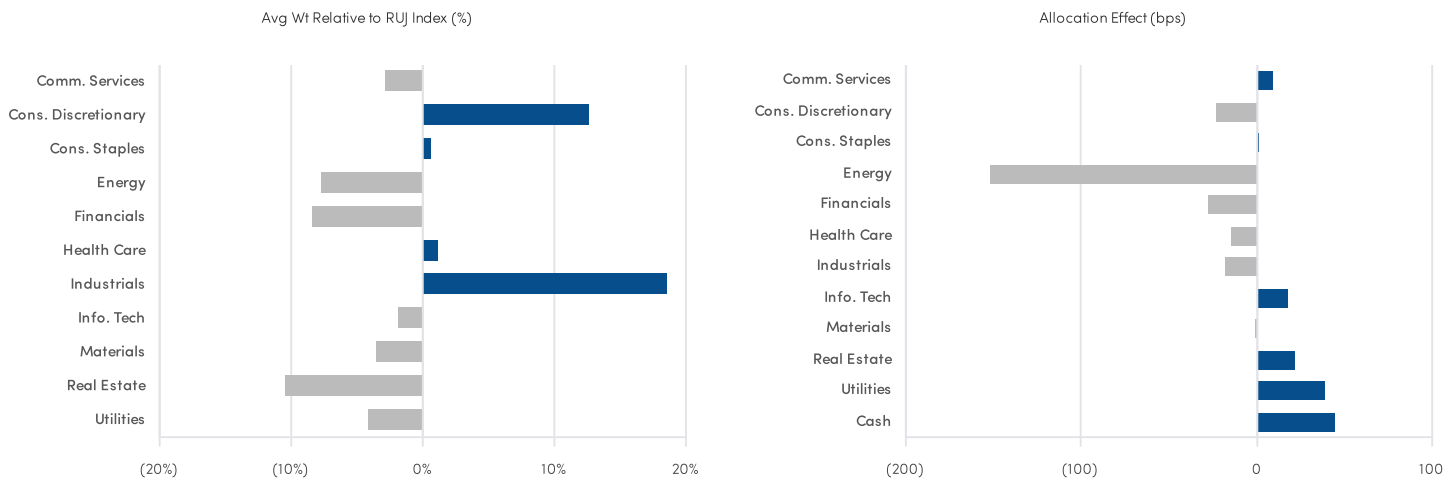




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Sector Positioning

Sector allocation effect was negative during the third quarter. The most significant headwind by far came courtesy of the portfolio's underweight to Energy, which posted a double-digit return driven by rising oil prices, compared with mostly negative returns for other benchmark sectors. An underweight to Financials and overweight to Consumer Discretionary also detracted from results. Conversely, the strategy's underweight to Utilities – one of the worst performing benchmark sectors – along with underweights to Real Estate and Information Technology benefited relative results during the quarter.



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 gross of fees sector return relative to the Russell 2000® Value Index. The representative Small Cap Value institutional portfolio returned -1.01% net of fees and -0.76% gross of fees during the quarter. Please see additional performance disclosures at the end of this document.

Initiations

Tecnoglass (TGLS) is a vertically integrated manufacturer and installer of architectural glass and windows used in single-family residential, multifamily, and commercial applications. The company's primary manufacturing assets are located in Colombia, providing large structural cost and margin advantages relative to its competitors. Attractive demographic trends in its core Florida market, national expansion prospects, as well as large white space opportunities in the vinyl window category and builder channel give TGLS an attractive long-term growth profile. A nearly debt-free balance sheet and discounted valuation make this secular market share winner an attractive portfolio holding.

Eliminations

RB Global (RBA) was eliminated after its market capitalization grew beyond the strategy's appropriate range.





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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 Small 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 Small 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 2000® Value Index. 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.

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