

Large Cap Value Equity

Overview

U.S. equity markets continued higher in the third quarter on the heels of further government stimulus, improving economic data, encouraging readouts from COVID-19 vaccine trials, and better clinical outcomes for COVID-19 patients. Though the trend reversed in September, growth stocks again led the charge, with the Russell 1000® Growth Index up 13.22% for the three-month period versus 5.59% for the Russell 1000® Value Index. Within the value universe mid cap stocks once again fared best, narrowing the lead amassed by their large cap peers during the Q1 market decline. Given continued resilience in consumer spending and increasing evidence of economic recovery, the generally broad-based market advance included particular strength among Consumer Discretionary and other economically sensitive constituents, though Energy stocks declined meaningfully in the face of persistently low oil prices.

Portfolio Performance & Developments

After a rough start to 2020, Cooke & Bieler's Large Cap Value Strategy returned 8.24% gross of fees (8.08% net of fees), solidly outperforming the Russell 1000® Value Index and recouping some of the ground lost in the first quarter. Allocation effect was positive, but the majority of the portfolio's outperformance came courtesy of stock selection. Top performing Consumer Discretionary stocks such as Whirlpool and Hanesbrands led the way, surging ahead as economies reopened and consumer confidence improved. The strategy's Information Technology holdings stood out as well, returning approximately 9% against a slight decline among their benchmark counterparts. Health Care and Financials holdings also contributed meaningfully to relative results while stock selection effect was negative in the Communication Services, Materials, and Industrials sectors.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
UPS	2.3	50.8	108	AerCap	2.6	-18.2	-48
Whirlpool	2.3	42.9	81	Exxon Mobil	1.3	-21.7	-30
Hanesbrands	1.9	40.8	62	Hexcel	0.7	-25.8	-20
HCA Healthcare	2.3	28.5	60	Chubb	2.8	-7.7	-20
TE Connectivity	2.8	20.5	56	Omnicom	1.9	-8.2	-15

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

United Parcel Service (UPS), the world's leading parcel delivery service, was the largest contributor. UPS reported strong results as the pandemic boosted demand for e-commerce shipments. Additionally, Carol Tome, the company's new CEO, impressed investors with her focus on pricing and profitability.

Whirlpool (WHR), a global manufacturer and marketer of home appliances, was the second-largest contributor. WHR executed solidly against a difficult backdrop, posting strong margin performance in North America and offering encouraging commentary on future profitability in its European segment. Strong overall housing and home improvement trends also benefitted share price performance in the quarter.

Hanesbrands (HBI), a manufacturer and marketer of basic apparel products, was the third-largest contributor. Investor optimism about HBI's new CEO this quarter, the opportunities created by a government mask contract awarded to the company, as well as a significant shelf space reset at a major retailer, contributed to HBI's performance this quarter.

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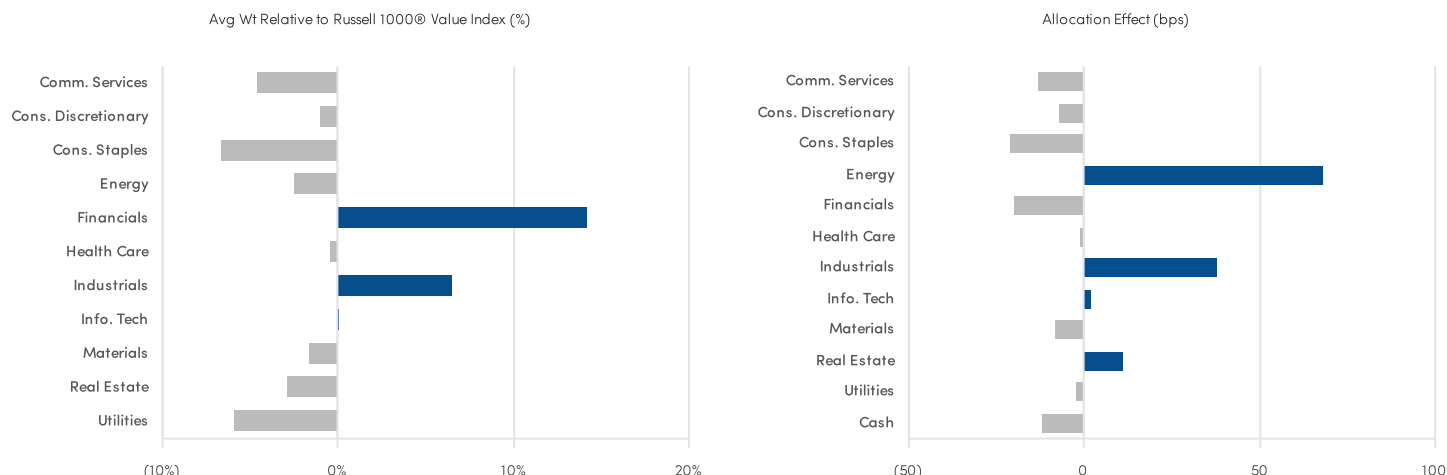
Largest Detractors

AerCap (AER), the largest independent aircraft lessor, was the largest detractor. AER lagged the market as investors remain concerned about the pandemic's impact on air traffic and demand for aircraft. While the company's airline customers are clearly suffering, we believe AER's fleet of young aircraft will be in demand for years to come and that AER has the financial flexibility to weather the current difficulties.

Exxon Mobil (XOM), a leading global integrated oil and gas company, was the second-largest detractor. XOM suffered primarily from the global decline in energy prices. A dim outlook for global jet fuel demand and the company's challenged cash flow profile also contributed to the stock's poor performance.

Hexcel (HXL), a global leader in designing and manufacturing advanced composites, was the third-largest detractor. Uncertainty regarding the length and depth of Airbus and Boeing's COVID-19 related production cuts led to continued weakness of exposed aerospace suppliers, including HXL. HXL's increasing exposure to defense, strong balance sheet, and capable management team partially offset this uncertainty.

Sector Positioning



Source: FactSet

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Sector allocation effect was modestly additive to relative performance. The portfolio's underweight to Energy contributed meaningfully, as the sector posted by far the worst return within the benchmark. Energy has been incredibly volatile this year – having been the worst performing sector in Q1, the best in Q2, and again the worst in Q3 – and remains the market's weakest sector YTD. Also adding to the portfolio's relative results were an overweight to Industrials and underweight to Real Estate. Offsetting some of this positive impact were the portfolio's underweight to Consumer Staples and Communication Services and an overweight to Financials.

Initiations

There were no initiations this quarter.

Eliminations

There were no eliminations this quarter.

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Outlook

We remain generally constructive on the investing environment. The U.S. economy is exiting a recession and we expect the nascent recovery to persist as people slowly return to many pre-COVID routines, driven by human nature and emboldened by improving therapies and eventually vaccines. This process likely will not be linear, and we expect market volatility along the way, but highly accommodative fiscal and monetary policy should provide continuing support. Offsetting the improving fundamental backdrop to some degree are very high expectations embedded in valuations in parts of the market. As the economy normalizes, we expect investors will better appreciate the enormous valuation disparity between the stocks of companies that have benefitted from the pandemic and those that have been negatively impacted. We have selectively favored the latter group, emphasizing reasonably valued stocks of the best positioned, financially strong companies that possess both staying power and latent fundamental improvement potential. We expect the portfolio to perform well as underlying fundamentals progress and these characteristics are better recognized.

Sources: American College of Cardiology, APX, Axios, Bloomberg, FactSet, Forbes, NIH

Past performance is not indicative of future results. The material presented represents the manager's assessment of the Large Cap 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 Large Cap Value institutional portfolio for the quarter ending 9/30/20. 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 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.

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