COOKE & BIELER

Q4 2020

Concentrated Value Equity

Overview

U.S. equity markets ended 2020 on a very strong note, with a fourth quarter advance powerful enough to propel all major indices to positive annual results. Bookending a year that started with their steepest decline on record, small capitalization value stocks roared ahead, posting their best quarter ever in Q4 and beating large cap value issues on a full-year basis for the first time since 2016. Investors began to price in a global reopening as vaccine candidates received approval and began their slow rollout. Against this backdrop, value led the charge in the final three-month stretch, showing strong signs of life. However, its resuscitation was not enough to offset the substantial lead growth built during the height of pandemic-related economic shutdowns. For the full year, growth beat value by the widest margin since 1999, sustaining its incredible 14-year reign.

Portfolio Performance & Developments

As the tumultuous year of 2020 came to an end, Cooke & Bieler's Concentrated Value Strategy outperformed the Russell 3000® Value Index for the quarter, returning 25.19% gross of fees (24.98% net of fees) against the benchmark's 17.21%. Stock selection effect and allocation effect were both broadly positive, but stock selection contributed the majority of outperformance. Selection was strongest in the Health Care and Industrials sectors, led by standout performers AerCap and Integra LifeSciences. Consumer Discretionary, Financials, and Information Technology holdings also contributed to positive relative results. There were no detractors from relative results. The portfolio's strong fourth quarter showing put it solidly ahead of the benchmark for the year, with absolute performance also moving into positive territory. Diligent scrubbing and review of all holdings when the COVID-19 crisis emerged, as well as re-underwriting the portfolio throughout this unpredictable year, helped achieve these results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	4.2	80.9	282
Chubb	7.2	33.2	261
Charles Schwab	5.3	47.0	250
Gildan Activewear	5.3	42.4	208
Brookfield Asset Mgmt.	5.9	25.2	149

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Progressive	1.2	-0.2	-1
BWX Technologies	3.5	4.5	13
Johnson & Johnson	4.8	6.5	23
Arch Capital Group	2.7	3.4	24
Woodward	0.4	8.2	32

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

AerCap (AER), the largest independent aircraft lessor, was the largest contributor. AER benefited from increasing investor optimism regarding COVID-19 vaccines and an end to the pandemic. Though AER's airline customers continue to suffer through record declines in passenger traffic, the company's cash collections and overall liquidity improved during the quarter.

Chubb (CB), a leading global property and casualty insurer, was the second-largest contributor. A laggard in the previous quarter, CB stock recovered as it reported solid quarterly results and management showed continued optimism for an improving underwriting environment.

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the third-largest contributor. SCHW reported better than expected results as the integration of recently-acquired Ameritrade appeared to be proceeding smoothly. Since SCHW earns most of its profits from customer cash deposits, it also stands to benefit should interest rates rise as the economy exits the pandemic-induced recession.

Concentrated Value Equity

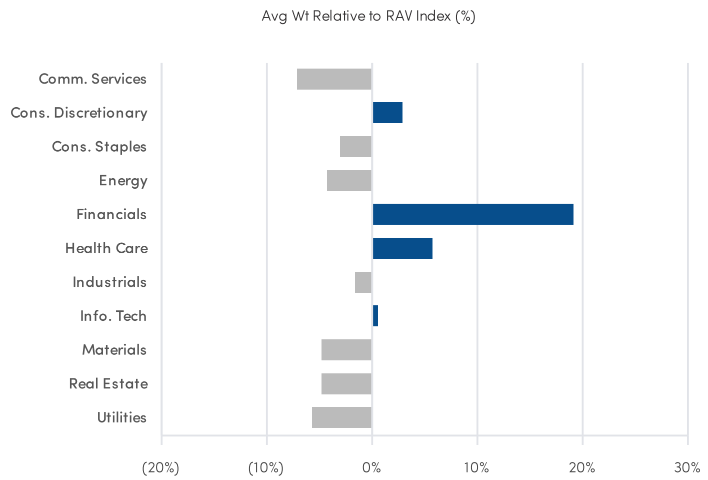
Largest Detractors

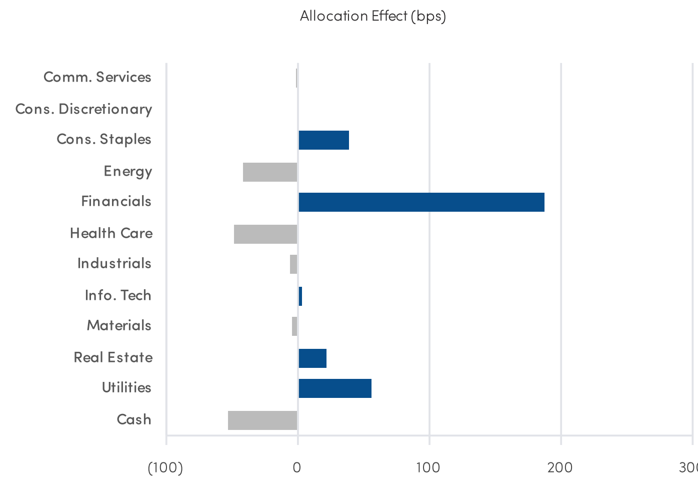
Progressive (PGR), a leading personal auto insurer in North America, was the largest detractor. PGR outperformed through the end of the third quarter, primarily due to decreased driving activity resulting from COVID-19 restrictions. The stock pared back some of its gains in the fourth quarter as investors rotated away from COVID-19 trades to more reopening focused positions.

BWX Technologies (BWXT), a provider of nuclear reactors needed for submarine and aircraft carrier propulsion, was the second-largest detractor. BWXT was a new portfolio holding this quarter. The company's defensive demand profile, conservative balance sheet, thoughtfully constructed management incentives, and consistent cash flow generation are attractive but often underappreciated in strong up markets.

Johnson & Johnson (JNJ), a leading manufacturer of pharmaceuticals, medical devices, and consumer products, was the third-largest detractor. Despite a stock price increase from better than expected earnings and updated guidance, shares were unable to keep pace with the significant gains posted by the benchmark and many of its constituents that were more leveraged to economic re-opening.

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 positive for the quarter. The portfolio's overweight to Financials, which was one of the benchmark's best performing sectors, was an outsized driver. An underweight in Utilities – the second worst performing sector – and an underweight in Consumer Staples – the worst performing sector – also benefited relative results. The overweight to Health Care had a negative effect on the portfolio, offsetting some of its outperformance. An underweight to Energy was also a detractor – the sector posted the strongest performance in Q4, but remained the weakest performer for the year.

Concentrated Value Equity

Initiations

Arch Capital Group (ACGL) is a specialty reinsurer and mortgage insurer with a niche approach to underwriting, emphasis on risk management, and appreciation for capital preservation that has led to strong long-term gains on book value per share. ACGL was unfairly punished in the market panic earlier this year and was largely forgotten during the subsequent rally. We believe it offers outsized upside with minimal downside for the long-term investor.

BWX Technologies (BWXT) owns and operates the only two commercial Category 1 NRC-licensed manufacturing facilities in the U.S., making the company an indispensable supplier of naval nuclear reactors needed for submarines and aircraft carriers, which are integral parts of the U.S. Navy's highly visible, long-term ship building plan. This positioning should continue to lead to a steady stream of cash flows that we expect management to ably deploy in a balanced fashion – re-investing capital to sustain its critical core offering, returning capital to shareholders, and investing in adjacent growth opportunities.

Hanesbrands (HBI) is a basic apparel company that sells underwear, intimates, socks, and activewear. The company uses a combination of innovation and brand building to command premium pricing for its products. Hanesbrands has a low-cost, diversified manufacturing complex, which is 90% owned by the company. Management has several options for increasing shareholder value, including organic growth, margin enhancement, acquisitions, and using cash flow to repurchase shares or pay down debt. The transition to ecommerce could produce some difficulties in the near term, but HBI is positioning itself to successfully manage this change.

Integra LifeSciences (IART) is an acquisitive global medical technology company whose successful core tissue regeneration technology has helped fuel leadership positions in neurosurgery and advanced wound care markets. IART has a demonstrated track record of intelligent and well-integrated acquisitions and divestitures, most recently divesting its orthopedic hardware business and using proceeds to acquire ACell, a complementary tissue regeneration technology asset. Going forward, solid organic growth with a nice mix of stable and high growth end markets, improving gross margins, and some operating leverage should lead to strong operating cash flow at the same time capital spending and one-time investments related to its acquisition of Codman normalize lower.

Eliminations

Essent (ESNT), Omnicom (OMC), Progressive (PGR), U.S. Bancorp (USB), and **Woodward (WWD)** were eliminated to make room for better opportunities.

Outlook

Looking ahead, the ongoing roll out of coronavirus vaccines, massive and continuing stimulus efforts, and the earnings recovery they will likely spark are all reasons for optimism. Valuation stands out as the main impediment to continued gains as this quarter's significant rally has left many parts of the market expensive by almost any measure. Moreover, 2020 provided a sharp reminder that the risks you do not see are often bigger than the risks you do, and the only protection is to focus on fundamentals – on owning businesses that can add value across economic environments and have the financial resilience to survive even severe shocks.

Our intense focus on fundamentals during a chaotic March and April – when in light of the changed world we re-underwrote every position in the portfolio – gave us the confidence to hold and add to the positions that benefited performance as the year unfolded. Today, the portfolio is overweight attractively-valued stocks of financially strong, well-positioned companies with some degree of economic sensitivity. We believe it is poised to benefit from a continued economic recovery, but also has the staying power to weather any unforeseen shocks.

Sources: Advent Portfolio Exchange, Associated Press, Bloomberg, CNBC, FactSet, Russell, U.S. Food and Drug Administration

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 12/31/20. 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