Q3 2021

Large Cap Value Equity

Overview

Following a breakneck advance through the first half of the year, U.S. equity indices turned in mixed results for the third quarter. The market's tone shifted noticeably in September when investors faced increasing evidence that supply chain disruptions, rising input cost inflation, and labor shortages might negatively impact the near-term trajectory of the economic recovery. Presumably better equipped to handle such vagaries, large cap stocks generally outperformed smaller cap issues. Returns across styles, factors, and sectors were muddled. Growth outperformed value up the market cap spectrum while the opposite was true among small cap stocks. Notably, one consistent trend was Financials sector outperformance, largely driven by bank stocks.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy performed mostly in line with the Index in the third quarter, ending the period slightly behind on a relative basis and returning -0.90% gross of fees (-1.06% net of fees) against -0.78% for the Russell 1000® Value Index. Overall, the portfolio's positive sector allocation effect could not overcome the negative impact of stock selection. Communication Services and Financials holdings posed the biggest relative headwind, particularly Activision Blizzard, Progressive, and Alleghany. Utilities, Consumer Staples, and Energy holdings also underperformed the benchmark. Partially offsetting this deficit, the strategy's Industrials, Health Care, and Real Estate holdings were relative bright spots, led by AerCap and HCA Healthcare.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	2.9	12.9	36
HCA Healthcare	2.0	17.6	35
Chubb	2.6	9.6	24
Brookfield Asset Mgmt.	3.5	5.2	22
CBRE	1.0	13.6	15

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Activision Blizzard	2.5	-18.9	-52
Atmos Energy	2.1	-7.6	-17
United Parcel Service	1.3	-12.0	-17
Stanley Black & Decker	1.1	-14.1	-17
Progressive	2.0	-7.9	-16

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. Global air travel entered the early stages of a recovery and investors began to appreciate the stability of the aircraft leasing business model. Additionally, the company's opportunistic acquisition of General Electric's aircraft leasing business highlighted management's astute capital management and the long-term potential for the business.

HCA Healthcare (HCA), a health care services company, was the second-largest contributor. The company's earnings have surged this year as utilization has recovered and costs have been well managed.

Chubb (CB), a leading global property and casualty insurer, was the third-largest contributor. A healthy pricing environment led to the company's best organic growth in over 15 years. CB continues to execute well and maintain its strong underwriting margins.

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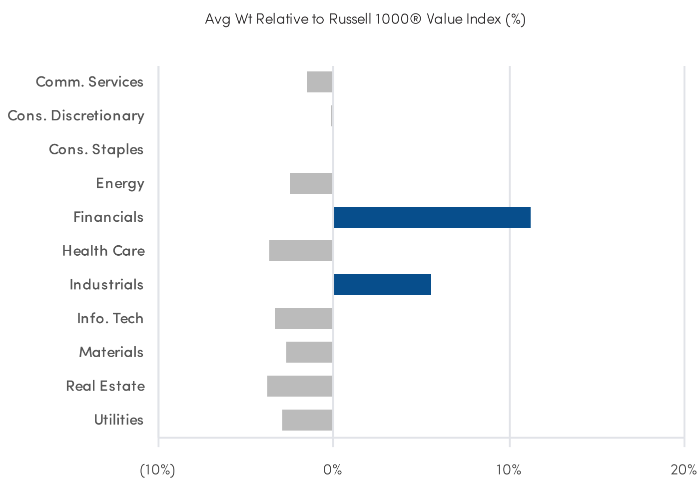
Largest Detractors

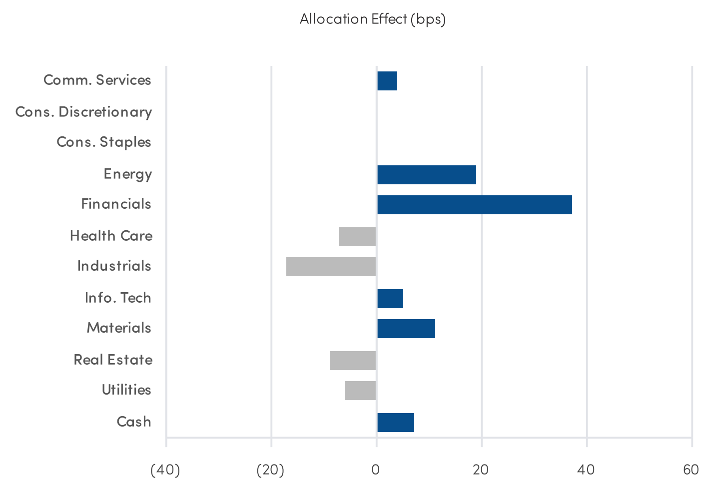
Activision Blizzard (ATVI), a video game developer and publisher, was the largest detractor. ATVI suffered from concerns that negative workplace culture allegations would lead to persistent turnover in the company's creative talent pool, diminishing the quality of upcoming games.

Atmos Energy (ATO), one of the largest regulated gas utilities in North America, was the second-largest detractor. The higher interest rate environment caused investor sentiment to sour toward the Utilities sector in general. Natural gas utilities in particular are also facing concerns about future ESG-related headwinds.

United Parcel Service (UPS), the world's leading parcel delivery service, was the third-largest detractor. Having benefited from management's recent restructuring efforts as well as increased demand during the pandemic, the company is now facing increased labor and other costs that will likely hamper further margin progress in the second half of 2021.

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 during the third quarter. The portfolio's overweight to Financials was a particular positive standout, as it was the best performing sector in the Index. Also contributing to relative performance were underweight positions in Energy, Materials, and Information Technology, three of the Index's poorer performing sectors during the quarter. Partially offsetting these contributions was the strategy's overweight to Industrials, a sector particularly hard hit by mounting supply chain issues. Underweight positions in Real Estate, Health Care, and Utilities also detracted from relative results.

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Initiations

Dentsply Sirona (XRAY) is the largest manufacturer in the still fragmented global dental products and technologies market, an attractive and secularly growing market driven in part by aging demographics in developed markets and rising standards of living in emerging markets. XRAY's brands, scale, distribution, and stickiness with over 600,000 dental professional end users allow the company to earn attractive returns on capital, and relatively low capital requirements lead to consistent and substantial levels of free cash generation. Management has focused on simplifying the business, improving profitability, and investing organically and inorganically in attractively growing products such as clear aligners and implants to help spur improved organic growth.

PACCAR (PCAR) manufactures heavy and medium duty commercial vehicles sold under the Peterbilt, Kenworth, and DAF brands. PCAR also designs and manufactures diesel engines and other powertrain components for use in its own products and for sale to third parties. The company has managed to drive share gains in core markets while executing steady international expansion and building a strong aftermarket parts business, which offers a steady revenue stream and good growth potential. PCAR should also be able to participate in the growing electric vehicle market as it has already developed some electric vehicle products and capabilities. The stable business, growth opportunities, and history of strong returns to shareholders in the form of dividends make the stock an attractive holding.

Williams Companies (WMB) is a gas infrastructure company providing natural gas gathering, processing, and transmission services, as well as natural gas liquids fractionation, transportation, and storage services. WMB owns an interest in and operates over 30,000 miles of pipelines, including Transco, the nation's largest natural gas transmission pipeline. The company's interstate pipeline assets are a significant source of competitive advantage given the high levels of capital expenditure and permits required to create competing assets. The company generates adequate free cash flow to cover its high dividend yield and management is intently focused on improving overall return on capital.

Eliminations

Synchrony Financial (SYF) was eliminated to make room for better opportunities.

Outlook

Having spent the last year pricing in an economic recovery propelled by re-opening and massive fiscal and monetary stimulus, markets are now grappling with the shape of the post-pandemic landscape. In particular, the question of whether current rates of inflation are transitory – caused by temporary supply chain disruptions – or if they reflect deeper structural issues, has increasingly dominated investors' thinking.

The prospect of persistent inflation raises questions markets have not faced in decades and, absent a ready playbook, the markets are likely to react strongly to suggestive data points and become even more volatile. Elevated valuations and Washington's characteristically chaotic approach to policy making further enhance the possibility of a bumpy ride. Faced with this uncertainty, our focus remains on using short-term volatility to acquire attractively-valued businesses that have the balance sheets to weather short-term supply disruptions and the competitive positions to prosper in a more difficult inflationary environment. While this approach does not yield results in every quarter, it has been key to the strategy's long-term success.

Sources: APX, Bloomberg, CNBC, CNN, FactSet, Nasdaq

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Additional Cooke & Bieler Large Cap Value Performance Disclosures