COOKE & BIELER

Q2 2021

All Cap Value Equity

Overview

U.S. equity markets advanced for the fifth consecutive quarter, posting solid gains in the second quarter led by large cap stocks. Though all major indices were up, underlying return composition diverged wildly across style and size. Among small cap stocks, value slightly outperformed growth, while at the other end of the spectrum large cap growth and mid cap growth handily topped value. Across large and mid, the lowest quality companies underperformed. That trend was very different in the small cap value category, where many of the same drivers witnessed early in the year reemerged in late April and non-earning, low sales growth companies dominated the Index return.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy lagged the benchmark in the second quarter, returning 3.81% gross of fees (3.62% net of fees) against a 5.16% return for the Russell 3000® Value Index. Sector allocation and stock selection both detracted from relative performance, though most of the portfolio's underperformance was due to stock selection. Weakness in the portfolio's Industrials holdings generated the vast majority of the negative selection effect, mainly due to underperformance by AerCap, American Woodmark, and BWX Technologies. Materials holdings also weighed on results, predominantly driven by Schweitzer-Mauduit, which was the largest overall detractor following a strong showing in Q1. The portfolio's Information Technology holdings were a partial positive offset, with particularly strong performance coming from Amdocs and Arrow Electronics. Financials and Consumer Staples stocks were also additive to relative results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Gildan Activewear	2.8	20.9	54
Brookfield Asset Mgmt.	3.1	15.7	44
FirstCash	2.3	16.9	33
Synchrony Financial	1.5	19.9	31
Syneos Health	1.7	18.0	29

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Schweitzer-Mauduit	2.4	-16.7	-42
AerCap	3.0	-12.8	-38
Winnebago	3.4	-11.1	-35
American Woodmark	1.8	-17.1	-33
BWX Technologies	1.8	-11.6	-21

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

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the largest contributor. GIL has seen demand for its imprintable garments rebound as the economy reopens and group events return. Additionally, the company's cost control efforts have structurally improved its margin profile and should increase normal earnings power once demand has fully recovered.

Brookfield Asset Management (BAM), a global investor, operator, and manager of real assets, was the second-largest contributor. BAM recovered from underperformance in earlier quarters caused by concerns about the company's real estate portfolio, which is notably exposed to office and retail assets. We believe that these concerns, while not insignificant, were overemphasized. Other parts of BAM's business, such as its renewables, infrastructure, private equity, and credit business lines appear to be performing well fundamentally while BAM also expands to new asset classes – such as transition funds, reinsurance, and secondaries – that could become meaningful drivers of future growth.

FirstCash (FCFS), the largest pawn shop operator in North America and Mexico, was the third-largest contributor. FCFS recovered from underperformance earlier in the year. The company's pawn loan business showed signs of stabilization as government stimulus payments continued to flow through the system and consumer liquidity began to normalize. Their retail merchandise business continues to generate strong margins, benefiting from healthy customer demand as well as reduced competition due to supply chain disruptions and retail closures.

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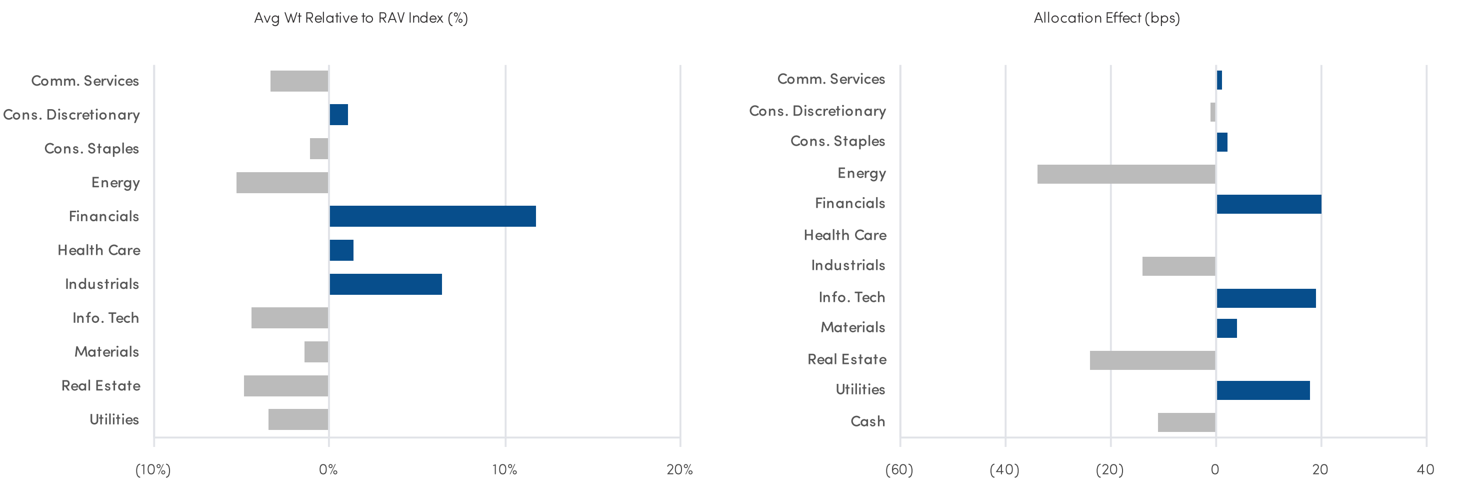
Largest Detractors

Schweitzer-Mauduit (SWM), an engineered papers and advanced materials manufacturer, was the largest detractor. SWM navigated the pandemic well thanks to its diverse mix of products spanning tobacco, industrial, and medical end markets, managing to grow earnings power on an organic basis and complete a well received, transformative acquisition. Recent raw material inflation has created some near-term uncertainty in the company's margin outlook, but we believe its long-term prospects remain favorable.

AerCap (AER), the largest independent aircraft lessor, was the second-largest detractor. AER gave back some of its post-pandemic gains amid concerns global air travel would be slow to recover as the pandemic continues to rage in much of the world.

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the third-largest detractor. WGO has continued to perform well on a fundamental basis by winning shares in the towables market segment, improving margins in its motorized division, and expanding its long-term profit potential. However, the stock suffered due to investor concerns that near-term demand will soften as COVID-related comparisons become more difficult over the next few quarters.

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.

Overall sector allocation effect was slightly negative, though it was additive in six of the 11 sectors. An underweight to the highly volatile Energy sector detracted most, as Energy posted the highest return of all benchmark sectors for both the quarter and the year-to-date periods. Similarly, an underweight to the second-best performing benchmark sector, Real Estate, was the next largest drag on relative results. The portfolio's overweight to Financials as well as underweight to Information Technology and Utilities were the most notable contributors.

Initiations

Activision Blizzard (ATVI) is a video game developer and publisher comprised of three reportable segments: Activision, Blizzard, and King. Video games are increasingly mainstream, with new gamers aging in but old gamers only partially aging out. Additionally, gaming's share of leisure time continues to grow. Among the large publishers, ATVI stands out for relying on owned intellectual property to generate revenues. Concerns over developer turnover in its key Overwatch franchise gave us the opportunity to purchase.

Hill-Rom Holdings (HRC) is a leading provider of smart hospital beds, patient assessment and monitoring devices, caregiver collaboration tools, and advanced operating room equipment. HRC's strategy is to innovate around leading products to enable earlier diagnosis, accelerate patient recovery, and optimize surgical efficiency while simplifying clinical communication. Management's proven ability to execute on this strategy to generate consistent double-digit earnings growth should become more evident as the pandemic fades.

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Eliminations

Amdocs (DOX), **Hanesbrands (HBI)**, and **UnitedHealth Group (UNH)** were eliminated to make room for better opportunities.

Outlook

Only a little more than a year ago the global pandemic was raging, the U.S. economy was locked down in deep recession, and the stock market was in free fall. Today, the pandemic is receding quickly in the U.S., the economy is growing at or near unprecedented rates, and the stock market is hitting new highs. Though relieved to be comfortably removed from last year's tumult, we are vigilant by nature and worry that the market has come too far, too fast. We see clear signs of speculation, including very tight high yield spreads, scores of companies going public conventionally and via SPACs, and numerous cases of nonsensical price movements spurred by internet rumors. Surging earnings growth has fueled the optimism, but as the economy laps the worst of the downturn, growth off normalized levels will be more challenging and valuations are stretched in many cases. We see a more trying investing environment going forward – one characterized by greater volatility, more modest and dispersed returns, and driven more by fundamentals than by sentiment.

Our long term, fundamental approach has tended to thrive in similar environments. A year ago, the portfolio favored stocks of financially strong, well-positioned companies that were negatively affected by the initial fallout of the pandemic as investors fled these businesses in favor of perceived safe havens. Today, many of these safe haven businesses have been left behind in the enthusiasm for the recovery. Some of them have solid long-term growth profiles and on the margin, we are identifying opportunities among this set, positioning the portfolio in reasonably priced companies poised to compound earnings power at attractive rates, with less economic sensitivity than a year ago. We believe the combination of advantaged business economics and discounted valuations creates both upside in an advancing market and downside protection in a challenging one.

Sources: Advent Portfolio Exchange, Barrons, Bloomberg, FactSet, MarketWatch, Morningstar, Reuters, Stock Analysis

Additional Cooke & Bieler All Cap Value Performance Disclosures