



# All Cap Value Equity

## Overview

U.S. equity markets ended 2020 on a very strong note, with a fourth quarter advance powerful enough to propel all major indices to positive annual results. Bookending a year that started with their steepest decline on record, small capitalization value stocks roared ahead, posting their best quarter ever in Q4 and beating large cap value issues on a full-year basis for the first time since 2016. Investors began to price in a global reopening as vaccine candidates received approval and began their slow rollout. Against this backdrop, value led the charge in the final three-month stretch, showing strong signs of life. However, its resuscitation was not enough to offset the substantial lead growth built during the height of pandemic-related economic shutdowns. For the full year, growth beat value by the widest margin since 1999, sustaining its incredible 14-year reign.

## Portfolio Performance & Developments

As the tumultuous year of 2020 came to an end, Cooke & Bieler's All Cap Value Strategy outperformed the Russell 3000® Value Index for the quarter, returning 22.39% gross of fees (22.20% net of fees) against the benchmark's 17.21%. Stock selection effect and allocation effect were both broadly positive. Stock selection was strongest in the Health Care sector, led by standout performers Integra LifeSciences and HCA Healthcare. Industrials, Information Technology, and Materials holdings also contributed to positive relative results. Financials and Communication Services holdings were the only detractors from relative results, though the sectors still performed well on an absolute basis. The portfolio's strong fourth quarter showing put it solidly ahead of the benchmark for the year, with absolute performance also moving into positive territory. Diligent scrubbing and review of all holdings when the COVID-19 crisis emerged, as well as re-underwriting the portfolio throughout this unpredictable year, helped achieve these results.

## Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	2.3	80.9	146	Hanesbrands	1.4	-6.3	-13
Charles Schwab	2.9	47.0	127	Verizon	2.2	-0.2	0
Chubb	3.0	33.2	104	United Parcel Service	1.5	1.7	2
Gildan Activewear	2.7	42.4	101	Fidelity Nat'l. Financial	0.0	1.9	2
Arrow Electronics	3.4	23.7	81	Progressive	1.6	4.6	8

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

**AerCap (AER)**, the largest independent aircraft lessor, was the largest contributor. AER benefited from increasing investor optimism regarding COVID-19 vaccines and an end to the pandemic. Though AER's airline customers continue to suffer through record declines in passenger traffic, the company's cash collections and overall liquidity improved during the quarter.

**Charles Schwab (SCHW)**, a leading provider of investment services to individuals and independent investment advisors, was the second-largest contributor. SCHW reported better than expected results as the integration of recently-acquired Ameritrade appeared to be proceeding smoothly. Since SCHW earns most of its profits from customer cash deposits, it also stands to benefit should interest rates rise as the economy exits the pandemic-induced recession.

**Chubb (CB)**, a leading global property and casualty insurer, was the third-largest contributor. A laggard in the previous quarter, CB stock recovered as it reported solid quarterly results and management showed continued optimism for an improving underwriting environment.





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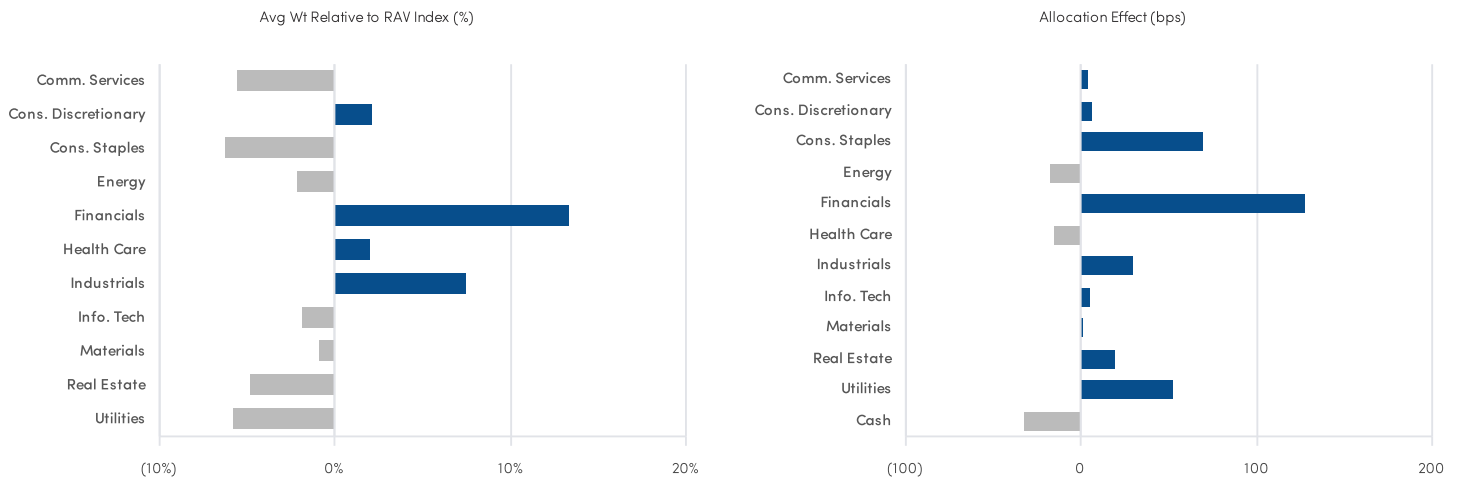
## Largest Detractors

**Hanesbrands (HBI)**, a manufacturer and marketer of basic apparel products, was the largest detractor. HBI suffered from investor concerns that its new CEO, Stephen Bratspies, would reset the company's short-term margins expectations.

**Verizon Communications (VZ)**, a leading domestic wireless telecom company, was the second-largest detractor. An outperformer earlier in the year, VZ lagged a strong up market in the fourth quarter as investors sought more cyclically exposed names. Concerns over the company's spending on spectrum in FCC auctions also weighed on share prices late in the year.

**United Parcel Service (UPS)**, the world's leading parcel delivery service, was the third-largest detractor. Having outperformed in the prior quarter, UPS lagged a strong market in the fourth quarter as investors worried that the company would not be able to meet newly-elevated margin expectations during the peak holiday season.

## Sector Positioning



Source: FactSet  
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Sector allocation effect was broadly positive for the quarter, with the majority of sectors contributing to the strategy's outperformance. The portfolio's overweight to Financials, which was one of the benchmark's best performing sectors, was an outsized driver. An underweight in Consumer Staples – the worst performing sector – and underweight in Utilities – the second worst performing sector – also benefited relative results. The portfolio's Energy underweight was a detractor – the sector posted the strongest performance in Q4, but remained the weakest performer for the year. The overweight to Health Care also had a negative effect on the portfolio.





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## Initiations

**Allstate (ALL)** is a property & casualty insurer with a strong presence in the personal home and auto markets. ALL has a valuable brand, profitable underwriting, good customer service infrastructure, and a history of returning its excess cash flow to shareholders. Its underwriting margins have been above the industry average for the past few years as it has focused more on profitability than market share. ALL's diverse product lines and coverage options, which are underwritten at good margins with low expense ratios, make the company an attractive holding.

**FirstCash (FCFS)** is the largest operator of pawn shops in North America. Pawn lending provides an important source of secured credit to cash-constrained consumers without the potential for debt spirals, negative credit score impacts, or abusive collection practices common in some other forms of non-bank credit. The company's results were negatively affected by the pandemic as their target consumer reduced spending and government stimulus actions provided other sources of liquidity, allowing us to initiate the position at an attractive valuation. FCFS's services remain essential to many consumers, management has a history of effective capital allocation, and the business continues to be solidly profitable and conservatively financed.

**Integra LifeSciences (IART)** is an acquisitive global medical technology company whose successful core tissue regeneration technology has helped fuel leadership positions in neurosurgery and advanced wound care markets. IART has a demonstrated track record of intelligent and well-integrated acquisitions and divestitures, most recently divesting its orthopedic hardware business and using proceeds to acquire ACell, a complementary tissue regeneration technology asset. Going forward, solid organic growth with a nice mix of stable and high growth end markets, improving gross margins, and some operating leverage should lead to strong operating cash flow at the same time capital spending and one-time investments related to its acquisition of Codman normalize lower.

## Eliminations

**Fidelity National Financial (FNF)** and **Whirlpool (WHR)** were eliminated to make room for better opportunities.

## Outlook

Looking ahead, the ongoing roll out of coronavirus vaccines, massive and continuing stimulus efforts, and the earnings recovery they will likely spark are all reasons for optimism. Valuation stands out as the main impediment to continued gains as this quarter's significant rally has left many parts of the market expensive by almost any measure. Moreover, 2020 provided a sharp reminder that the risks you do not see are often bigger than the risks you do, and the only protection is to focus on fundamentals – on owning businesses that can add value across economic environments and have the financial resilience to survive even severe shocks.

Our intense focus on fundamentals during a chaotic March and April – when in light of the changed world we re-underwrote every position in the portfolio – gave us the confidence to hold and add to the positions that benefited performance as the year unfolded. Today, the portfolio is overweight attractively-valued stocks of financially strong, well-positioned companies with some degree of economic sensitivity. We believe it is poised to benefit from a continued economic recovery, but also has the staying power to weather any unforeseen shocks.

Sources: Advent Portfolio Exchange, Associated Press, Bloomberg, CNBC, FactSet, Russell, U.S. Food and Drug Administration

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