



Concentrated Value Equity

Overview

Following a breakneck advance through the first half of the year, U.S. equity indices turned in mixed results for the third quarter. The market's tone shifted noticeably in September when investors faced increasing evidence that supply chain disruptions, rising input cost inflation, and labor shortages might negatively impact the near-term trajectory of the economic recovery. Presumably better equipped to handle such vagaries, large cap stocks generally outperformed smaller cap issues. Returns across styles, factors, and sectors were muddled. Growth outperformed value up the market cap spectrum while the opposite was true among small cap stocks. Notably, one consistent trend was Financials sector outperformance, largely driven by bank stocks.

Portfolio Performance & Developments

Cooke & Bieler's Concentrated Value Strategy significantly outperformed the benchmark in the third quarter, returning 2.60% gross of fees (2.39% net of fees) against a -0.93% return for the Russell 3000® Value Index. Sector allocation and stock selection were both additive to relative performance, though the majority of outperformance came from stock selection. Health Care and Industrials holdings were the biggest tailwinds to results, led by particularly strong contributors Hill-Rom, HCA Healthcare, and AerCap. Consumer Discretionary and Information Technology holdings were also positive performers overall. Conversely, Financials and Consumer Staples holdings detracted from results during the quarter.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Hill-Rom	2.5	33.5	102	Progressive	5.2	-7.9	-46
HCA Healthcare	3.2	17.6	84	BWX Technologies	3.8	-7.0	-24
AerCap	4.9	12.9	59	Philip Morris	5.1	-3.1	-18
Chubb	5.0	9.6	43	Arch Capital	7.0	-2.0	-16
Brookfield Asset Mgmt.	7.1	5.2	37	Helen of Troy	5.2	-1.5	-9

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

Hill-Rom (HRC), a provider of hospital beds and patient monitoring devices, was the largest contributor. Baxter International recently made an attractive all-cash offer to acquire the company.

HCA Healthcare (HCA), a health care services company, was the second-largest contributor. The company's earnings have surged this year as utilization has recovered and costs have been well managed.

AerCap (AER), the largest independent aircraft lessor, was the third-largest contributor. Global air travel entered the early stages of a recovery and investors began to appreciate the stability of the aircraft leasing business model. Additionally, the company's opportunistic acquisition of General Electric's aircraft leasing business highlighted management's astute capital management and the long-term potential for the business.





Concentrated Value Equity

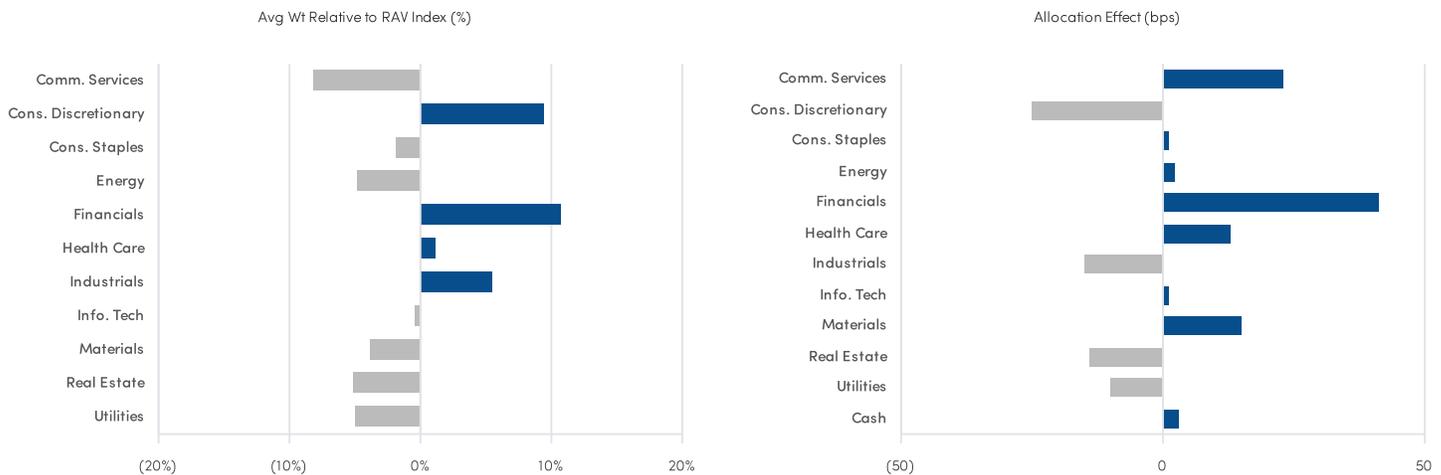
Largest Detractors

Progressive (PGR), a leading personal auto insurer in North America, was the largest detractor. PGR experienced an increase in claims relative to revenues due to more drivers returning to roads as more parts of the country re-opened.

BWX Technologies (BWXT), a provider of nuclear reactors needed for submarine and aircraft carrier propulsion, was the second-largest detractor. The company experienced some disruptions in the quarter due to COVID-19 impact on labor and recent capex insertions. However, we believe the stock continues to be an attractive long-term holding due to the company’s defensive demand profile, conservative balance sheet, and consistent cash flow generation.

Philip Morris (PM), a leading global tobacco products manufacturer, was the third-largest detractor. PM continues to perform well fundamentally, with demand for its reduced risk products driving improved profitability and volume strength. However, supply chain constraints have put pressure on the company’s ability to deliver heated tobacco devices, which could push unit deliveries toward the lower end of its projections. Less fundamentally relevant, though an overhang for some investors, U.S. patent disputes with PM’s largest competitor emerged late in the quarter.

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 in seven out of 11 sectors during the third quarter. The overweight to Financials was a particular positive standout, as it was the best performing sector in the Index. Also contributing to relative performance were underweight positions in Communication Services and Materials, as well as the overweight to Health Care. Conversely, the overweight to Consumer Discretionary and Industrials sectors, which seemed to be particularly exposed to supply chain issues, detracted from results. The strategy’s underweight to Real Estate and Utilities, sectors that outperformed the broader benchmark, also posed a headwind.

Initiations

There were no initiations this quarter.

Eliminations

Hill-Rom (HRC) reached our price target and was eliminated.





Concentrated Value Equity

Outlook

Having spent the last year pricing in an economic recovery propelled by re-opening and massive fiscal and monetary stimulus, markets are now grappling with the shape of the post-pandemic landscape. In particular, the question of whether current rates of inflation are transitory – caused by temporary supply chain disruptions – or if they reflect deeper structural issues, has increasingly dominated investors' thinking.

The prospect of persistent inflation raises questions markets have not faced in decades and, absent a ready playbook, the markets are likely to react strongly to suggestive data points and become even more volatile. Elevated valuations and Washington's characteristically chaotic approach to policy making further enhance the possibility of a bumpy ride. Faced with this uncertainty, our focus remains on using short-term volatility to acquire attractively-valued businesses that have the balance sheets to weather short-term supply disruptions and the competitive positions to prosper in a more difficult inflationary environment. While this approach does not yield results in every quarter, it has been key to the strategy's long-term success.

Sources: APX, Bloomberg, CNBC, CNN, FactSet, Nasdaq

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 9/30/21. 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](#)