COOKE & BIELER

Q1 2020

Large Cap Value Equity

Overview

The scale and speed of this quarter's equity market rout were unprecedented, marked by the fastest bear market descent in U.S. history. The wholesale selloff was staggering and unforeseen, but with no historical analog for the unfolding coronavirus pandemic and economic landscape, it was in many respects understandable. Volatility spiked meaningfully following a respite in 2019. Treasury yields plunged, growth again outperformed value, and larger capitalization issues beat their smaller counterparts. Against this backdrop, the Russell 1000® Value Index (RLV) declined by 26.73%, the worst quarterly result since its inception. Performance was broadly negative across Index constituents, ranging from bad in the Utilities and Consumer Staples sectors to atrocious in Energy, where freefalling demand converged with free-flowing supply.

Portfolio Performance & Developments

Following very strong absolute and relative performance throughout 2019, Cooke & Bieler's Large Cap Value Strategy returned -31.17% gross of fees (-31.33% net of fees), underperforming the benchmark for the quarter. Significantly negative stock selection results were only somewhat offset by the positive overall impact of sector allocations. Stock selection results were particularly weak in Consumer Discretionary and Industrials, where the portfolio had exposure to several travel-related businesses severely affected by COVID-19 and the world's response to it. Negative selection results in the Health Care and Information Technology sectors owed more to the absence of certain standout Index constituents than the performance of the portfolio's holdings themselves. The portfolio's Financials and Communication Services holdings were bright spots.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Alleghany	0.1	18.1	23
Allergan	0.4	3.1	2
Alliance Data Systems	0.2	-4.3	-2
Activision Blizzard	2.0	0.1	-2
Progressive	2.7	5.3	-3

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Carnival	2.4	-73.8	-220
AerCap	2.8	-62.9	-201
Synchrony Financial	2.4	-55.0	-161
Gildan Activewear	1.8	-56.4	-126
Arrow Electronics	3.2	-38.8	-114

Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Large Cap Value institutional portfolio's gross of fees return relative to the Russell 1000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large Cap 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

Alleghany (Y), a diversified insurance company, was the largest contributor. Y was a new portfolio holding this quarter, purchased after most of the market selloff. We were drawn to its defensive business model and long track record of value-added capital allocation decisions.

Allergan (AGN), a manufacturer of specialty pharmaceuticals concentrated in eye care and aesthetics, was the second-largest contributor. AGN was eliminated prior to the market's decline, locking in gains from the company's pending sale to AbbVie.

Alliance Data Systems (ADS), a provider of customer loyalty and marketing solutions, was the third-largest contributor. ADS was eliminated early in the quarter to make room for better opportunities.

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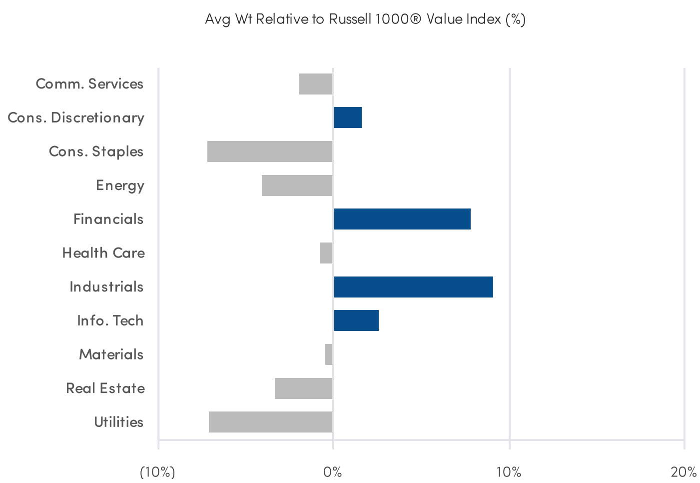
Largest Detractors

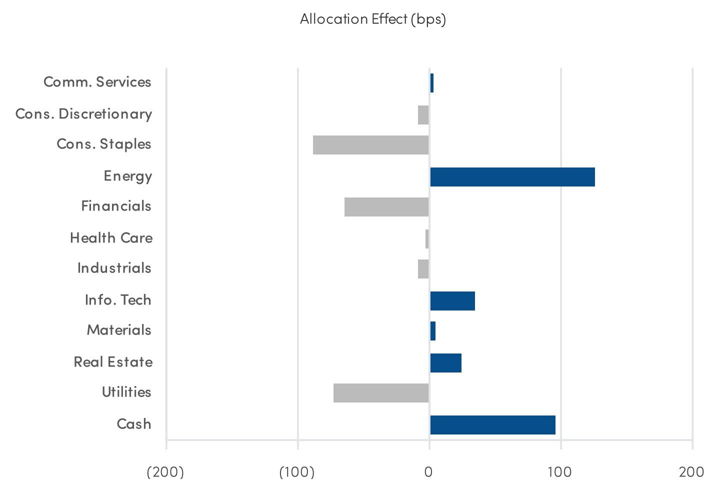
Carnival Cruise Lines (CCL), the largest cruise operator in the world, was the largest detractor. CCL severely underperformed in the quarter as the cruise industry was among the hardest hit by the COVID-19 outbreak. While CCL entered the downturn well diversified across brands and regions, alongside a conservative balance sheet, the industry-wide halt to all sailings from March through at least mid-May will push CCL to a loss for the year and consume considerable amounts of cash. While we believe CCL's strong competitive position, good balance sheet, and solid management team will allow them to survive the current crisis and prosper in the years to come, we continue to monitor the situation closely.

AerCap (AER), the largest independent aircraft lessor, was the second-largest detractor. AER underperformed as its airline customers came under severe stress, with air travel grinding to a halt in the wake of the COVID-19 pandemic. AER is a secured creditor to airlines worldwide, with a young and attractive fleet whose planes should remain in strong demand in almost any airline scenario. Their conservative capital structure and ample funding flexibility give them the means to endure the current crisis and prosper on the other side.

Synchrony Financial (SYF), the largest private label credit card provider in North America, was the third-largest detractor. SYF was down during the period due to concerns that private label credit cards may be under significant stress due to the poor economic environment caused by COVID-19.

Sector Positioning





Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Large Cap Value institutional portfolio's gross of fees sector return relative to the Russell 1000® Value Index. Please see additional performance disclosures at the end of this document.

Sector allocation was additive for the quarter, offsetting a portion of the portfolio's negative stock selection outcome. An underweight to Energy was a significant tailwind as oil prices plummeted to $20 a barrel, the lowest level in 18 years. The portfolio's overweight to Information Technology and underweight to Real Estate also benefitted relative performance. Conversely, the most notable headwind was an underweight to Consumer Staples and Utilities, demand stable sectors that meaningfully outperformed the broader benchmark amid fears of a deep recession. Overweight positions in Financials and Consumer Discretionary sectors also hindered results.

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Initiations

Alleghany (Y) is a classic C&B insurer. Conservative both financially and operationally, Y owns a handful of insurance companies that are well positioned in their respective niches. Their total return and long-term ownership mentality - over the last 50 years they have only had three CEOs - emphasizes solid returns while taking minimal risk. We believe their balance sheet is particularly well positioned to be opportunistic during market uncertainty.

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 aircraft; 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.

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. The selloff during the quarter created an attractive purchasing opportunity.

Woodward (WWD) engineers, produces, and supports energy and motion control systems for commercial and defense aircraft systems and engines, various industrial turbines and engines, and other related applications for leading global manufacturers. WWD's technology, long-term customer partnerships, and aftermarket support lead to solutions that generally improve performance and reduce emissions for customers' end products, often requiring strict regulatory certification. The company's long-term prospects are insulated by significant exposure to defense and more recurring aftermarket sales, along with a conservative balance sheet.

Eliminations

Allergan (AGN), soon to be acquired by AbbVie, was eliminated to make room for better opportunities.

Alliance Data Systems (ADS) and **Crown (CCK)** were eliminated to make room for better opportunities.

Outlook

Across the globe, the coronavirus pandemic has upended expectations of all types – personal, political, social, and economic – in an astoundingly short time. Government attempts to slow the spread of the virus have resulted in an unprecedented halt to economic activity, countered in part by equally unprecedented fiscal and monetary stimulus actions. What happens next will depend heavily on how quickly the disease is contained and vaccines or other effective therapies are developed. As long as the range of possible outcomes for both the disease and its economic impact remains wide, markets are likely to remain extremely volatile. However, now is not a time to reflexively seek safety, or to rush blindly to call a bottom in the market. Now is the time for careful, disciplined analysis to uncover opportunities in the turmoil.

Sources: APX, Bloomberg, CNN, FactSet, The New York Times, Reuters

Additional Cooke & Bieler Large Cap Value Performance Disclosures