COOKE & BIELER

Q3 2020

All Cap Value Equity

Overview

U.S. equity markets continued higher in the third quarter on the heels of further government stimulus, improving economic data, encouraging readouts from COVID-19 vaccine trials, and better clinical outcomes for COVID-19 patients. Though the trend reversed in September, growth stocks again led the charge, with the Russell 3000® Growth Index up 12.86% for the three-month period versus 5.42% for the Russell 3000® Value Index. Within the value universe mid cap stocks once again fared best, narrowing the lead amassed by their large cap peers during the Q1 market decline. Given continued resilience in consumer spending and increasing evidence of economic recovery, the generally broad-based market advance included particular strength among Consumer Discretionary and other economically sensitive constituents, though Energy stocks declined meaningfully in the face of persistently low oil prices.

Portfolio Performance & Developments

After a rough start to 2020, Cooke & Bieler's All Cap Value Strategy returned 6.24% gross of fees (6.05% net of fees), outperforming the Russell 3000® Value Index and recouping some of the ground lost in the first quarter. Allocation effect was positive while stock selection modestly detracted from results. The portfolio's Consumer Discretionary and Materials holdings detracted most, with a number of Q2 standouts including Winnebago and Schweitzer-Mauduit surrendering some of their second quarter strength. The strategy's Information Technology holdings were a bright spot, returning 12% against a slight decline among their benchmark counterparts. Financials and Health Care holdings also contributed to relative results and helped to offset some of the overall negative performance.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
UPS	2.4	50.8	113
Whirlpool	2.5	42.9	88
TE Connectivity	2.7	20.5	53
IAA	1.8	35.0	51
Gildan Activewear	2.2	27.0	51

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Winnebago	3.7	-22.3	-93
AerCap	2.1	-18.2	-41
Exxon Mobil	1.1	-21.7	-26
Steelcase	1.2	-15.4	-23
Schweitzer-Mauduit	2.4	-7.8	-18

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

United Parcel Service (UPS), the world's leading parcel delivery service, was the largest contributor. UPS reported strong results as the pandemic boosted demand for e-commerce shipments. Additionally, Carol Tome, the company's new CEO, impressed investors with her focus on pricing and profitability.

Whirlpool (WHR), a global manufacturer and marketer of home appliances, was the second-largest contributor. WHR executed solidly against a difficult backdrop, posting strong margin performance in North America and offering encouraging commentary on future profitability in its European segment. Strong overall housing and home improvement trends also benefitted share price performance in the quarter.

TE Connectivity (TEL), a manufacturer of highly engineered connectors and sensors, was the third-largest contributor. Investors grew more optimistic on the stock as the commercial truck market and automotive end market began to recover from the damage inflicted by the pandemic earlier this year.

All Cap Value Equity

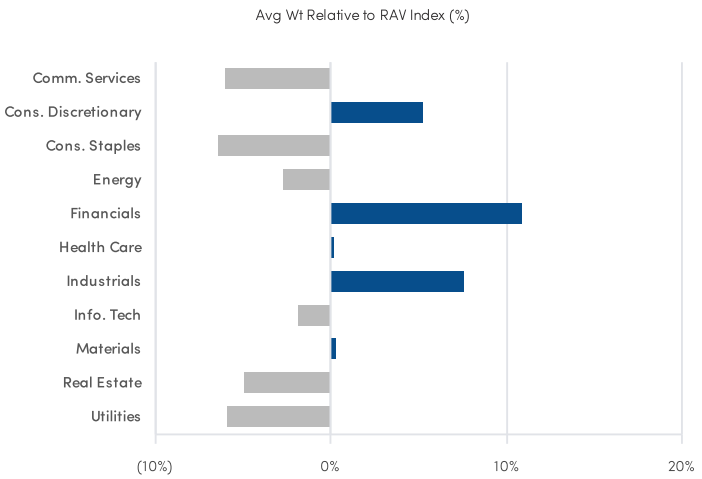
Largest Detractors

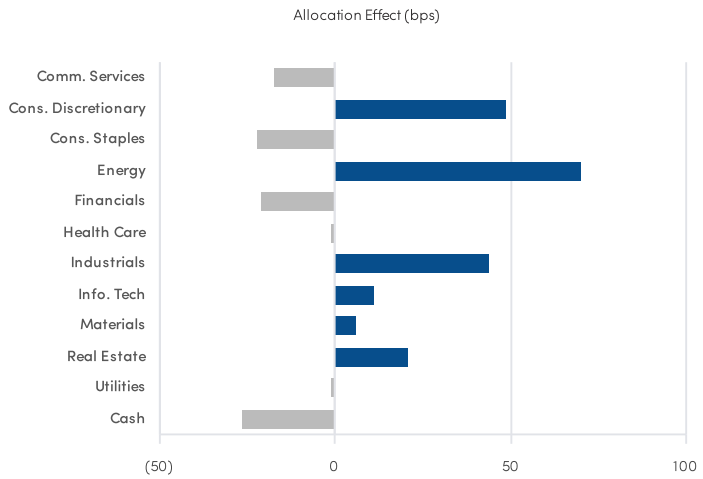
Winnebago (WGO), a leading manufacturer of recreational vehicles, was the largest detractor. WGO relinquished some of its strong second quarter price performance as investors questioned the sustainability of recent RV market strength. While near-term demand is clearly benefitting from COVID-related tailwinds, industry volumes remain well below previous peaks and Winnebago continues to win market share from larger peers.

AerCap (AER), the largest independent aircraft lessor, was the second-largest detractor. AER lagged the market as investors remain concerned about the pandemic's impact on air traffic and demand for aircraft. While the company's airline customers are clearly suffering, we believe AER's fleet of young aircraft will be in demand for years to come and that AER has the financial flexibility to weather the current difficulties.

Exxon Mobil (XOM), a leading global integrated oil and gas company, was the third-largest detractor. XOM suffered primarily from the global decline in energy prices. A dim outlook for global jet fuel demand and the company's challenged cash flow profile also contributed to the stock's poor performance.

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 additive to relative performance. The portfolio's underweight to Energy contributed meaningfully, as the sector posted by far the worst return within the benchmark. Energy has been incredibly volatile this year – having been the worst performing sector in Q1, one of the best in Q2, and again the worst in Q3 – and remains the market's weakest sector YTD. Also adding to the portfolio's relative results were the overweight to Consumer Discretionary and Industrials as well as the underweight to Real Estate. Offsetting some of this positive impact were the portfolio's underweight to Consumer Staples and Communication Services and an overweight to Financials.

Initiations

BWX Technologies (BWXT) owns and operates the only two commercial Category 1 NRC-licensed manufacturing facilities in the U.S., making the company an indispensable supplier of naval nuclear reactors needed for submarines and aircraft carriers, which are integral parts of the U.S. Navy's highly visible, long-term ship build plan. This positioning should continue to lead to a steady stream of cash flows that we expect management to ably deploy in a balanced fashion – re-investing capital to sustain its critical core offering, returning capital to shareholders, and investing in adjacent growth opportunities.

Eliminations

Axalta Coating Systems (AXTA) and **Gates Industrial (GTES)** were eliminated to make room for better opportunities.

All Cap Value Equity

Outlook

We remain generally constructive on the investing environment. The U.S. economy is exiting a recession and we expect the nascent recovery to persist as people slowly return to many pre-COVID routines, driven by human nature and emboldened by improving therapies and eventually vaccines. This process likely will not be linear, and we expect market volatility along the way, but highly accommodative fiscal and monetary policy should provide continuing support. Offsetting the improving fundamental backdrop to some degree are very high expectations embedded in valuations in parts of the market. As the economy normalizes, we expect investors will better appreciate the enormous valuation disparity between the stocks of companies that have benefitted from the pandemic and those that have been negatively impacted. We have selectively favored the latter group, emphasizing reasonably valued stocks of the best positioned, financially strong companies that possess both staying power and latent fundamental improvement potential. We expect the portfolio to perform well as underlying fundamentals progress and these characteristics are better recognized.

Sources: American College of Cardiology, APX, Axios, Bloomberg, FactSet, Forbes, NIH

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 9/30/20. 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.

Additional Cooke & Bieler All Cap Value Performance Disclosures