



All Cap Value Equity

Overview

Equity indices staged a remarkable comeback in the second quarter following last quarter's quickest-ever bear market descent. Posting their best quarterly return since 1998, U.S. stocks shrugged off the continued spread of the coronavirus, dismal real-time economic data, and nationwide civil unrest sparked by the death of George Floyd. Buoyed by massive government stimulus, the hope for a COVID-19 vaccine, and indications of sequential economic improvement, value stocks performed well on an absolute basis, with the Russell 3000® Value Index (RAV) returning 14.55%, but they again lagged their growth counterparts. Perhaps not surprisingly, this quarter was often a story of reversals, with many stocks and sectors hardest hit in the first quarter performing best in Q2, while the strongest performers in Q1 often advanced the least in the second quarter.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy returned 21.68% gross of fees (21.49% net of fees), significantly outperforming the benchmark and offsetting some of its underperformance during the first quarter. Both stock selection and allocation effect were additive, with stock selection generating the majority of the portfolio's excess return. Stock selection effect was strongest within Industrials and Consumer Discretionary – sectors which posed the biggest headwinds in the first quarter – as some of the worst performing stocks during the March downdraft such as Winnebago and Colfax recovered strongly. Stock selection effect within Health Care and Information Technology was also additive. Negative selection results were concentrated in Materials and Communication Services.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Winnebago	3.9	140.7	360	Hexcel	0.1	-15.9	-31
Colfax	2.6	40.9	108	Wells Fargo	1.8	-9.0	-21
Arrow Electronics	3.2	32.4	105	Alleghany	1.5	-11.4	-21
PGT Innovations	1.5	86.9	103	Carnival	0.1	-5.7	-12
Whirlpool	2.0	52.6	93	IAA	0.2	-4.9	-7

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 recovered forcefully from its first quarter lows due to surging retail demand for recreational vehicles as consumers sought out open-air, domestic vacation alternatives in the face of COVID-19 related travel restrictions and transmission fears. These purchases by first-time RV consumers should augment WGO's already strong market share momentum.

Colfax (CFX), an acquisitive conglomerate with strong welding and orthopedic franchises, was the second-largest contributor. After the stock underperformed during the first quarter, investors were pleasantly surprised to find that CFX's results prior to the emergence of COVID-19 were stronger than expected. Management also assuaged investor concerns over a potential debt covenant issue by amending their revolver at a minimal cost.

Arrow Electronics (ARW), a solutions provider for users of electronic components and enterprise computing, was the third-largest contributor. The stock bounced back after poor first quarter performance as investors became increasingly comfortable with the demand outlook and the company's ability to generate strong cash flows.

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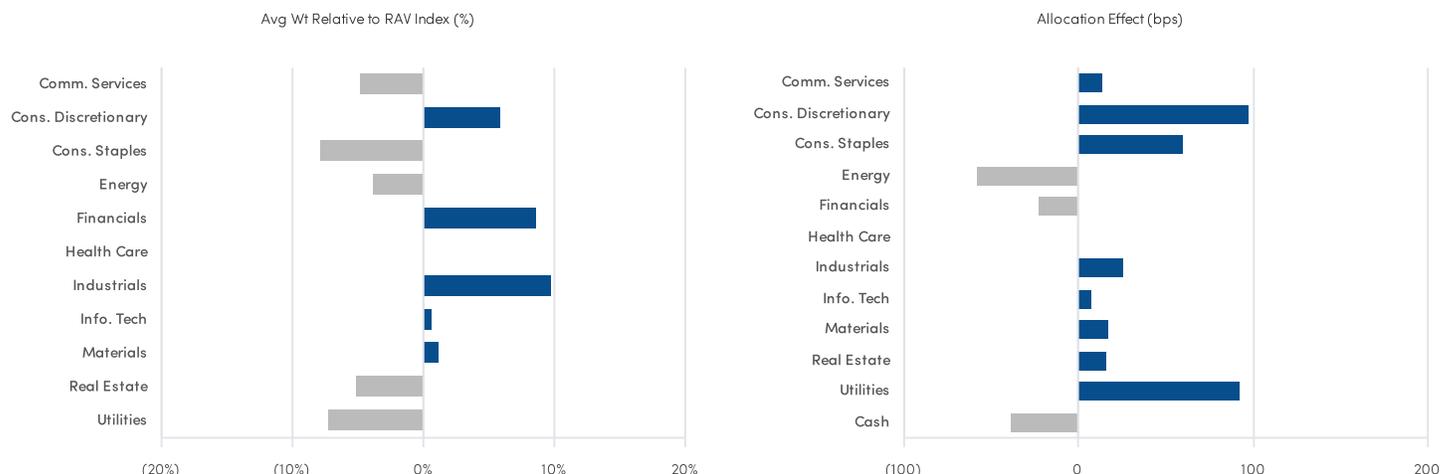
Largest Detractors

Hexcel (HXL), a global leader in designing and manufacturing advanced composites, was the largest detractor. The stock was eliminated early in the quarter to make room for better opportunities.

Wells Fargo (WFC), a leading financial services provider with strong deposit and credit culture, was the second-largest detractor. The stock suffered as COVID-19 delayed the company's expense reduction efforts. Regulatory and political backlash have also hindered these improvement efforts. Nonetheless, we continue to believe in the company's potential upside.

Alleghany (Y), a diversified insurance and reinsurance company, was the third-largest detractor. The underfollowed insurer was left behind by the strong market rally despite the lack of any negative fundamental news. Having initiated Y late in the first quarter, we used the weakness to build out the position.

Sector Positioning



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 sector return relative to the Russell 3000® Value Index. Please see additional performance disclosures at the end of this document.

Sector allocation effect was positive in the majority of economic sectors and accounted for approximately 30% of the portfolio's excess return in the second quarter. Key drivers included the portfolio's overweight to Consumer Discretionary – the best performing sector within the benchmark – and an underweight to Utilities – the worst performing sector within the benchmark. The portfolio's underweight in Energy posed a modest headwind in the quarter as benchmark constituents rebounded from their first quarter lows, but the sector remains the biggest laggard year to date.

Initiations

IAA (IAA) owns and operates a leading marketplace for the sellers of total loss, damaged, and low value vehicles, with approximately 80% of sales volume coming from insurance companies. The company has about 200 sites across the U.S., Canada, and the U.K., many close to major population centers. These sites provide a broad facility footprint that improves pick-up, storage, titling, and turnaround to an eventual online sale to a highly fragmented group of diverse and global buyers. IAA has strong market share in the consolidated and secularly growing North American salvage auction industry. The company's competitive advantages (scale, relationships, network effect, technology, well-located sites, and processing and logistics expertise), in combination with execution of credible margin expansion opportunities, should lead to attractive incremental returns on capital and strong free cash flow generation.

Woodward (WWD) engineers, produces, and supports energy and motion control systems for commercial and defense aircraft systems and engines, various industrial turbines and engines, and other related applications for leading global manufacturers. WWD's technology, long-term customer partnerships, and aftermarket support lead to solutions that generally improve performance and reduce emissions for customers' end products, often requiring strict regulatory certification. The company's long-term prospects are insulated from economic shocks by significant exposure to defense and more recurring aftermarket sales, along with a conservative balance sheet.



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Eliminations

Carnival Cruise Lines (CCL) was eliminated as the cessation of all sailings due to COVID-19 caused the stock to become unanalyzable.

Hexcel (HXL) was eliminated to make room for better opportunities.

Outlook

The market's resilience in the midst of unimaginable circumstances has been no less than miraculous. Just three months ago we warned against reflexively seeking safety. Now, with stock prices nearly back to pre-pandemic levels and many valuations at historic highs, we worry investors are being cavalier about still elevated economic, political, and social uncertainties. This quick and sharp reversal reflects the fickle, unpredictable nature of investors' impulses. We recognize sentiment often moves markets in the short term, but sentiment-driven strategies transform investing into a game of chance. We also know that fundamentals ultimately drive stock prices and that companies with sustainable, favorable underlying economics are positioned to drive long-term outperformance. So, as always, we remain intently focused on long-term fundamental investing. Given current circumstances, we are evaluating the portfolio's existing and prospective holdings through the lens of two critical questions: does the company have the near-term financial wherewithal and liquidity to endure a prolonged economic downturn, and is the business positioned to thrive in the post-COVID world. We are confident the portfolio is composed of companies well positioned to survive the downturn and ultimately succeed. The market recently began to recognize these characteristics after largely ignoring them during the February/March meltdown, but there appears to be further upside based on the portfolio's meaningfully discounted valuation.

Sources: APX, Bloomberg, FactSet, Forbes, Financial Times, MarketWatch

Past performance is not indicative of future results. 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 6/30/20. The portfolio attribution is gross of fees. 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.

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