COOKE & BIELER

Q3 2020

Concentrated Value Equity

Overview

U.S. equity markets continued higher in the third quarter on the heels of further government stimulus, improving economic data, encouraging readouts from COVID-19 vaccine trials, and better clinical outcomes for COVID-19 patients. Though the trend reversed in September, growth stocks again led the charge, with the Russell 3000® Growth Index up 12.86% for the three-month period versus 5.42% for the Russell 3000® Value Index. Within the value universe mid cap stocks once again fared best, narrowing the lead amassed by their large cap peers during the Q1 market decline. Given continued resilience in consumer spending and increasing evidence of economic recovery, the generally broad-based market advance included particular strength among Consumer Discretionary and other economically sensitive constituents, though Energy stocks declined meaningfully in the face of persistently low oil prices.

Portfolio Performance & Developments

Cooke & Bieler's Concentrated Value Strategy returned 4.68% gross of fees (4.47% net of fees), underperforming the Russell 3000® Value Index for the quarter. Allocation effect was positive while stock selection detracted from results. The portfolio's Consumer Discretionary and Industrials holdings detracted most, with a number of Q2 standouts including Winnebago and AerCap surrendering some of their second quarter strength. Communication Services and Financials holdings were also a headwind to results. The strategy's Information Technology holdings were a bright spot, returning approximately 17% against a slight decline among their benchmark counterparts. Health Care holdings like HCA Healthcare and Medtronic also contributed to relative results as healthcare companies significantly impacted by COVID-related shutdowns began recovering at a faster than expected rate.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
HCA Healthcare	4.7	28.5	112
Gildan Activewear	4.5	27.0	103
Arrow Electronics	6.1	14.5	79
Progressive	4.6	18.3	78
TE Connectivity	3.6	20.5	65

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Winnebago	4.4	-22.3	-112
AerCap	4.0	-18.2	-74
Chubb	6.4	-7.7	-41
Omnicom	3.8	-8.2	-32
Wells Fargo	3.3	-7.8	-27

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

HCA Healthcare (HCA), a health care services company, was the largest contributor. HCA reported earnings that significantly beat investor expectations, due primarily to a steady recovery in hospital admissions and procedures.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the second-largest contributor. GIL recovered strongly after its poor performance in the second quarter. End markets for its blank printwear garments showed signs of life and management reiterated its pre-COVID margin targets.

Arrow Electronics (ARW), an electronic components and IT distributor, was the third-largest contributor. Investors began to see potential for improvement in the business prospects for many of ARW's end customers.

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Q3 2020

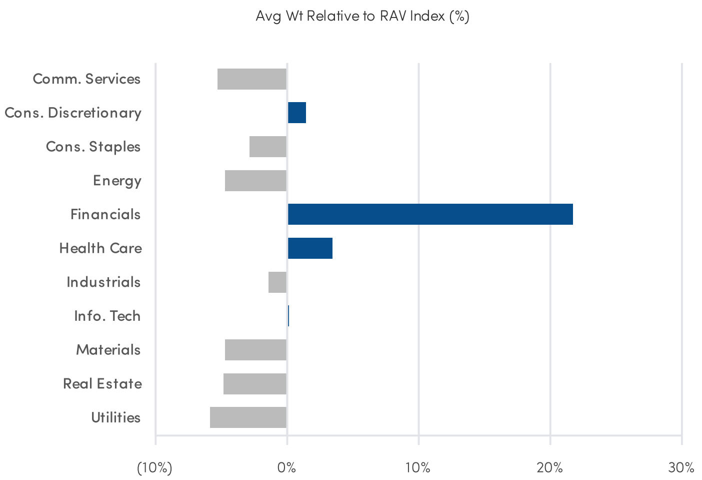
Largest Detractors

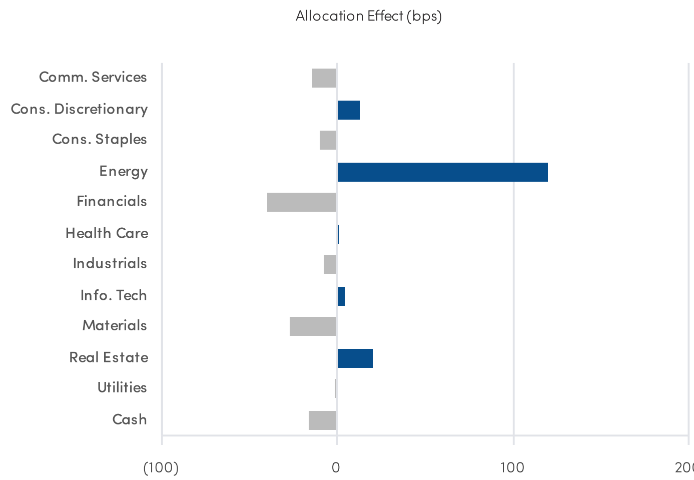
Winnebago (WGO), a leading manufacturer of recreational vehicles, was the largest detractor. WGO relinquished some of its strong second quarter price performance as investors questioned the sustainability of recent RV market strength. While near-term demand is clearly benefitting from COVID-related tailwinds, industry volumes remain well below previous peaks and Winnebago continues to win market share from larger peers.

AerCap (AER), the largest independent aircraft lessor, was the second-largest detractor. AER lagged the market as investors remain concerned about the pandemic's impact on air traffic and demand for aircraft. While the company's airline customers are clearly suffering, we believe AER's fleet of young aircraft will be in demand for years to come and that AER has the financial flexibility to weather the current difficulties.

Chubb (CB), a leading global property and casualty insurer, was the third-largest detractor. Investor concerns about elevated catastrophe losses and the negative effect of lower interest rates on earnings pressured the stock's price this quarter. Our long-term thesis remains intact and we opportunistically added to the position.

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 was modestly additive to relative performance. The portfolio's underweight to Energy contributed meaningfully, as the sector posted by far the worst return within the benchmark. Energy has been incredibly volatile this year – having been the worst performing sector in Q1, one of the best in Q2, and again the worst in Q3 – and remains the market's weakest sector YTD. Also adding to the portfolio's relative results were the underweight to Real Estate and the overweight to Consumer Discretionary. Offsetting some of this positive impact were the portfolio's overweight to Financials and underweight to Materials and Communication Services.

Initiations

There were no initiations this quarter.

Eliminations

There were no eliminations this quarter.

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Q3 2020

Outlook

We remain generally constructive on the investing environment. The U.S. economy is exiting a recession and we expect the nascent recovery to persist as people slowly return to many pre-COVID routines, driven by human nature and emboldened by improving therapies and eventually vaccines. This process likely will not be linear, and we expect market volatility along the way, but highly accommodative fiscal and monetary policy should provide continuing support. Offsetting the improving fundamental backdrop to some degree are very high expectations embedded in valuations in parts of the market. As the economy normalizes, we expect investors will better appreciate the enormous valuation disparity between the stocks of companies that have benefitted from the pandemic and those that have been negatively impacted. We have selectively favored the latter group, emphasizing reasonably valued stocks of the best positioned, financially strong companies that possess both staying power and latent fundamental improvement potential. We expect the portfolio to perform well as underlying fundamentals progress and these characteristics are better recognized.

Sources: American College of Cardiology, APX, Axios, Bloomberg, FactSet, Forbes, NIH

Additional Cooke & Bieler Concentrated Value Performance Disclosures