



Concentrated Value Equity

Overview

U.S. equity markets ended the year on a very strong note, with indices reaching record highs. Investor optimism was buoyed by easing trade tensions and indications of diminishing recession risks. Interest rates rebounded meaningfully during the quarter after declining most of the year. Against this backdrop, the Russell 3000® Value Index (RAV) generated a 7.48% return. Notably, growth outperformed value and bond-proxy sectors underperformed the broader market. For the full year period, US equity indices – soothed by the Fed’s accommodative monetary policy pivot – were up broadly and significantly, posting returns upwards of 20%, with particular strength in Technology. Volatility receded from very high levels in 2018.

Portfolio Performance & Developments

Cooke & Bieler’s Concentrated Value Strategy returned 11.31% gross of fees (11.08% net of fees), outperforming the benchmark for the quarter and extending its YTD lead. Stock selection and sector allocations both contributed to outperformance. Stock selection results were positive in most sectors where the portfolio had weight, led especially by strong performance in Health Care, Consumer Discretionary, and Consumer Staples. Underperformance among Financials and Communication Services holdings detracted from relative results. From an allocation perspective, the strategy’s underweight to bond-proxy sectors boosted relative results. Over the full year, the strategy outperformed the RAV by 19.15%, net of fees. Stock selection accounted for approximately 85% of outperformance, with Industrials, Consumer Discretionary, and Materials stocks having the strongest positive impact.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Winnebago Industries	5.6	38.1	243	Gildan Activewear	5.9	-16.4	-87
UnitedHealth	5.4	35.8	174	PGT Innovations	3.1	-13.7	-48
State Street	4.3	34.5	136	Chubb	5.5	-3.1	-25
Colfax	4.9	25.2	125	Hexcel	3.1	-4.2	-12
AerCap Holdings	7.5	12.3	93	Progressive	1.0	-0.4	-1

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

Winnebago Industries (WGO), a leading manufacturer of recreational vehicles and towables, was the largest contributor. WGO reported continued market share gains in the face of industry weakness and completed the attractive acquisition of Newmar, a high-growth, luxury RV manufacturer.

UnitedHealth (UNH), the largest health insurer in the United States, was the second-largest contributor. UNH reported strong earnings, again demonstrating the company’s favorable underlying economics and ability to compound value at a double-digit rate on a sustained basis. The stock’s positive reaction to good fundamental progress was amplified by softening political campaign rhetoric surrounding interest in single payer healthcare systems.

State Street (STT), the leading custodian and record keeper for financial assets, was the third-largest contributor. Price declines in their main business segments appear to be stabilizing. Good new business flow as well as improving cost control also helped STT’s performance, while robust financial markets during the quarter provided an additional tailwind.

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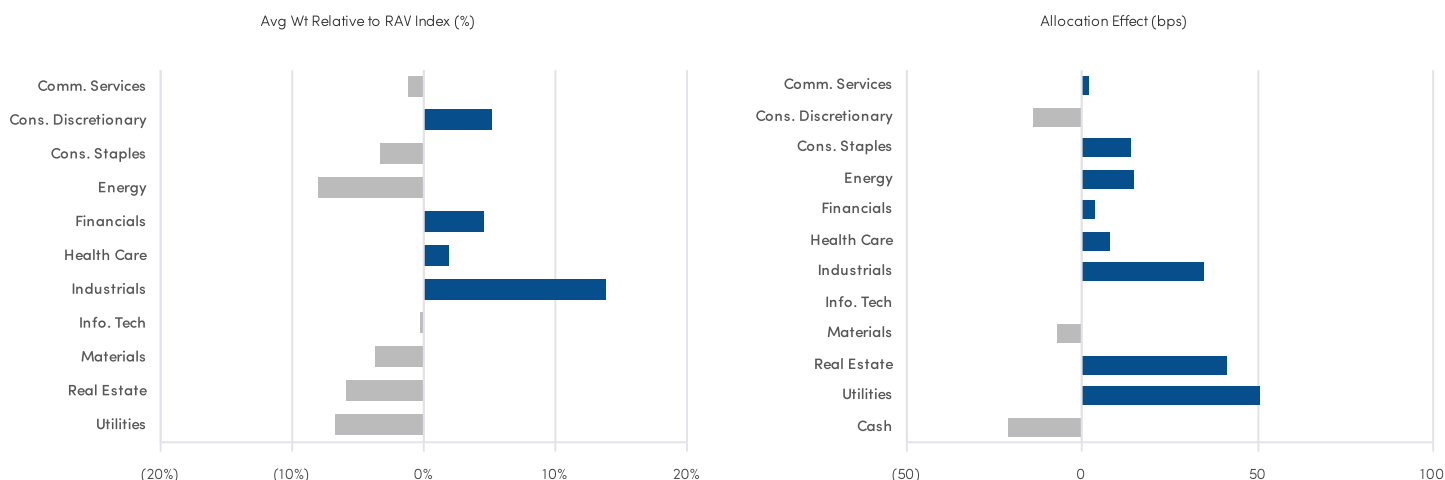
Largest Detractors

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the largest detractor. GIL lowered full year guidance due to an industrywide pullback in corporate end-user demand for printwear products, despite strong innerwear sales and margin expansion potential.

PGT Innovations (PGTI), a leading manufacturer of laminated, impact-resistant windows, was the second-largest detractor. PGTI continued to face difficult comparisons following last year's surge in demand for its impact-resistant windows.

Chubb (CB), a leading global property and casualty insurer, was the third-largest detractor. Although CB's fundamental performance was in line with our expectations and consistent with our long-term thesis, industry concerns about reserve adequacy and loss cost inflation, driven by disappointing results from some of CB's peers, negatively affected investor sentiment.

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.

Nearly 35% of the quarter's outperformance was explained by sector allocation effect, which was positive in eight of 11 economic sectors. The portfolio's underweight in Utilities and Real Estate had the largest positive effect as these perceived safe havens lagged the overall benchmark. The portfolio's overweight to Industrials and underweight to Energy was also additive. An overweight to Consumer Discretionary and underweight to Materials detracted slightly from allocation effect. Over the full year, sector allocation effect was positive in nine out of 11 sectors, with an underweight to Energy and overweight to Industrials delivering the strongest results.

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.

Hexcel (HXL) develops, manufactures, and markets lightweight, high-performance structural materials for use in commercial aerospace, space and defense, and industrial applications, allowing their customers to make lighter, more durable, and more efficient products. HXL benefits from increased composite content in aircrafts; their competitive advantages include long-standing customer relationships, strict aerospace qualifications, and the significant and compounding nature of investments in R&D and capital expenditure. Additionally, the company maintains a conservative balance sheet, and long-term management incentives align decision makers with shareholders.

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.



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Eliminations

Crown Holdings (CCK), Gates Industrial (GTES), Steelcase (SCS), and Verizon Communications (VZ) were eliminated to make room for better opportunities.

Outlook

Looking forward, we are cautiously optimistic. Fundamentals remain strong in the portfolio, but valuations have risen to more demanding levels. Our pro-cyclical tilt benefitted performance in 2019 as recession fears moderated, but could be less of a tailwind going forward. Nonetheless, we remain confident in the portfolio's positioning and our ability to identify reasonably priced stocks of high quality businesses that will add value over the long term. All things considered, the market likely will be more volatile in the new year, creating opportunities for investors like us. We remain committed to ensuring portfolio turnover as necessary, with the knowledge that timely eliminations are as important as initiations to strengthen the portfolio.

Sources: APX, Bloomberg, FactSet, S&P Global, 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 12/31/19. 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.

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