Cooke & Bieler

Q1 2021

Concentrated Value Equity

Overview

U.S. equity markets continued to surge during the first quarter of 2021. Intensifying economic momentum, another enormous dose of fiscal stimulus, highly accommodative monetary policy, and expanding vaccine availability further fueled the market's appetite for risk. That appetite was voracious for the stocks of companies poised to benefit most from economic reopening and recovery, keeping small cap well ahead of the pack along with cyclical and financial issues. The resurgence of value stocks that began late last year also intensified, with value beating growth by the widest margin since Q1 2001.

Portfolio Performance & Developments

Cooke & Bieler's Concentrated Value Strategy returned 12.90% gross of fees (12.69% net of fees), outperforming the Russell 3000® Value Index, which returned 11.89%. Both sector allocation effect and stock selection effect were additive, but the majority of outperformance was courtesy of allocation effect. The portfolio's Health Care and Consumer Discretionary companies contributed most to relative performance, with especially strong returns from HCA Healthcare, Hanesbrands, and Winnebago. Industrials and Consumer Staples holdings were also a tailwind. Conversely, Financials, which represent the largest sector weight in the portfolio, detracted most – despite all except one holding posting positive absolute results. Information Technology holdings were also a slight headwind. Over the trailing twelve months, the strategy has recovered well post-pandemic, posting strong absolute performance and significantly outperforming the Index, with stock selection and sector allocation both contributing to relative results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Wells Fargo	5.3	29.9	156
AerCap	5.0	28.9	137
Hanesbrands	2.7	29.9	127
Charles Schwab	4.4	23.8	122
Winnebago	4.1	28.2	109

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Helen of Troy	0.9	-9.4	-45
IAA	1.3	-2.0	-6
Intercont'l. Exchange	1.5	-1.8	-6
Becton Dickinson	1.5	-1.3	-6
Medtronic	3.6	1.3	5

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

Wells Fargo (WFC), a leading financial services provider with strong deposit and credit cultures, was the largest contributor. Continued good credit results, higher interest rates, and strong progress on business restructuring measures were all significant tailwinds to performance in the quarter.

AerCap (AER), the largest independent aircraft lessor, was the second-largest contributor. AER benefited from increased optimism for a post-COVID travel rebound. Astute management and their status as a secured lender to airlines around the world allowed them to weather the pandemic without raising new capital and positioned them to acquire GE's aircraft and engine leasing business. This deal will make AER by far the largest aircraft lessor in the world and should enhance shareholder returns for years to come.

Hanesbrands (HBI), a manufacturer and marketer of basic apparel products, was the third-largest contributor. The company announced strong results for the quarter, especially in its innerwear segment.

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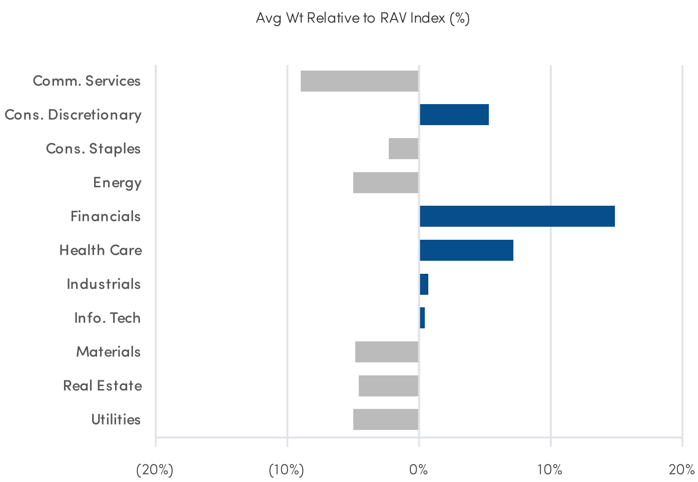
Largest Detractors

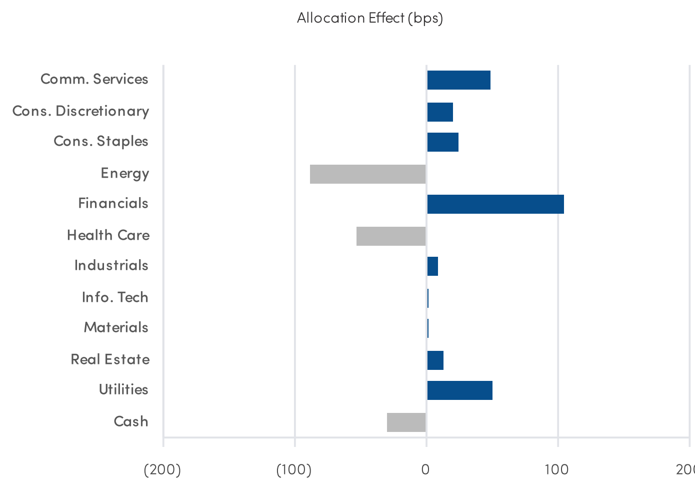
Helen of Troy (HELE), a diversified consumer and household products company, was the largest detractor. HELE was a net beneficiary of pandemic-driven demand, but its shares have lagged more recently as investors worried about difficult comparisons. However, the company's organic growth rate and margin profile should continue to benefit on a long-term basis thanks to meaningful investment in product innovation and shared services across segments. With a very conservative balance sheet, HELE is also in a good position to engage in opportunistic M&A activity and share repurchases.

IAA (IAA), an owner and operator of a leading auction marketplace for the sale of total loss, damaged, and low value vehicles, was the second-largest detractor. IAA underperformed as investors drove the stock's valuation down, potentially due to concern over the sustainability of recent elevated average selling prices, worry about short-term disruption related to winter storms in Texas, or disappointment that management did not provide guidance due to COVID-19 related uncertainty.

Intercontinental Exchange (ICE), a leading operator of financial exchanges and provider of financial data, was the third-largest detractor. ICE reported strong fourth quarter earnings but lagged a surging market as investors sought out companies likely to benefit more directly from economic reopening.

Sector Positioning





Source: FactSet
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Sector allocation effect was additive for the quarter, with the majority of sectors contributing to the strategy's relative performance. The portfolio's overweight in Financials, which outperformed the Index by a solid margin, was the most notable driver. The underweight to Utilities, Communication Services, and Consumer Staples was also additive, as those sectors lagged during the quarter's continued market exuberance. Partially offsetting these positive results, the portfolio's underweight in Energy was again a headwind given the sector's very strong performance during the quarter. The overweight to Health Care constituents was also a slight detractor.

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Initiations

Becton Dickinson (BDX) is a medical technology company which develops, manufactures, and sells medical devices and instruments used by a broad array of end customers. The company is a global market share leader across most of its product portfolio, with significant scale advantages in manufacturing, selling, distribution, and R&D. The majority of revenues derive from disposable devices. These qualities help the company generate dependable, recurring revenues, which we believe make it an attractive holding.

Helen of Troy (HELE) is a diversified consumer products company with leading positions across the beauty, housewares, and healthcare categories. Its owned and licensed brands include OXO, Hydro Flask, PUR, Hot Tools, Revlon, Honeywell, Vicks, and Braun. HELE's brands occupy leading positions in categories with attractive secular growth prospects and should see some lasting benefits from pandemic-related shifts in consumer behavior. The company's conservative balance sheet and strong free cash flow generation give it added flexibility.

IAA (IAA) owns and operates a leading marketplace for the sellers of total loss, damaged, and low value vehicles, with approximately 80% of sales volume coming from insurance companies. The company has about 200 sites across the U.S., Canada, and the U.K., many close to major population centers. These sites provide a broad facility footprint that improves pick-up, storage, titling, and turnaround to an eventual online sale to a highly fragmented group of diverse and global buyers. IAA has strong market share in the consolidated and secularly growing North American salvage auction industry. The company's competitive advantages (scale, relationships, network effect, technology, well-located sites, and processing and logistics expertise), in combination with execution of credible margin expansion opportunities, should lead to attractive incremental returns on capital and strong free cash flow generation.

Progressive (PGR) provides personal and commercial auto, homeowners, and other specialty insurance, mainly throughout the United States. The company sells its products and services through independent insurance agencies as well as directly to consumers online, on a mobile device, and over the phone.

Eliminations

Charles Schwab (SCHW), Hanesbrands (HBI), Integra LifeSciences (IART), and **Intercontinental Exchange (ICE)** were eliminated to make room for better opportunities.

Outlook

Markets are clearly forecasting a strong recovery fueled by pent up consumer demand and ongoing fiscal and monetary stimulus. However, with indices well above pre-pandemic levels, even a strong recovery may not be enough to sustain further gains. Though investors are prone to forget it in moments of enthusiasm, valuations matter – and large parts of the market are currently expensive even relative to optimistic assumptions. The most extreme examples of this disconnect are currently found among smaller capitalization stocks, where in some cases social media has driven waves of buying, willfully oblivious to any fundamental assessment of value. However, valuations are stretched among larger capitalization stocks as well, and at current prices we are quite sure many of these investments will turn out badly.

While markets are efficient over the long run, in the short term they are driven by human emotion and it is impossible to predict when fickle natured sentiment will turn. The wise investor must remain focused on business fundamentals and valuations. A year ago – in light of a once-a-century pandemic – we were working diligently to re-underwrite the portfolio, with a focus on companies' abilities to survive a severe and prolonged downturn. Today, our challenge is finding value in a market that has quickly forgotten about risk. Regardless of the market environment, the core features of our process and discipline remain consistent: exhaustive research to identify businesses that can compound value, insistence on conservative balance sheets that can withstand economic shocks, and a patient focus on buying businesses below intrinsic value.

Sources: Advent Portfolio Exchange, Bloomberg, FactSet, Russell, The Wall Street Journal, Zacks Investment Research

Past performance is not indicative of future results. The material presented represents the manager's assessment of the Concentrated 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 Concentrated Value institutional portfolio for the quarter ending 3/31/21. 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 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.

Additional Cooke & Bieler Concentrated Value Performance Disclosures