COOKE & BIELER

Q2 2021

Large Cap Value Equity

Overview

U.S. equity markets advanced for the fifth consecutive quarter, posting solid gains in the second quarter led by large cap stocks. Though all major indices were up, underlying return composition diverged wildly across style and size. Among small cap stocks, value slightly outperformed growth, while at the other end of the spectrum large cap growth and mid cap growth handily topped value. Across large and mid, the lowest quality companies underperformed. That trend was very different in the small cap value category, where many of the same drivers witnessed early in the year reemerged in late April and non-earning, low sales growth companies dominated the Index return.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy slightly lagged the benchmark in the second quarter, returning 5.05% gross of fees (4.89% net of fees) against a 5.21% return for the Russell 1000® Value Index. Sector allocation detracted modestly from relative performance, while stock selection was a partial positive offset. The portfolio's Information Technology holdings contributed the most, led by Amdocs and Arrow Electronics, both of which handily outperformed the broader sector. Consumer Discretionary, Consumer Staples, and Energy stocks also outperformed. Conversely, the strategy's Industrials holdings posed the largest headwind, mainly due to AerCap, which was the largest individual detractor following its standout showing in Q1. Health Care and Communication Services holdings also detracted from stock selection effect.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Gildan Activewear	2.5	20.9	50
Brookfield Asset Mgmt.	3.3	15.7	47
Charles Schwab	2.6	12.0	29
Synchrony Financial	1.4	19.9	29
United Parcel Service	1.4	22.9	28

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	3.2	-12.8	-40
Verizon	2.6	-2.6	-7
Atmos Energy	2.0	-2.2	-4
Hanesbrands	1.3	-4.3	-4
Ingredion	0.6	-0.1	-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

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the largest contributor. GIL has seen demand for its imprintable garments rebound as the economy reopens and group events return. Additionally, the company's cost control efforts have structurally improved its margin profile and should increase normal earnings power once demand has fully recovered.

Brookfield Asset Management (BAM), a global investor, operator, and manager of real assets, was the second-largest contributor. BAM recovered from underperformance in earlier quarters caused by concerns about the company's real estate portfolio, which is notably exposed to office and retail assets. We believe that these concerns, while not insignificant, were overemphasized. Other parts of BAM's business, such as its renewables, infrastructure, private equity, and credit business lines appear to be performing well fundamentally while BAM also expands to new asset classes – such as transition funds, reinsurance, and secondaries – that could become meaningful drivers of future growth.

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the third-largest contributor. SCHW had strong growth in both clients and assets as well as good margins despite the challenging interest rate environment. The integration of TDAmeritrade also appears to be proceeding smoothly, positioning the company well for the long term.

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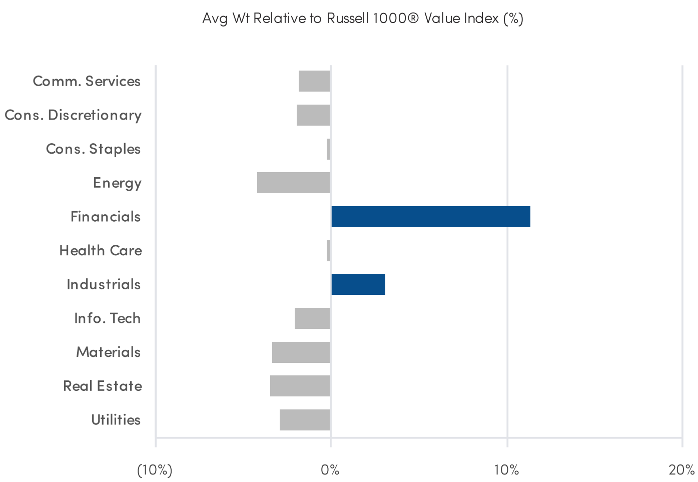
Largest Detractors

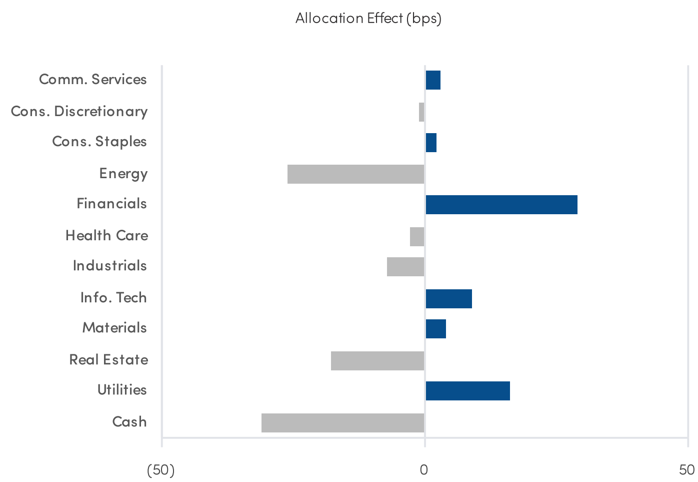
AerCap (AER), the largest independent aircraft lessor, was the largest detractor. AER gave back some of its post-pandemic gains amid concerns global air travel would be slow to recover as the pandemic continues to rage in much of the world.

Verizon (VZ), the largest domestic wireless telecom company, was the second-largest detractor. VZ lagged the broader market as investors favored more cyclical businesses. In addition, Verizon posted lackluster subscriber growth amid more aggressive actions by their largest competitors. We believe Verizon's focused strategy and industry-leading network should position it well to create value over the long term.

Atmos Energy (ATO), one of the largest regulated gas utilities in North America, was the third-largest detractor. Although additional clarity on ATO's securitization of Winter Storm Uri was incrementally positive for the company's fundamentals, as it allows them to recover the cost over many years, ATO struggled during the quarter due to investor disinterest in stable utilities businesses. Additionally, the stock was not a clear beneficiary to the reopening trade.

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.

Overall sector allocation effect was slightly negative, though it was additive in six of the 11 sectors. An underweight to the highly volatile Energy sector detracted most, as Energy posted the highest return of all benchmark sectors for both the quarter and the year-to-date periods. Similarly, an underweight to the second-best performing benchmark sector, Real Estate, was the next largest drag on relative results. The portfolio's overweight to Financials as well as underweight to Utilities and Information Technology were the most notable contributors.

Initiations

Ingredion (INGR) is an agricultural commodities refiner that produces sweeteners, starches, and other ingredients. The company has been transitioning away from its prior role as a basic core refiner and into a hybrid core refiner and specialty products company. The specialty products often require more complex conversion steps and garner higher returns for the company.

Eliminations

Axalta Coating Systems (AXTA) was eliminated to make room for better opportunities.

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Outlook

Only a little more than a year ago the global pandemic was raging, the U.S. economy was locked down in deep recession, and the stock market was in free fall. Today, the pandemic is receding quickly in the U.S., the economy is growing at or near unprecedented rates, and the stock market is hitting new highs. Though relieved to be comfortably removed from last year's tumult, we are vigilant by nature and worry that the market has come too far, too fast. We see clear signs of speculation, including very tight high yield spreads, scores of companies going public conventionally and via SPACs, and numerous cases of nonsensical price movements spurred by internet rumors. Surging earnings growth has fueled the optimism, but as the economy laps the worst of the downturn, growth off normalized levels will be more challenging and valuations are stretched in many cases. We see a more trying investing environment going forward – one characterized by greater volatility, more modest and dispersed returns, and driven more by fundamentals than by sentiment.

Our long term, fundamental approach has tended to thrive in similar environments. A year ago, the portfolio favored stocks of financially strong, well-positioned companies that were negatively affected by the initial fallout of the pandemic as investors fled these businesses in favor of perceived safe havens. Today, many of these safe haven businesses have been left behind in the enthusiasm for the recovery. Some of them have solid long-term growth profiles and on the margin, we are identifying opportunities among this set, positioning the portfolio in reasonably priced companies poised to compound earnings power at attractive rates, with less economic sensitivity than a year ago. We believe the combination of advantaged business economics and discounted valuations creates both upside in an advancing market and downside protection in a challenging one.

Sources: Advent Portfolio Exchange, Barrons, Bloomberg, FactSet, MarketWatch, Morningstar, Reuters, Stock Analysis

Additional Cooke & Bieler Large Cap Value Performance Disclosures