

# All Cap Value Equity

## Overview

Stocks turned in their worst performance since the onset of the pandemic two years ago as investors processed a seeming tsunami of bad news and pushed all major indices into negative territory. The Russian invasion of Ukraine signaled not just the largest European war in 75 years, but perhaps the most aggressive sanctions regime in history. The combination touched off a price surge in oil and other commodities, further fueling inflationary trends that were already running at 40-year highs and sending 10-year treasury yields to their highest level in two years. Recent history would suggest the Federal Reserve would react to these shocks by communicating their ability and willingness to ease monetary conditions to protect the economy. However, with their COVID-era stimulus measures still very much in force and inflation at worrying levels, the Fed instead embarked on what is forecast to be an extended tightening process by raising rates a quarter of a point in March.

The tumultuous macro backdrop led to considerable volatility and a wide dispersion of returns across sectors. The markets sold off sharply in January and February. Growth indices were particularly hard hit, as investors began to price in the impact of higher rates on these long-duration assets. March, however, brought a wave of buying, spurring a partial recovery in growth and pushing value indices almost to break-even for the quarter. As is to be expected in turbulent times, larger capitalization stocks generally performed better than smaller ones. Among sectors, Energy was the standout with soaring oil prices driving shares across the capitalization spectrum up more than 35%. Conversely, investors worried about the impact of inflation, rising rates, and general uncertainty on consumer spending and corporate margins, which drove shares of Consumer Discretionary companies down close to 10% for the quarter.

## Portfolio Performance & Developments

Amidst another tumultuous quarter, Cooke & Bieler's All Cap Value Strategy underperformed the Russell 3000® Value Index, posting -1.92% gross of fees (-2.11% net of fees) against a -0.85% return for the benchmark. Sector allocation effect accounted for more than all of the portfolio's underperformance, while the favorable impact of stock selection partially offset these results. Selection effect was especially strong in Financials, with insurance companies Alleghany, Arch Capital, and Allstate being some notable contributors. Communication Services holdings also benefited relative results significantly, particularly Activision Blizzard and Omnicom Group. Conversely, Industrials holdings were the biggest overall detractor to performance, and Consumer Discretionary holdings such as Winnebago and Helen of Troy posed a headwind as well as new recessionary fears only exacerbated existing supply chain and inflation concerns.

## Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Alleghany	2.1	26.9	56	Winnebago	2.9	-27.7	-91
Activision Blizzard	2.4	20.4	51	AerCap	2.9	-23.1	-67
Williams Companies	1.8	30.0	47	Helen of Troy	2.9	-19.9	-63
Leidos	2.2	21.9	45	IAA	2.0	-24.4	-47
Berkshire Hathaway	2.6	18.0	43	Syneos Health	1.8	-21.2	-40

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](mailto:contact@cooke-bieler.com).

## Largest Contributors

**Alleghany (Y)**, a reinsurance and specialty insurer, was the largest contributor. The company announced it was being acquired by Berkshire Hathaway at a 25% premium to both its book value and its pre-announcement stock price.

**Activision Blizzard (ATVI)**, a video game developer and publisher, was the second-largest contributor. ATVI traded up on Microsoft's announcement that it was acquiring ATVI in an all-cash deal at a premium to its pre-announcement share price. Regardless of deal closure, ATVI benefits from video games becoming increasingly mainstream and its franchises remain healthy.

**Williams Companies (WMB)**, a gas infrastructure company that operates over 30,000 miles of pipelines, was the third-largest contributor. WMB benefited significantly from the higher energy prices caused by inflationary pressures and the Russia-Ukraine conflict.



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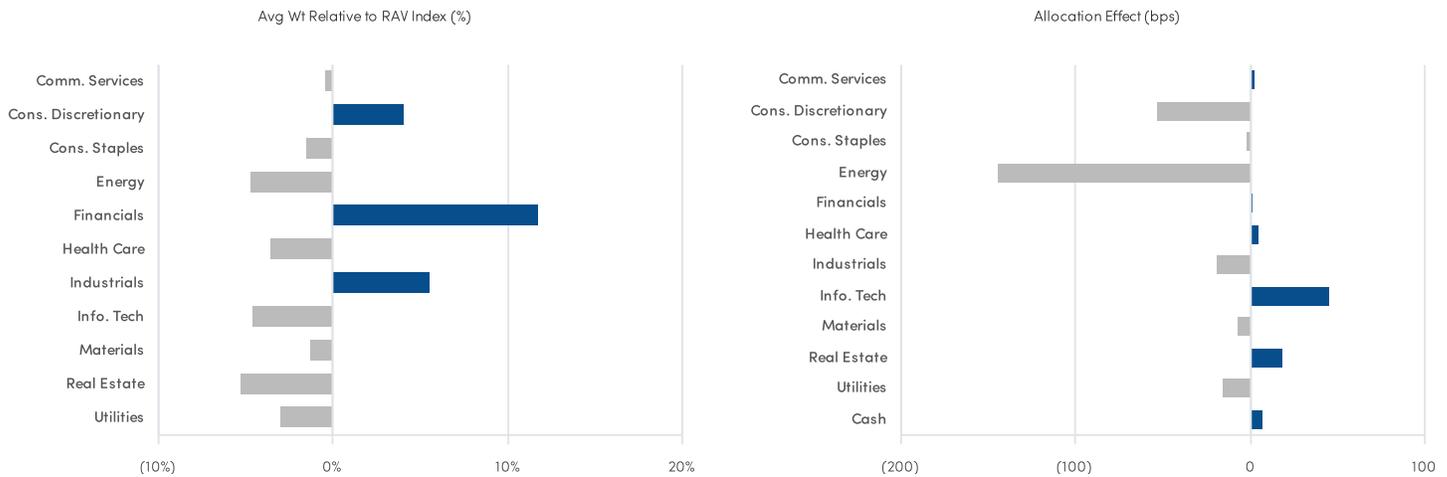
## Largest Detractors

**Winnemago (WGO)**, a leading manufacturer of recreational vehicles, was the largest detractor. WGO continues to post strong and improving fundamental results, but investor fears of significantly weakening demand weighed on the stock price. This fear is not unfounded, but overlooks the company’s growing market share and organic white space opportunities, the structural margin progress in its motorhome division, its recent marine segment acquisition, and the positive secular growth prospects of the RV industry.

**AerCap (AER)**, the largest independent aircraft lessor, was the second-largest detractor. Investors reacted negatively to the company’s exposure to Russian airlines. In response to sanctions, Russian airlines have breached their contracts for aircraft and engines belonging to AER worth about \$2.5B. While the fate of these planes and resulting insurance claims is hard to assess, the company’s overall exposure should prove to be manageable, and we believe AER remains well positioned longer term.

**Helen of Troy (HELE)**, a diversified consumer and household products company, was the third-largest detractor. As the pandemic fades, HELE has seen above average demand for its home healthcare products normalize. Investors, however, are overlooking the offsetting benefit of economic reopening on its highest margin products, the resilience of its housewares segment, the accretion from its latest acquisition, and the market share momentum in its beauty franchise.

## Sector Positioning



Source: FactSet  
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Allocation effect detracted from relative performance in the first quarter of the year, with mixed results across sectors. An underweight to Energy – by far the standout performer in the benchmark with a return of nearly 40% – was the primary driver. An overweight to the pro-cyclical Consumer Discretionary and Industrials sectors as well as an underweight to Materials and Utilities posed more modest headwinds. The portfolio’s underweight to the more economically sensitive Information Technology and Real Estate sectors generated a partial positive offset.

## Initiations

**Carmax (KMX)** is an independent used car retailer that operates through both brick & mortar and online channels with over \$20 billion in annual sales. KMX sells vehicles through direct retail and wholesale auction channels, supporting its retail business with ancillary products such as financing, warranty, and service plans. The company’s scale enables it to make more data-driven decisions on its inventory to avoid significant depreciation. We expect KMX to gain share in the fragmented used car market due to its low-friction customer experience, increasing use of technology, and willingness to leverage different business segments to achieve strong results for the company as a whole.





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## Eliminations

**Reliance Steel (RS)** reached its price target and was eliminated.

## Outlook

No investment style outperforms against every market backdrop. However, every period of sustained underperformance requires honest introspection about the team's analysis and process as well as an open minded search for potential improvements. With underperformance concentrated in the portfolio's Consumer Discretionary and Industrials holdings, we have re-underwritten these positions, evaluating the drivers of demand for their products, their competitive positions, and pricing power in an inflationary environment. While the market seems to be pricing in a severe consumer recession lasting indefinitely, along with severe margin pressure driven by supply chain disruption and inflation, we believe the portfolio holdings' company-specific long term fundamental drivers remain firmly intact. Moreover, even if the earnings of our holdings were to decline by more than half, certain of these businesses would still trade at single digit multiples of EPS. This combination of attractive fundamentals and enticing valuations justifies the portfolio's concentration in these sectors and sets a strong foundation for longer term prospective investment returns. Conversely, the market's assessment of the Energy sector – the other big driver of portfolio underperformance – has overshot sustainable reality, and here we remain confident in our relatively subdued long term view of these businesses and the resulting underweight position.

While recent performance has been very disappointing, the fundamental performance of our portfolio holdings remains strong, and in most cases has continued improving. Which is not to say that its pro-cyclical tilt is impervious to broader economic weakness, but our experience is that it is better to own businesses that can outperform across cycles rather than guess at short term economic developments. This differentiated perspective and positioning has worked against the portfolio's performance recently, but these unique views have also been the source of significant longer term historical outperformance. Our experience is that patience and steadfast focus is generally rewarded over time.

Sources: APX, Bloomberg, CNBC, The Economist, FactSet, The New York Times, The Wall Street Journal

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