Cooke & Bieler

Q1 2021

Large Cap Value Equity

Overview

U.S. equity markets continued to surge during the first quarter of 2021. Intensifying economic momentum, another enormous dose of fiscal stimulus, highly accommodative monetary policy, and expanding vaccine availability further fueled the market's appetite for risk. That appetite was voracious for the stocks of companies poised to benefit most from economic reopening and recovery, keeping small cap well ahead of the pack along with cyclical and financial issues. The resurgence of value stocks that began late last year also intensified, with value beating growth by the widest margin since Q1 2001.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy returned 11.55% gross of fees (11.39% net of fees), slightly outperforming the Russell 1000® Value Index, which returned 11.26%. Sector allocation was broadly additive, while negative stock selection effect partially offset these relative gains. Financials, which represent the largest sector weight in the portfolio, detracted most – despite all holdings except one posting positive absolute results. Industrials and Information Technology holdings were also a headwind. Conversely, the portfolio's Health Care and Consumer Discretionary companies contributed to relative performance, with especially strong returns from Labcorp and Hanesbrands. Over the trailing twelve months, the strategy has recovered well post-pandemic, posting strong absolute performance and significantly outperforming the Index, with stock selection and sector allocation both contributing to relative results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	3.0	28.9	81
Hanesbrands	1.7	36.0	67
Charles Schwab	2.7	23.3	66
Wells Fargo	1.9	29.9	59
Whirlpool	2.1	22.9	48

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Leidos	2.6	-8.1	-21
IAA	1.8	-15.1	-17
Becton Dickinson	1.8	-2.5	-6
Intercont'l. Exchange	1.6	-2.9	-4
Verizon	2.4	0.0	-2

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

AerCap (AER), the largest independent aircraft lessor, was the largest contributor. AER benefited from increased optimism for a post-COVID travel rebound. Astute management and their status as a secured lender to airlines around the world allowed them to weather the pandemic without raising new capital and positioned them to acquire GE's aircraft and engine leasing business. This deal will make AER by far the largest aircraft lessor in the world and should enhance shareholder returns for years to come.

Hanesbrands (HBI), a manufacturer and marketer of basic apparel products, was the second-largest contributor. The company announced strong results for the quarter, especially in its innerwear segment.

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the third-largest contributor. SCHW reported good progress on the integration of its TDAmeritrade acquisition with little evidence of customer churn or other operational issues. The company is also poised to benefit from any increase in interest rates.

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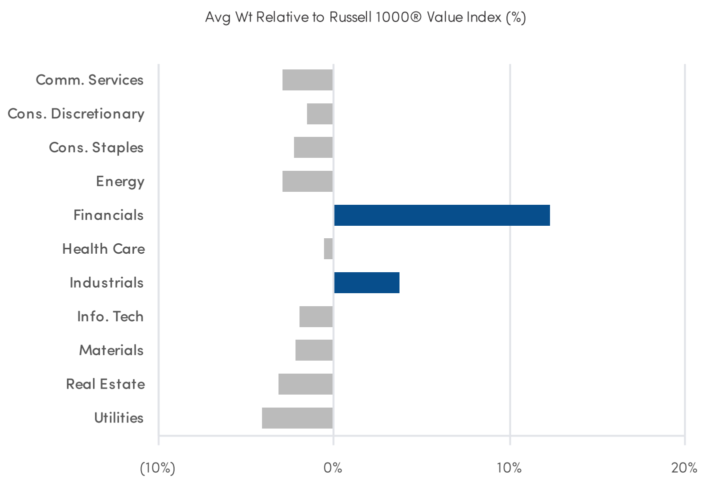
Largest Detractors

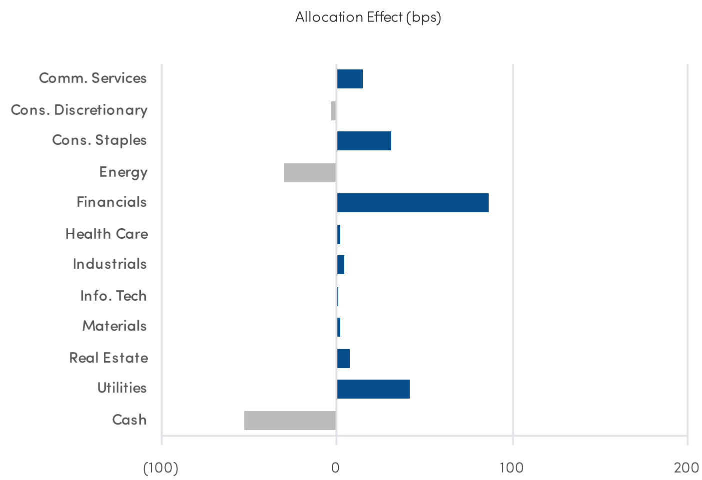
Leidos (LDOS), a leading provider of information technology and other services to the government, was the largest detractor. LDOS suffered from investor concerns about a pause in the defense spending cycle driven by the new Democratic administration. Current deficits resulting from the pandemic also impacted investors' outlook. Lastly, a recent acquisition was poorly timed given the pandemic, as the acquired company is suffering significantly from decreased demand for airport security and related equipment.

IAA (IAA), an owner and operator of a leading auction marketplace for the sale of total loss, damaged, and low value vehicles, was the second-largest detractor. IAA underperformed as investors drove the stock's valuation down, potentially due to concern over the sustainability of recent elevated average selling prices, worry about short-term disruption related to winter storms in Texas, or disappointment that management did not provide guidance due to COVID-19 related uncertainty.

Becton Dickinson (BDX), a developer, manufacturer, and seller of a broad portfolio of medical supplies, devices, and diagnostics, was the third-largest detractor. BDX lagged during the quarter due to investor concerns that a significant decline in demand for the company's COVID-19 rapid antigen test would cause a sharp drop in overall revenues.

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 effect was additive for the quarter, with the majority of sectors contributing to the strategy's relative performance. The portfolio's overweight in Financials, which outperformed the Index by a solid margin, was the most notable driver. The underweight to Utilities, Consumer Staples, and Communication Services was also additive, as those sectors lagged during the quarter's continued market exuberance. Partially offsetting these positive results, the portfolio's underweight in Energy was again a headwind given the sector's very strong performance during the quarter. The underweight to Consumer Discretionary constituents was also a slight detractor.

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Initiations

Atmos Energy (ATO) is one of the largest regulated gas utilities in North America. With over 70% of earnings generated in Texas, Atmos has favorable regulatory relationships and a long runway of capital projects centered around modernizing their distribution and transmission system to improve safety and reliability. ATO's low debt levels and dividend payout ratio provide flexibility and lessens the company's dependence on the equity markets to fund its growth. Negative investor sentiment and concerns about the role of natural gas utilities in decarbonization created an opportunity for us to enter the position. We monitor these risks and believe them to be generally overstated relative to ATO's fundamentals. Given ATO's advantageous geographic footprint and the favorable economics for gas utility customers, we believe the company has a good line of sight to strong fundamental returns over the next decade.

Stanley Black & Decker (SWK) is an industrial and household tools manufacturer with strong brands and technologies. We expect that they should have a significant opportunity to expand distribution in their lawn products segment through their acquisition of MTD Products.

Unilever (UL) is a household products, personal care, and packaged food company with strong brand equities and a robust distribution network. We believe that UL's significant presence in emerging markets should enable the firm to successfully compound shareholder value in the relatively near future.

Eliminations

Eaton (ETN), **Johnson Controls (JCI)**, and **Snap-on (SNA)** reached their price targets and were eliminated.

Exxon Mobil (XOM) was eliminated in the wake of a rally in oil prices due to our concerns about the company's balance sheet expansion and inconsistent capital strategy.

Outlook

Markets are clearly forecasting a strong recovery fueled by pent up consumer demand and ongoing fiscal and monetary stimulus. However, with indices well above pre-pandemic levels, even a strong recovery may not be enough to sustain further gains. Though investors are prone to forget it in moments of enthusiasm, valuations matter – and large parts of the market are currently expensive even relative to optimistic assumptions. The most extreme examples of this disconnect are currently found among smaller capitalization stocks, where in some cases social media has driven waves of buying, willfully oblivious to any fundamental assessment of value. However, valuations are stretched among larger capitalization stocks as well, and at current prices we are quite sure many of these investments will turn out badly.

While markets are efficient over the long run, in the short term they are driven by human emotion and it is impossible to predict when fickle natured sentiment will turn. The wise investor must remain focused on business fundamentals and valuations. A year ago – in light of a once-a-century pandemic – we were working diligently to re-underwrite the portfolio, with a focus on companies' abilities to survive a severe and prolonged downturn. Today, our challenge is finding value in a market that has quickly forgotten about risk. Regardless of the market environment, the core features of our process and discipline remain consistent: exhaustive research to identify businesses that can compound value, insistence on conservative balance sheets that can withstand economic shocks, and a patient focus on buying businesses below intrinsic value.

Sources: Advent Portfolio Exchange, Bloomberg, FactSet, Russell, The Wall Street Journal, Zacks Investment Research

Additional Cooke & Bieler Large Cap Value Performance Disclosures