COOKE & BIELER

Q1 2022

Concentrated Value Equity

Overview

Stocks turned in their worst performance since the onset of the pandemic two years ago as investors processed a seeming tsunami of bad news and pushed all major indices into negative territory. The Russian invasion of Ukraine signaled not just the largest European war in 75 years, but perhaps the most aggressive sanctions regime in history. The combination touched off a price surge in oil and other commodities, further fueling inflationary trends that were already running at 40-year highs and sending 10-year treasury yields to their highest level in two years. Recent history would suggest the Federal Reserve would react to these shocks by communicating their ability and willingness to ease monetary conditions to protect the economy. However, with their COVID-era stimulus measures still very much in force and inflation at worrying levels, the Fed instead embarked on what is forecast to be an extended tightening process by raising rates a quarter of a point in March.

The tumultuous macro backdrop led to considerable volatility and a wide dispersion of returns across sectors. The markets sold off sharply in January and February. Growth indices were particularly hard hit, as investors began to price in the impact of higher rates on these long-duration assets. March, however, brought a wave of buying, spurring a partial recovery in growth and pushing value indices almost to break-even for the quarter. As is to be expected in turbulent times, larger capitalization stocks generally performed better than smaller ones. Among sectors, Energy was the standout with soaring oil prices driving shares across the capitalization spectrum up more than 35%. Conversely, investors worried about the impact of inflation, rising rates, and general uncertainty on consumer spending and corporate margins, which drove shares of Consumer Discretionary companies down close to 10% for the quarter.

Portfolio Performance & Developments

Amidst another tumultuous quarter, Cooke & Bieler's Concentrated Value Strategy underperformed the Russell 3000® Value Index, posting -3.60% gross of fees (-3.81% net of fees) against a -0.85% return for the benchmark. Sector allocation effect accounted for more than all of the portfolio's underperformance, while the favorable impact of stock selection partially offset these results. Selection effect was especially strong in Financials, with insurance companies Arch Capital, Progressive, and Chubb being some notable contributors. Health Care holdings also benefited relative results, particularly Medtronic and Johnson & Johnson. Conversely, Industrials holdings were the biggest overall detractor to performance, and Consumer Discretionary holdings such as Helen of Troy and Winnebago posed a headwind as well as new recessionary fears only exacerbated existing supply chain and inflation concerns.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Arch Capital	8.5	8.9	71
Progressive	6.5	11.2	69
Chubb	5.6	11.1	58
Wells Fargo	0.4	14.2	57
London Stock Exchange	4.3	11.7	47

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	5.3	-23.1	-132
Helen of Troy	4.6	-19.9	-101
Winnebago	3.2	-27.7	-99
IAA	3.5	-24.4	-95
Arrow Electronics	6.6	-11.6	-76

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

Arch Capital (ACGL), a Bermuda-based specialty property & casualty and mortgage insurer, was the largest contributor. ACGL continued to generate strong operating results in the quarter, compounding book value significantly versus 2021 and growing its insurance premiums into the favorable pricing environment. The stock also benefited from fading investor concerns regarding mortgage insurance defaults.

Progressive (PGR), a leading personal auto insurer in North America, was the second-largest contributor. Investors rewarded the stock as evidence emerged that the company has been successful in its pricing efforts, helping it cover an increase in severity losses.

Chubb (CB), a global property & casualty insurer, was the third-largest contributor. Solid underwriting results and favorable investment returns led to strong fundamental progress. Investor sentiment has improved as worries regarding COVID-19-related losses have faded.

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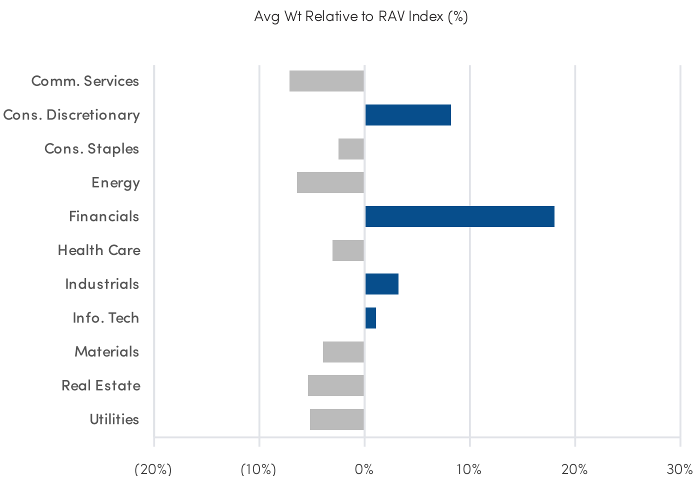
Largest Detractors

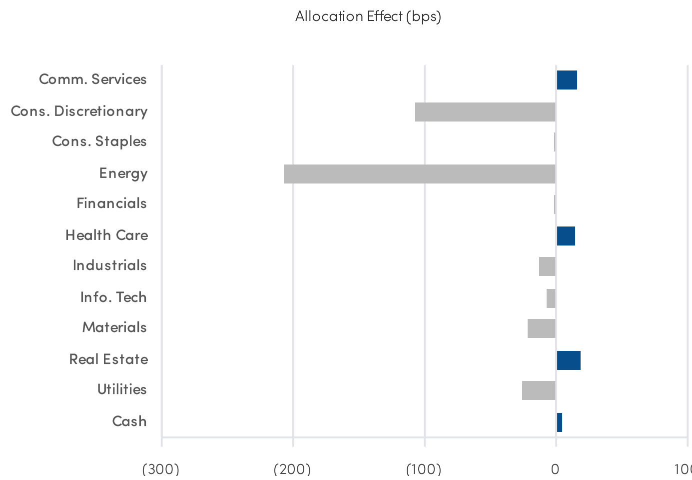
AerCap (AER), the largest independent aircraft lessor, was the largest detractor. Investors reacted negatively to the company's exposure to Russian airlines. In response to sanctions, Russian airlines have breached their contracts for aircraft and engines belonging to AER worth about $2.5B. While the fate of these planes and resulting insurance claims is hard to assess, the company's overall exposure should prove to be manageable, and we believe AER remains well positioned longer term.

Helen of Troy (HELE), a diversified consumer and household products company, was the second-largest detractor. As the pandemic fades, HELE has seen above average demand for its home healthcare products normalize. Investors, however, are overlooking the offsetting benefit of economic reopening on its highest margin products, the resilience of its housewares segment, the accretion from its latest acquisition, and the market share momentum in its beauty franchise.

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the third-largest detractor. WGO continues to post strong and improving fundamental results, but investor fears of significantly weakening demand weighed on the stock price. This fear is not unfounded, but overlooks the company's growing market share and organic white space opportunities, the structural margin progress in its motorhome division, its recent marine segment acquisition, and the positive secular growth prospects of the RV industry.

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 effect detracted from relative performance in the first quarter. The portfolio's meaningful underweight to the Energy sector, by far the standout performer within the benchmark with a return of nearly 40%, and considerable overweight to Consumer Discretionary, the worst performing sector within the benchmark with a return of -13%, explained almost all of the negative sector allocation effect. The remaining headwinds to performance owed mostly to the underweight to Utilities and Materials. The portfolio's underweight to Real Estate, Communication Services, and Health Care generated a slight positive offset.

Initiations

Syneos (SYNH) is a leading provider of pharmaceutical services, including contract research and commercial selling outsourcing. The company's global scale, integrated service offering, and proven operational expertise enable it to assist its large pharma and small-medium sized biotech clients in developing and commercializing new medicines more efficiently, creating a durable competitive advantage for SYNH.

U.S. Bancorp (USB) is one of the largest non-money center banks, with over $250 billion in loans and more than $300 billion in deposits. USB has been generally conservative when taking credit risk and has a good record of cost consciousness. Recently, they have also made significant investments in upgrading their technological capabilities.

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Eliminations

BWX Technologies (BWXT) and **Wells Fargo (WFC)** were eliminated to make room for better opportunities.

Outlook

No investment style outperforms against every market backdrop. However, every period of sustained underperformance requires honest introspection about the team's analysis and process as well as an open minded search for potential improvements. With underperformance concentrated in the portfolio's Consumer Discretionary and Industrials holdings, we have re-underwritten these positions, evaluating the drivers of demand for their products, their competitive positions, and pricing power in an inflationary environment. While the market seems to be pricing in a severe consumer recession lasting indefinitely, along with severe margin pressure driven by supply chain disruption and inflation, we believe the portfolio holdings' company-specific long term fundamental drivers remain firmly intact. Moreover, even if the earnings of our holdings were to decline by more than half, certain of these businesses would still trade at single digit multiples of EPS. This combination of attractive fundamentals and enticing valuations justifies the portfolio's concentration in these sectors and sets a strong foundation for longer term prospective investment returns. Conversely, the market's assessment of the Energy sector – the other big driver of portfolio underperformance – has overshot sustainable reality, and here we remain confident in our relatively subdued long term view of these businesses and the resulting underweight position.

While recent performance has been very disappointing, the fundamental performance of our portfolio holdings remains strong, and in most cases has continued improving. Which is not to say that its pro-cyclical tilt is impervious to broader economic weakness, but our experience is that it is better to own businesses that can outperform across cycles rather than guess at short term economic developments. This differentiated perspective and positioning has worked against the portfolio's performance recently, but these unique views have also been the source of significant longer term historical outperformance. Our experience is that patience and steadfast focus is generally rewarded over time.

Sources: APX, Bloomberg, CNBC, The Economist, FactSet, The New York Times, The Wall Street Journal

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 3/31/22. 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