



# All Cap Value Equity

## Overview

Following a breakneck advance through the first half of the year, U.S. equity indices turned in mixed results for the third quarter. The market's tone shifted noticeably in September when investors faced increasing evidence that supply chain disruptions, rising input cost inflation, and labor shortages might negatively impact the near-term trajectory of the economic recovery. Presumably better equipped to handle such vagaries, large cap stocks generally outperformed smaller cap issues. Returns across styles, factors, and sectors were muddled. Growth outperformed value up the market cap spectrum while the opposite was true among small cap stocks. Notably, one consistent trend was Financials sector outperformance, largely driven by bank stocks.

## Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy outperformed the benchmark in the third quarter, returning -0.44% gross of fees (-0.63% net of fees) against a -0.93% return for the Russell 3000® Value Index. Sector allocation and stock selection were both additive to relative performance. Health Care and Consumer Discretionary holdings were the biggest tailwinds to results, led by particularly strong contributors Hill-Rom, HCA Healthcare, and Winnebago. Information Technology holdings were also positive performers overall. Conversely, Communication Services, Industrials, and Materials holdings detracted from results during the quarter.

## Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Hill-Rom	1.8	31.6	65	Activision Blizzard	2.3	-18.9	-47
HCA Healthcare	2.0	17.6	36	American Woodmark	1.6	-20.0	-35
AerCap	2.8	12.9	34	PGT Innovations	1.8	-17.8	-33
FirstCash	2.6	14.9	34	Schweitzer-Mauduit	2.0	-13.1	-28
Chubb	2.4	9.6	22	United Parcel Service	1.3	-12.0	-17

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

**Hill-Rom (HRC)**, a provider of hospital beds and patient monitoring devices, was the largest contributor. Baxter International recently made an attractive all-cash offer to acquire the company.

**HCA Healthcare (HCA)**, a health care services company, was the second-largest contributor. The company's earnings have surged this year as utilization has recovered and costs have been well managed.

**AerCap (AER)**, the largest independent aircraft lessor, was the third-largest contributor. Global air travel entered the early stages of a recovery and investors began to appreciate the stability of the aircraft leasing business model. Additionally, the company's opportunistic acquisition of General Electric's aircraft leasing business highlighted management's astute capital management and the long-term potential for the business.





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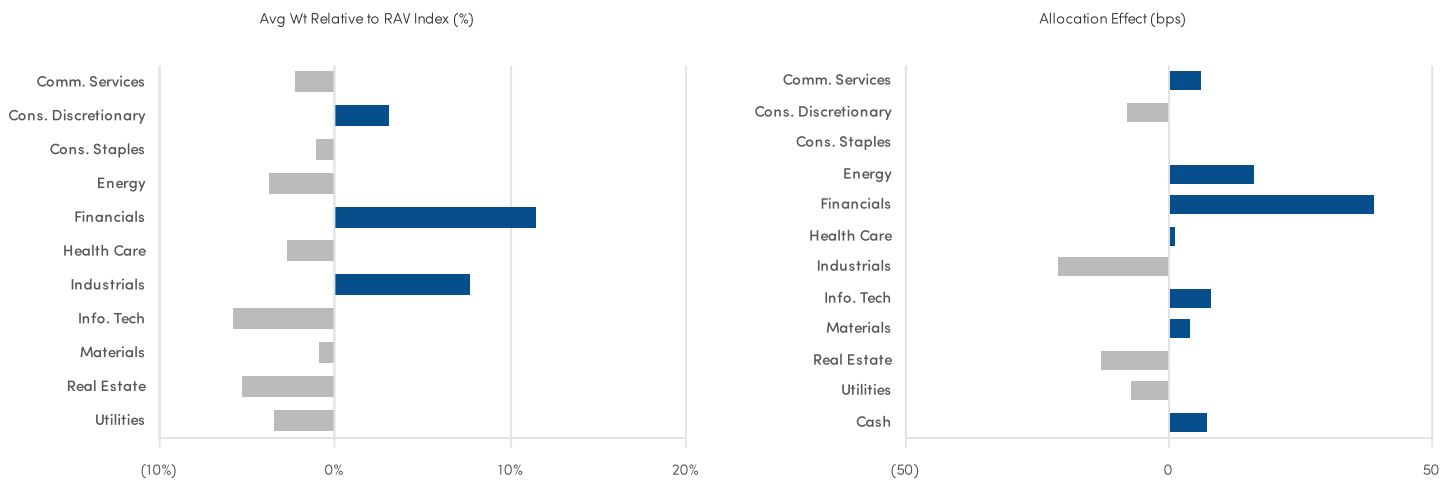
## Largest Detractors

**Activision Blizzard (ATVI)**, a video game developer and publisher, was the largest detractor. ATVI suffered from concerns that negative workplace culture allegations would lead to persistent turnover in the company’s creative talent pool, diminishing the quality of upcoming games.

**American Woodmark (AMWD)**, a leading kitchen and bath cabinet manufacturer with a focus on value price points, was the second-largest detractor. AMWD has continued to benefit on the topline from strong U.S. housing and renovation demand. However, demand is outstripping throughput and the company’s backlog is growing. In the meantime, rising input costs have pressured margins despite a series of price increases. Management is now more aggressively pursuing pricing on backlogged orders and margins should eventually normalize, especially given a pullback in lumber prices. Longer-term, AMWD’s focus on entry-level cabinetry will benefit its competitive position as housing affordability shapes the profile of consumer demand over time.

**PGT Innovations (PGTI)**, a leading manufacturer of laminated, impact-resistant residential windows, was the third-largest detractor. PGTI has experienced further strength in demand for its impact windows in the core Florida market and a recovery in its Western division. As is the case for many building products companies in the current environment, raw material and labor inflation are outpacing manufacturer pricing efforts. Margins have suffered temporarily, but should recover in the intermediate term, while the long term secular growth profiles of the Florida housing market and impact window category remain favorable.

## 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 during the third quarter. The portfolio’s overweight to Financials was a particular positive standout, as it was the best performing sector in the Index. Also contributing to relative performance were underweight positions in Energy, Information Technology, and Communication Services, sectors that all underperformed the broader benchmark. Conversely, the overweight to Industrials and Consumer Discretionary sectors, which seemed to be particularly exposed to supply chain issues, detracted from results. The strategy’s underweight to Real Estate and Utilities, sectors that outperformed the broader benchmark, also posed a headwind.

## Initiations

**Williams Companies (WMB)** is a gas infrastructure company providing natural gas gathering, processing, and transmission services, as well as natural gas liquids fractionation, transportation, and storage services. WMB owns an interest in and operates over 30,000 miles of pipelines, including Transco, the nation’s largest natural gas transmission pipeline. The company’s interstate pipeline assets are a significant source of competitive advantage given the high levels of capital expenditure and permits required to create competing assets. The company generates adequate free cash flow to cover its high dividend yield and management is intently focused on improving overall return on capital.





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## Eliminations

**Hill-Rom (HRC)** reached our price target and was eliminated.

**Synchrony Financial (SYF)** was eliminated to make room for better opportunities.

## Outlook

Having spent the last year pricing in an economic recovery propelled by re-opening and massive fiscal and monetary stimulus, markets are now grappling with the shape of the post-pandemic landscape. In particular, the question of whether current rates of inflation are transitory – caused by temporary supply chain disruptions – or if they reflect deeper structural issues, has increasingly dominated investors' thinking.

The prospect of persistent inflation raises questions markets have not faced in decades and, absent a ready playbook, the markets are likely to react strongly to suggestive data points and become even more volatile. Elevated valuations and Washington's characteristically chaotic approach to policy making further enhance the possibility of a bumpy ride. Faced with this uncertainty, our focus remains on using short-term volatility to acquire attractively-valued businesses that have the balance sheets to weather short-term supply disruptions and the competitive positions to prosper in a more difficult inflationary environment. While this approach does not yield results in every quarter, it has been key to the strategy's long-term success.

Sources: APX, Bloomberg, CNBC, CNN, FactSet, Nasdaq

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