COOKE & BIELER

Q1 2020

Concentrated Value Equity

Overview

The scale and speed of this quarter's equity market rout were unprecedented, marked by the fastest bear market descent in U.S. history. The wholesale selloff was staggering and unforeseen, but with no historical analog for the unfolding coronavirus pandemic and economic landscape, it was in many respects understandable. Volatility spiked meaningfully following a respite in 2019. Treasury yields plunged, growth again outperformed value, and larger capitalization issues beat their smaller counterparts. Against this backdrop, the Russell 3000® Value Index (RAV) declined by 27.32%, the worst quarterly result since its inception. Performance was broadly negative across Index constituents, ranging from bad in the Utilities and Consumer Staples sectors to atrocious in Energy, where freefalling demand converged with free-flowing supply.

Portfolio Performance & Developments

Following very strong absolute and relative performance throughout 2019, Cooke & Bieler's Concentrated Value Strategy returned -30.40% gross of fees (-30.61% net of fees), underperforming the benchmark for the quarter. Significantly negative stock selection results were only somewhat offset by the positive overall impact of sector allocations. Stock selection results were particularly weak in Industrials and Consumer Discretionary, where the portfolio had exposure to several travel-related businesses severely affected by COVID-19 and the world's response to it. Negative selection results in the Information Technology and Health Care sectors owed more to the absence of certain standout Index constituents than the performance of the portfolio's holdings themselves. The portfolio's Financials holdings were bright spots, significantly outperforming the benchmark in that sector. While the portfolio was hit hard on an absolute and relative basis this quarter, it has outperformed the benchmark over the 1 and 3-year periods.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Medtronic	0.9	7.5	40
Fidelity Nat'l. Financial	2.1	-1.3	8
Charles Schwab	1.4	-9.5	-22
HCA Healthcare	0.8	-11.5	-24
Intercont'l. Exchange	4.4	-12.4	-28

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	6.3	-62.9	-422
Gildan Activewear	5.5	-56.4	-352
Hexcel	4.7	-49.2	-255
Winnebago	4.9	-47.4	-234
Brookfield Asset Mgmt.	6.4	-23.2	-193

Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Concentrated 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 Concentrated 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

Medtronic (MDT), the world's largest pure-play medical device company, was the largest contributor. MDT rallied after declining precipitously in the face of growing uncertainty about its near-term earnings outlook.

Fidelity National Financial (FNF), the nation's leading title insurer, was the second-largest contributor. FNF performed well early in the quarter as investors believed low interest rates would fuel housing purchase and refinance transactions. The stock was subsequently eliminated to make room for better opportunities.

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the third-largest contributor. SCHW performed well on a relative basis as investors first warmed to their proposed merger with TD Ameritrade and then, as the pandemic impact roiled markets, gravitated toward SCHW's low-risk balance sheet and long-term share gaining algorithm.

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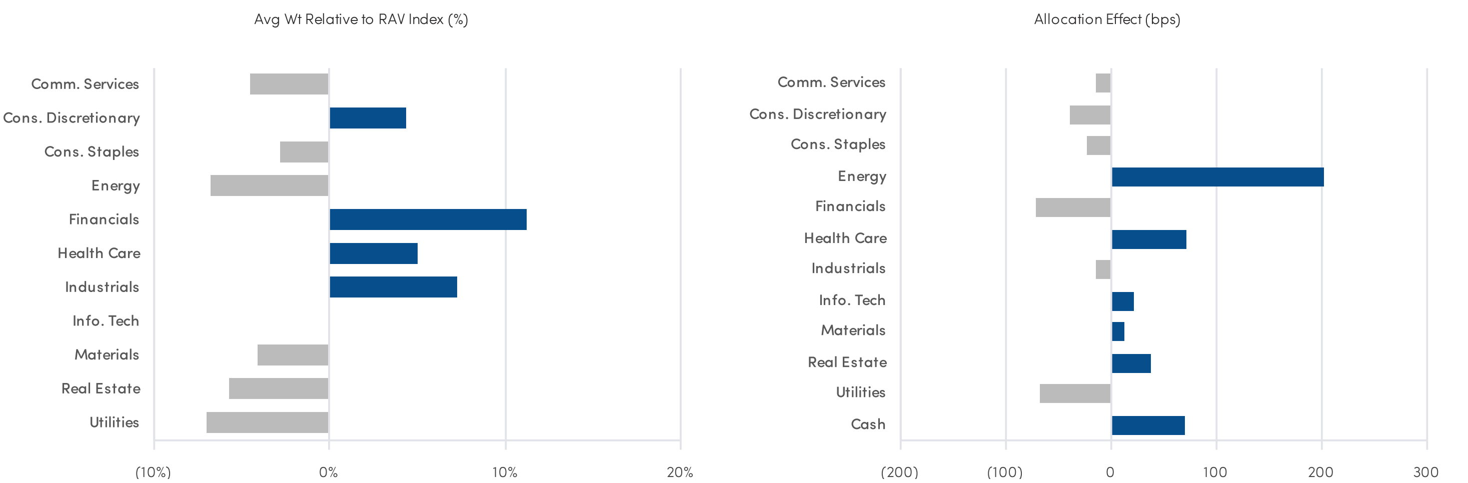
Largest Detractors

AerCap (AER)¸ the largest independent aircraft lessor, was the largest detractor. AER underperformed as its airline customers came under severe stress, with air travel grinding to a halt in the wake of the COVID-19 pandemic. AER is a secured creditor to airlines worldwide, with a young and attractive fleet whose planes should remain in strong demand in almost any airline scenario. Their conservative capital structure and ample funding flexibility give them the means to endure the current crisis and prosper on the other side.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the second-largest detractor. GIL saw an industrywide pullback in end-user demand for printwear products that has deteriorated further due to the impact of COVID-19. We believe GIL's conservative balance sheet will permit it to successfully weather this disruption.

Hexcel (HXL), a global leader in designing and manufacturing advanced composites, was the third-largest detractor. Uncertainty surrounding the length and depth of COVID-19 related production cuts of Airbus and Boeing led to a broad selloff of exposed aerospace suppliers, including HXL. Offsetting this uncertainty are HXL's increasing exposure to defense, conservative balance sheet, and strong management team.

Sector Positioning



Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Concentrated 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 was additive for the quarter, offsetting a portion of the portfolio's negative stock selection outcome. The portfolio's underweight to Energy was a significant tailwind as oil prices plummeted to $20 a barrel, the lowest level in 18 years. The portfolio's overweight to Health Care was also additive – with demand increasing for products such as hospital beds – as was an underweight to Real Estate. Conversely, the most notable headwinds were an overweight to Financials and an underweight to Utilities, a demand stable sector that significantly outperformed the broader benchmark amid fears of a deep recession. An overweight position in the Consumer Discretionary sector also hindered results.

Concentrated Value Equity

Initiations

Charles Schwab (SCHW) is a leading provider of investment services to individuals and independent investment advisors. With total client assets at year-end 2019 of $4 trillion, the company has roughly a 7% share of total retail assets in the United States. While lower interest rates and asset prices will depress Schwab's earnings in the near term, over time their strategy of driving growth through innovation and competitive pricing should allow them to compound shareholder value at an attractive rate.

Essent (ESNT) is a private mortgage insurer with a focus on managing credit risk, both through disciplined and granular underwriting on the front-end and the use of reinsurance on the back-end. As a relatively new entrant, ESNT benefits from an improved industry structure, including a new regulatory regime, new capital market solutions, and more rational competitors. These factors have led to improved industry economics for ESNT, resulting in a solid compounder with good downside protection through the credit cycle.

HCA Healthcare (HCA) is the largest and most profitable for-profit hospital management company in the United States. The company has unmatched scale and infrastructure, including comprehensive IT services and revenue cycle management capabilities, the country's second-largest group purchasing organization, nurse staffing agencies, and medical malpractice insurance operations. HCA facilities hold commanding market share positions, primarily in large metropolitan areas in the southeast and southwest. This gives HCA a favorable footprint in terms of utilization and demographic trends, laying the groundwork for sustainable above-average growth and profitability. In the near-term, operations and earnings will be negatively impacted by COVID-19, possibly meaningfully, but HCA's leverage, debt maturity schedule, and liquidity position provide substantial financial flexibility even in a dire scenario. The stock plummeted during the quarter, driving HCA's valuation to record lows.

Medtronic (MDT) is the world's largest pure-play medical devices company. Solid and steady revenue growth driven by its leading market share positions across many segments of a growing global industry, operating margin improvement opportunities, and improved free cash flow conversion should make MDT an attractive long-term value compounder. Uncertainty about the impact of COVID-19 on the business caused the stock to decline meaningfully during the quarter, creating an opportunity to invest at an attractive valuation. The company's scale, breadth, and financial strength give MDT great resiliency.

TE Connectivity (TEL) designs and manufactures connectors and sensor solutions for a diverse set of end markets, including automotive, commercial transportation, medical, and defense. Driven by the electronics and digital revolution, TEL should benefit from secularly increasing connector and sensor content. The company generates strong free cash flow and management has been disciplined with it, returning the majority to shareholders through dividends and buybacks.

Eliminations

Becton Dickinson (BDX), Fidelity National Financial (FNF), and **PGT Innovations (PGTI)** were eliminated to make room for better opportunities.

Outlook

Across the globe, the coronavirus pandemic has upended expectations of all types – personal, political, social, and economic – in an astoundingly short time. Government attempts to slow the spread of the virus have resulted in an unprecedented halt to economic activity, countered in part by equally unprecedented fiscal and monetary stimulus actions. What happens next will depend heavily on how quickly the disease is contained and vaccines or other effective therapies are developed. As long as the range of possible outcomes for both the disease and its economic impact remains wide, markets are likely to remain extremely volatile. However, now is not a time to reflexively seek safety, or to rush blindly to call a bottom in the market. Now is the time for careful, disciplined analysis to uncover opportunities in the turmoil.

Sources: APX, Bloomberg, CNN, FactSet, The New York Times, Reuters

Additional Cooke & Bieler Concentrated Value Performance Disclosures