COOKE & BIELER

Q1 2021

All Cap Value Equity

Overview

U.S. equity markets continued to surge during the first quarter of 2021. Intensifying economic momentum, another enormous dose of fiscal stimulus, highly accommodative monetary policy, and expanding vaccine availability further fueled the market's appetite for risk. That appetite was voracious for the stocks of companies poised to benefit most from economic reopening and recovery, keeping small cap well ahead of the pack along with cyclical and financial issues. The resurgence of value stocks that began late last year also intensified, with value beating growth by the widest margin since Q1 2001.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy returned 11.31% gross of fees (11.13% net of fees), modestly underperforming the Russell 3000® Value Index, which returned 11.89%. Sector allocation effect was additive, but was more than offset by negative stock selection effect. Financials – which represents the largest sector weight in the portfolio – detracted most, despite all holdings except FirstCash and Intercontinental Exchange posting positive absolute results. Industrials and Information Technology holdings were also a headwind. Conversely, the portfolio's Health Care and Materials companies contributed to relative performance, with especially strong returns from HCA Healthcare and Schweitzer-Mauduit International. Over the trailing twelve months, the strategy has recovered well post-pandemic, posting strong absolute performance and significantly outperforming the Index, with stock selection and sector allocation both contributing to relative results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Winnebago	3.6	28.2	93
AerCap	2.7	28.9	75
Charles Schwab	2.5	23.3	57
Schweitzer-Mauduit	2.6	22.9	57
Wells Fargo	1.8	29.9	54

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
IAA	2.1	-15.1	-29
FirstCash	1.8	-5.8	-14
Helen of Troy	2.6	-5.2	-12
Becton Dickinson	1.5	-2.5	-5
Intercont'l. Exchange	1.4	-2.9	-4

Source: FactSet
Past performance is not indicative of future results. 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. 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.

Largest Contributors

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the largest contributor. WGO continued to benefit from strong overall demand for recreational vehicles and to gain share in its towables segment. Motorized segment margins have also improved dramatically after several years of supply chain initiatives.

AerCap (AER), the largest independent aircraft lessor, was the second-largest contributor. AER benefited from increased optimism for a post-COVID travel rebound. Astute management and their status as a secured lender to airlines around the world allowed them to weather the pandemic without raising new capital and positioned them to acquire GE's aircraft and engine leasing business. This deal will make AER by far the largest aircraft lessor in the world and should enhance shareholder returns for years to come.

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the third-largest contributor. SCHW reported good progress on the integration of its TDAmeritrade acquisition with little evidence of customer churn or other operational issues. The company is also poised to benefit from any increase in interest rates.

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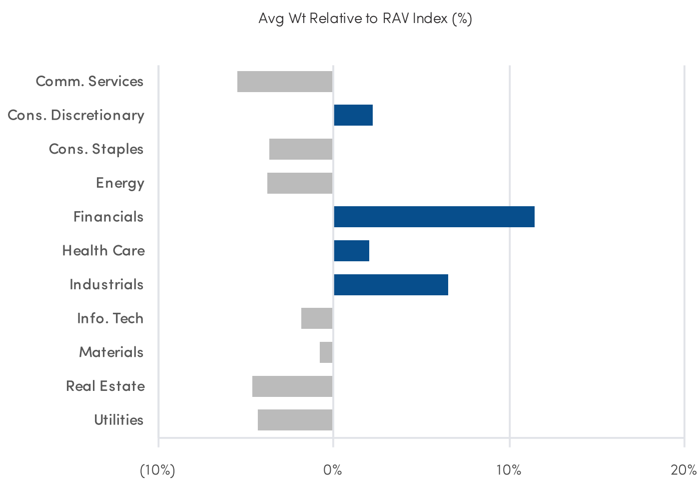
Largest Detractors

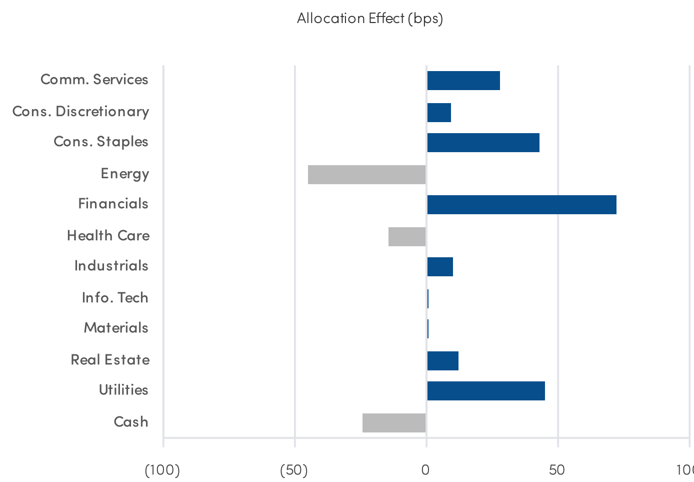
IAA (IAA), an owner and operator of a leading auction marketplace for the sale of total loss, damaged, and low value vehicles, was the largest detractor. IAA underperformed as investors drove the stock's valuation down, potentially due to concern over the sustainability of recent elevated average selling prices, worry about short-term disruption related to winter storms in Texas, or disappointment that management did not provide guidance due to COVID-19 related uncertainty.

FirstCash (FCFS), the largest pawn shop operator in North America and Mexico, was the second-largest detractor. FCFS reported solid fourth quarter results but noted that demand for pawn loans would likely be restrained by a fresh round of stimulus payments. Over time, we expect pawn loan demand to recover to pre-pandemic levels and FCFS management to deploy the business' considerable cash flow in value-added ways.

Helen of Troy (HELE), a diversified consumer and household products company, was the third-largest detractor. HELE was a net beneficiary of pandemic-driven demand, but its shares have lagged more recently as investors worried about difficult comparisons. However, the company's organic growth rate and margin profile should continue to benefit on a long-term basis thanks to meaningful investment in product innovation and shared services across segments. With a very conservative balance sheet, HELE is also in a good position to engage in opportunistic M&A activity and share repurchases.

Sector Positioning





Source: FactSet
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Sector allocation effect was additive for the quarter, with the majority of sectors contributing to the strategy's relative performance. The portfolio's overweight in Financials, which outperformed the Index by a solid margin, was the most notable driver. The underweight to Utilities, Consumer Staples, and Communication Services was also additive, as those sectors lagged during the quarter's continued market exuberance. Partially offsetting these positive results, the portfolio's underweight in Energy was again a headwind given the sector's very strong performance during the quarter. The overweight to Health Care constituents was also a slight detractor.

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Initiations

Atmos Energy (ATO) is one of the largest regulated gas utilities in North America. With over 70% of earnings generated in Texas, Atmos has favorable regulatory relationships and a long runway of capital projects centered around modernizing their distribution and transmission system to improve safety and reliability. ATO's low debt levels and dividend payout ratio provide flexibility and lessens the company's dependence on the equity markets to fund its growth. Negative investor sentiment and concerns about the role of natural gas utilities in decarbonization created an opportunity for us to enter the position. We monitor these risks and believe them to be generally overstated relative to ATO's fundamentals. Given ATO's advantageous geographic footprint and the favorable economics for gas utility customers, we believe the company has a good line of sight to strong fundamental returns over the next decade.

Fidelity National Financial (FNF) is the largest title insurer in the United States with a long history of best-in-class execution and value-added corporate actions. Title insurance is an attractive industry, with the top four players controlling 80% of the market and little of the balance sheet risk endemic to most financials.

General Mills (GIS) is a packaged food company with strong brand equities, healthy margins, and good cash flow. The packaged food industry has generally benefited in the near term from a combination of stay-at-home orders, the strong distribution capability of larger players, and a reduced need for advertisement and promotion. GIS is an efficient operator, enabling the company to benefit from its scale advantages while still returning capital to shareholders and performing accretive acquisitions. We believe that even after the COVID-19 pandemic, GIS should retain some lasting benefits from changes in consumer preferences and behavior.

Leidos (LDOS) is the largest government services and consulting firm. Modernization of government IT infrastructure, growing healthcare spending, and the heightened threat of cyberattacks all result in a good secular backdrop for the company's services. Its current valuation is attractive for a somewhat counter-cyclical business with recurring revenues, sticky long-term customer relationships, meaningful scale, and strong cash generation.

Unilever (UL) is a household products, personal care, and packaged food company with strong brand equities and a robust distribution network. We believe that UL's significant presence in emerging markets should enable the firm to successfully compound shareholder value in the relatively near future.

Eliminations

Laboratory Corporation of America (LH) and **Steelcase (SCS)** were eliminated to make room for better opportunities. **Snap-on (SNA)** reached its price target and was eliminated.

Exxon Mobil (XOM) was eliminated in the wake of a rally in oil prices due to our concerns about the company's balance sheet expansion and inconsistent capital strategy.

Schlumberger (SLB) was eliminated to make room for better opportunities as it appreciated due to a rally in oil prices.

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Outlook

Markets are clearly forecasting a strong recovery fueled by pent up consumer demand and ongoing fiscal and monetary stimulus. However, with indices well above pre-pandemic levels, even a strong recovery may not be enough to sustain further gains. Though investors are prone to forget it in moments of enthusiasm, valuations matter – and large parts of the market are currently expensive even relative to optimistic assumptions. The most extreme examples of this disconnect are currently found among smaller capitalization stocks, where in some cases social media has driven waves of buying, willfully oblivious to any fundamental assessment of value. However, valuations are stretched among larger capitalization stocks as well, and at current prices we are quite sure many of these investments will turn out badly.

While markets are efficient over the long run, in the short term they are driven by human emotion and it is impossible to predict when fickle natured sentiment will turn. The wise investor must remain focused on business fundamentals and valuations. A year ago – in light of a once-a-century pandemic – we were working diligently to re-underwrite the portfolio, with a focus on companies' abilities to survive a severe and prolonged downturn. Today, our challenge is finding value in a market that has quickly forgotten about risk. Regardless of the market environment, the core features of our process and discipline remain consistent: exhaustive research to identify businesses that can compound value, insistence on conservative balance sheets that can withstand economic shocks, and a patient focus on buying businesses below intrinsic value.

Sources: Advent Portfolio Exchange, Bloomberg, FactSet, Russell, The Wall Street Journal, Zacks Investment Research

Additional Cooke & Bieler All Cap Value Performance Disclosures