COOKE & BIELER

Q2 2020

Large Cap Value Equity

Overview

Equity indices staged a remarkable comeback in the second quarter following last quarter's quickest-ever bear market descent. Posting their best quarterly return since 1998, U.S. stocks shrugged off the continued spread of the coronavirus, dismal real-time economic data, and nationwide civil unrest sparked by the death of George Floyd. Buoyed by massive government stimulus, the hope for a COVID-19 vaccine, and indications of sequential economic improvement, large cap value stocks performed well on an absolute basis, with the Russell 1000® Value Index (RLV) returning 14.29%, but they again lagged their growth counterparts, and in a shift from last quarter, also trailed their mid and small cap brethren. Perhaps not surprisingly, this quarter was often a story of reversals, with many stocks and sectors hardest hit in the first quarter performing best in Q2, while the strongest performers in Q1 often advanced the least in the second quarter.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy returned 15.47% gross of fees (15.31% net of fees), outperforming the benchmark and partially offsetting its underperformance during the first quarter. Both sector allocation and stock selection were additive to relative results. Stock selection effect was strongest within Industrials – the sector which posed one of the biggest headwinds in the first quarter – as some of the worst performing stocks during the March downdraft such as Colfax and AerCap recovered strongly. Stock selection effect within Information Technology and Health Care was also additive. Negative selection results were concentrated in Financials, Communication Services, and Consumer Staples.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Colfax	2.8	40.9	112
Arrow Electronics	3.3	32.4	103
AerCap	2.8	35.1	83
TE Connectivity	2.8	30.3	82
Whirlpool	1.8	52.6	80

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Wells Fargo	2.2	-9.0	-25
Alleghany	1.4	-11.4	-16
Carnival	0.1	-5.7	-13
Berkshire Hathaway	2.7	-2.4	-7
Philip Morris	1.9	-2.4	-3

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

Colfax (CFX), an acquisitive conglomerate with strong welding and orthopedic franchises, was the largest contributor. After the stock underperformed during the first quarter, investors were pleasantly surprised to find that CFX's results prior to the emergence of COVID-19 were stronger than expected. Management also assuaged investor concerns over a potential debt covenant issue by amending their revolver at a minimal cost.

Arrow Electronics (ARW), a solutions provider for users of electronic components and enterprise computing, was the second-largest contributor. The stock bounced back after poor first quarter performance as investors became increasingly comfortable with the demand outlook and the company's ability to generate strong cash flows.

AerCap (AER), the largest independent aircraft lessor, was the third-largest contributor. The stock rallied in the quarter as investors became more comfortable with AER's funding profile and more optimistic about an eventual recovery in air traffic.

Large Cap Value Equity

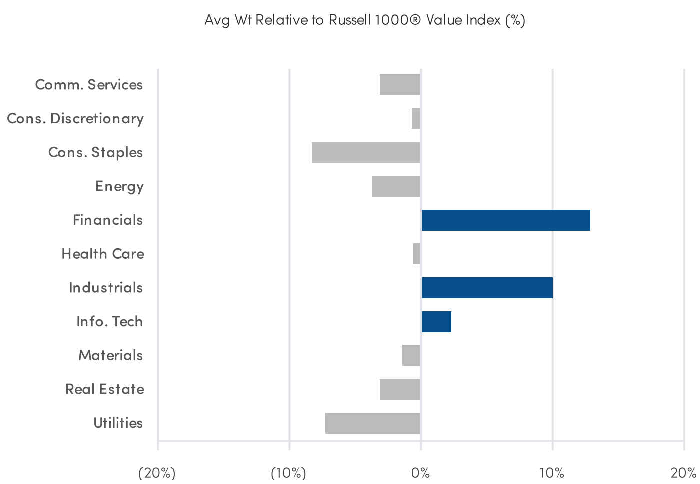
Largest Detractors

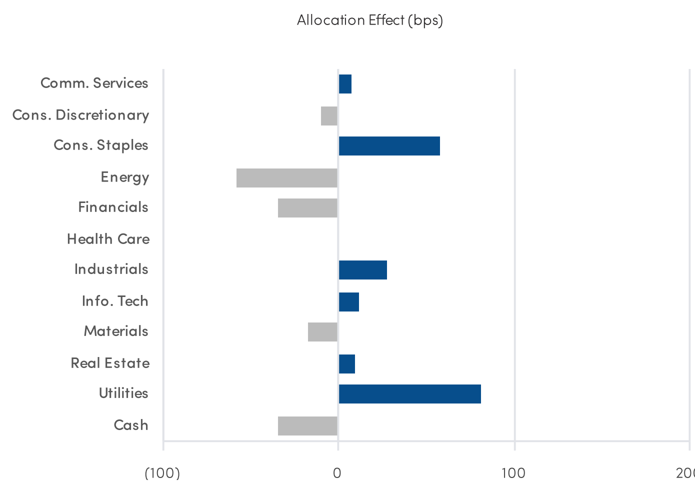
Wells Fargo (WFC), a leading financial services provider with strong deposit and credit culture, was the largest detractor. The stock suffered as COVID-19 delayed the company's expense reduction efforts. Regulatory and political backlash have also hindered these improvement efforts. Nonetheless, we continue to believe in the company's potential upside.

Alleghany (Y), a diversified insurance and reinsurance company, was the second-largest detractor. The underfollowed insurer was left behind by the strong market really despite the lack of any negative fundamental news. Having initiated Y late in the first quarter, we used the weakness to build out the position.

Carnival Cruise Lines (CCL), the largest cruise operator in the world, was the third-largest detractor. The stock plunged during the first quarter as cruise ships emerged as significant vectors for COVID-19 transmission, eventually resulting in the cessation of all sailings. The stock continued to suffer in the second quarter for the same reasons.

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 to the portfolio's relative results, with an underweight to Utilities and Consumer Staples – the worst performers within the benchmark by far – making the most significant contribution during the quarter. The strategy's overweight to Industrials and Information Technology sectors as well as its underweight to Real Estate also benefitted relative performance. An underweight in Energy posed a modest headwind in the quarter as benchmark constituents rebounded from their first quarter lows, but the sector remains the biggest laggard year to date.

Initiations

There were no initiations this quarter.

Eliminations

Carnival Cruise Lines (CCL) was eliminated as the cessation of all sailings due to COVID-19 caused the stock to become unanalyzable.

Large Cap Value Equity

Outlook

The market's resilience in the midst of unimaginable circumstances has been no less than miraculous. Just three months ago we warned against reflexively seeking safety. Now, with stock prices nearly back to pre-pandemic levels and many valuations at historic highs, we worry investors are being cavalier about still elevated economic, political, and social uncertainties. This quick and sharp reversal reflects the fickle, unpredictable nature of investors' impulses. We recognize sentiment often moves markets in the short term, but sentiment-driven strategies transform investing into a game of chance. We also know that fundamentals ultimately drive stock prices and that companies with sustainable, favorable underlying economics are positioned to drive long-term outperformance. So, as always, we remain intently focused on long-term fundamental investing. Given current circumstances, we are evaluating the portfolio's existing and prospective holdings through the lens of two critical questions: does the company have the near-term financial wherewithal and liquidity to endure a prolonged economic downturn, and is the business positioned to thrive in the post-COVID world. We are confident the portfolio is composed of companies well positioned to survive the downturn and ultimately succeed. The market recently began to recognize these characteristics after largely ignoring them during the February/March meltdown, but there appears to be further upside based on the portfolio's meaningfully discounted valuation.

Sources: APX, Bloomberg, FactSet, Forbes, Financial Times, MarketWatch

Additional Cooke & Bieler Large Cap Value Performance Disclosures