COOKE & BIELER

Q4 2020

Large Cap Value Equity

Overview

U.S. equity markets ended 2020 on a very strong note, with a fourth quarter advance powerful enough to propel all major indices to positive annual results. Bookending a year that started with their steepest decline on record, small capitalization value stocks roared ahead, posting their best quarter ever in Q4 and beating large cap value issues on a full-year basis for the first time since 2016. Investors began to price in a global reopening as vaccine candidates received approval and began their slow rollout. Against this backdrop, value led the charge in the final three-month stretch, showing strong signs of life. However, its resuscitation was not enough to offset the substantial lead growth built during the height of pandemic-related economic shutdowns. For the full year, growth beat value by the widest margin since 1999, sustaining its incredible 14-year reign.

Portfolio Performance & Developments

As the tumultuous year of 2020 came to an end, Cooke & Bieler's Large Cap Value Strategy outperformed the Russell 1000® Value Index for the quarter, returning 21.55% gross of fees (21.39% net of fees) against the benchmark's 16.25%. Stock selection effect and allocation effect were both broadly positive. Stock selection was strongest in the Industrials sector – one of the biggest detractors in Q3 – led by standout performers AerCap and Woodward. Information Technology, Health Care, and Real Estate holdings also contributed to positive relative results. Communication Services and Consumer Discretionary holdings were the only detractors from relative results, though the sectors still performed well on an absolute basis. The portfolio's strong fourth quarter showing put it solidly ahead of the benchmark for the year, with absolute performance also moving into positive territory. Diligent scrubbing and review of all holdings when the COVID-19 crisis emerged, as well as re-underwriting the portfolio throughout this unpredictable year, helped achieve these results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	2.6	80.9	173
Charles Schwab	3.3	47.0	147
Gildan Activewear	2.7	42.4	105
Chubb	3.0	33.2	103
Synchrony Financial	2.6	33.8	85

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Hanesbrands	1.8	-6.3	-18
General Mills	0.1	-0.3	0
Verizon	2.5	-0.2	1
Whirlpool	2.1	-1.2	2
United Parcel Service	1.5	1.7	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 increasing investor optimism regarding COVID-19 vaccines and an end to the pandemic. Though AER's airline customers continue to suffer through record declines in passenger traffic, the company's cash collections and overall liquidity improved during the quarter.

Charles Schwab (SCHW), a leading provider of investment services to individuals and independent investment advisors, was the second-largest contributor. SCHW reported better than expected results as the integration of recently-acquired Ameritrade appeared to be proceeding smoothly. Since SCHW earns most of its profits from customer cash deposits, it also stands to benefit should interest rates rise as the economy exits the pandemic-induced recession.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the third-largest contributor. The company continued to see sequential improvement in end user demand for blank apparel. With the reemergence of certain group events through the summer and new work-from-home demand for basic apparel, GIL's return to profitability and normal earnings power seem largely intact.

Large Cap Value Equity

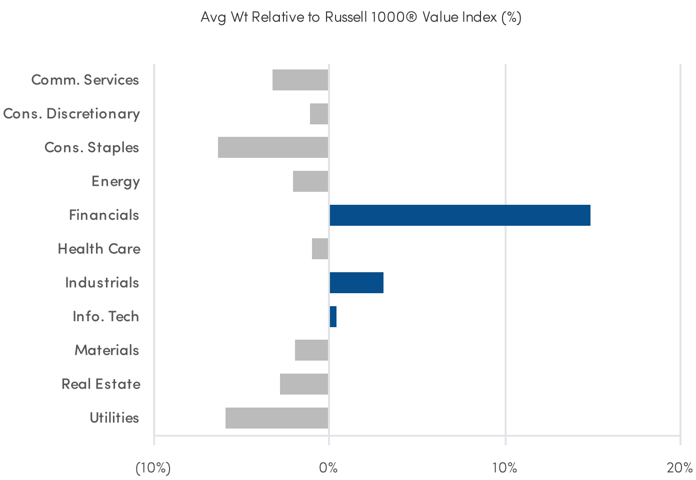
Largest Detractors

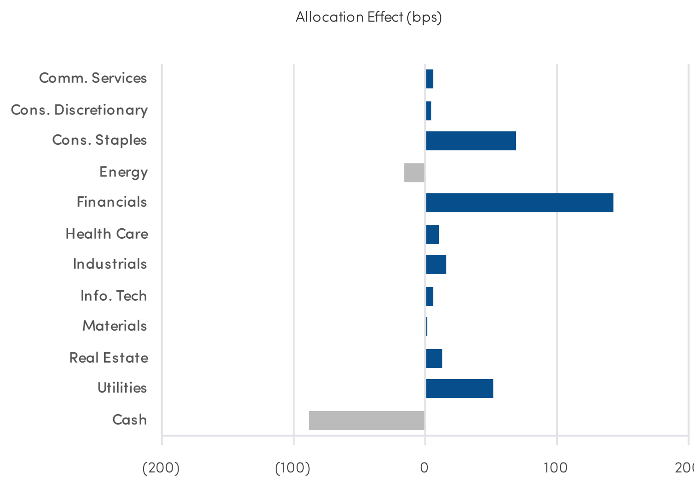
Hanesbrands (HBI), a manufacturer and marketer of basic apparel products, was the largest detractor. HBI suffered from investor concerns that its new CEO, Stephen Bratspies, would reset the company's short-term margins expectations.

General Mills (GIS), a leading packaged food company, was the second-largest detractor. GIS lagged other positions in the portfolio this quarter as it was initiated near the end of the period after most of the market rally had already occurred.

Verizon Communications (VZ), a leading domestic wireless telecom company, was the third-largest detractor. An outperformer earlier in the year, VZ lagged a strong up market in the fourth quarter as investors sought more cyclically exposed names. Concerns over the company's spending on spectrum in FCC auctions also weighed on share prices late in the year.

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 broadly positive for the quarter, with the majority of sectors contributing to the strategy's outperformance. The portfolio's overweight to Financials, which was one of the benchmark's best performing sectors, was an outsized driver. An underweight in Consumer Staples – the worst performing sector – and underweight in Utilities – the second worst performing sector – also benefited relative results. The portfolio's Energy underweight was the sole detractor for the quarter – the sector posted the strongest performance in Q4, but remained the weakest performer for the year.

Large Cap Value Equity

Initiations

Allstate (ALL) is a property & casualty insurer with a strong presence in the personal home and auto markets. ALL has a valuable brand, profitable underwriting, good customer service infrastructure, and a history of returning its excess cash flow to shareholders. Its underwriting margins have been above the industry average for the past few years as it has focused more on profitability than market share. ALL's diverse product lines and coverage options, which are underwritten at good margins with low expense ratios, make the company an attractive holding.

General Mills (GIS) is a packaged food company with strong brand equities, healthy margins, and good cash flow. The packaged food industry has generally benefited in the near term from a combination of stay-at-home orders, the strong distribution capability of larger players, and a reduced need for advertisement and promotion. GIS is an efficient operator, enabling the company to benefit from its scale advantages while still returning capital to shareholders and performing accretive acquisitions. We believe that even after the COVID-19 pandemic, GIS should retain some lasting benefits from changes in consumer preferences and behavior.

IAA (IAA) owns and operates a leading marketplace for the sellers of total loss, damaged, and low value vehicles, with approximately 80% of sales volume coming from insurance companies. The company has about 200 sites across the U.S., Canada, and the U.K., many close to major population centers. These sites provide a broad facility footprint that improves pick-up, storage, titling, and turnaround to an eventual online sale to a highly fragmented group of diverse and global buyers. IAA has strong market share in the consolidated and secularly growing North American salvage auction industry. The company's competitive advantages (scale, relationships, network effect, technology, well-located sites, and processing and logistics expertise), in combination with execution of credible margin expansion opportunities, should lead to attractive incremental returns on capital and strong free cash flow generation.

Eliminations

Hexcel (HXL) was eliminated to make room for better opportunities.

Outlook

Looking ahead, the ongoing roll out of coronavirus vaccines, massive and continuing stimulus efforts, and the earnings recovery they will likely spark are all reasons for optimism. Valuation stands out as the main impediment to continued gains as this quarter's significant rally has left many parts of the market expensive by almost any measure. Moreover, 2020 provided a sharp reminder that the risks you do not see are often bigger than the risks you do, and the only protection is to focus on fundamentals – on owning businesses that can add value across economic environments and have the financial resilience to survive even severe shocks.

Our intense focus on fundamentals during a chaotic March and April – when in light of the changed world we re-underwrote every position in the portfolio – gave us the confidence to hold and add to the positions that benefited performance as the year unfolded. Today, the portfolio is overweight attractively-valued stocks of financially strong, well-positioned companies with some degree of economic sensitivity. We believe it is poised to benefit from a continued economic recovery, but also has the staying power to weather any unforeseen shocks.

Sources: Advent Portfolio Exchange, Associated Press, Bloomberg, CNBC, FactSet, Russell, U.S. Food and Drug Administration

Additional Cooke & Bieler Large Cap Value Performance Disclosures