COOKE & BIELER

Q1 2020

Mid Cap Value Equity

Overview

The scale and speed of this quarter's equity market rout were unprecedented, marked by the fastest bear market descent in U.S. history. The wholesale selloff was staggering and unforeseen, but with no historical analog for the unfolding coronavirus pandemic and economic landscape, it was in many respects understandable. Volatility spiked meaningfully following a respite in 2019. Treasury yields plunged, growth again outperformed value, and larger capitalization issues beat their smaller counterparts. Against this backdrop, the Russell MidCap® Value Index (RMV) declined by 31.71%, the worst quarterly result since its inception. Performance was broadly negative across Index constituents, ranging from bad in the Utilities and Consumer Staples sectors to atrocious in Energy, where freefalling demand converged with free-flowing supply.

Portfolio Performance & Developments

Following very strong absolute and relative performance throughout 2019, Cooke & Bieler's Mid Cap Value Strategy returned -33.63% gross of fees (-33.77% net of fees), underperforming the benchmark for the quarter. Significantly negative stock selection results were only somewhat offset by the positive overall impact of sector allocations. The portfolio's negative stock selection effect was almost entirely attributable to Industrials holdings, primarily from companies with exposure to air travel, an industry particularly affected by COVID-19 and the world's response to it. Other notable detractors included Consumer Discretionary and Information Technology holdings, the negative impact of which was partially offset by positive results in Financials and Communication Services holdings. While the portfolio was hit hard on an absolute and relative basis this quarter, it has still outperformed the benchmark over 3 and 5-year periods.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Alleghany	0.2	5.1	6
Hill-Rom	2.1	-11.1	1
Williams-Sonoma	0.3	1.7	-1
Alliance Data Systems	0.2	-4.3	-2
Progressive	2.2	5.3	-5

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	2.8	-62.9	-199
TCF Financial	3.3	-51.2	-175
Gildan Activewear	2.4	-56.4	-167
Norwegian Cruise Line	0.9	-80.0	-164
Synchrony Financial	2.4	-55.0	-160

Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Mid Cap Value institutional portfolio's gross of fees return relative to the Russell Midcap® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Mid 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

Alleghany (Y), a diversified insurance company, was the largest contributor. Y was a new portfolio holding this quarter, purchased after most of the market selloff. We were drawn to its defensive business model and long track record of value-added capital allocation decisions.

Hill-Rom (HRC), the world's leading provider of hospital bed frames, bed surfaces, and patient lifting and moving systems, was the second-largest contributor. HRC performed well on expectations that strong demand for its hospital beds and respiratory products will keep earnings growing.

Williams-Sonoma (WSM), a leading omni-channel retailer of home-related products and furniture, was the third-largest contributor. WSM performed well as the company showed progress reinvigorating its Pottery Barn brand, with their West Elm brand also continuing to generate strong results. The position was eliminated to make room for better opportunities as it approached fair value.

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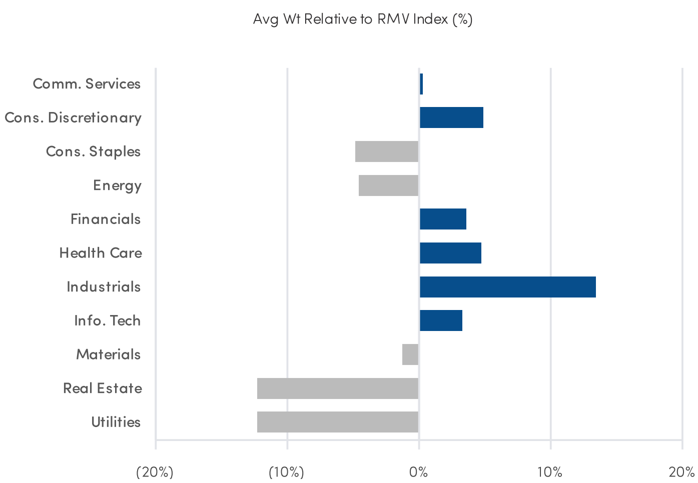
Largest Detractors

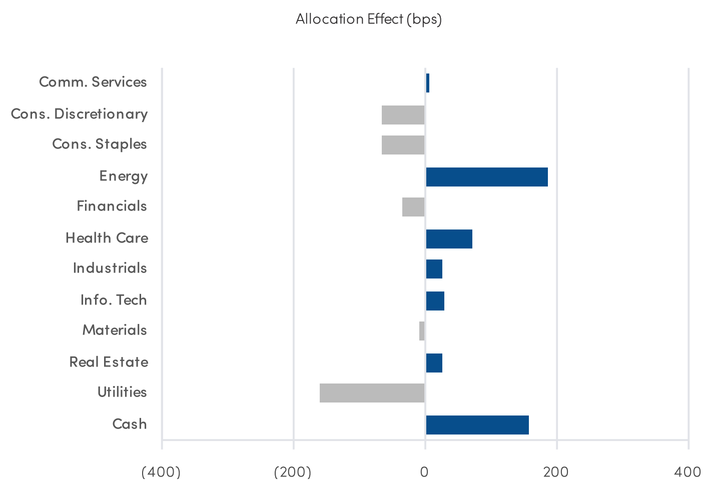
AerCap (AER)¸ the largest independent aircraft lessor, was the largest detractor. AER underperformed as its airline customers came under severe stress, with air travel grinding to a halt in the wake of the COVID-19 pandemic. AER is a secured creditor to airlines worldwide, with a young and attractive fleet whose planes should remain in strong demand in almost any airline scenario. Their conservative capital structure and ample funding flexibility give them the means to endure the current crisis and prosper on the other side.

TCF Financial (TCF), a Midwest bank with strong deposits and a unique lending platform, was the second-largest detractor. TCF underperformed first on fears that renewed easing by the Federal Reserve would restrain earnings and, more recently, by credit fears due to sharply falling economic activity as the Government moves to curtail the COVID-19 outbreak. TCF enters this downturn with a strong capital position and diversified loan portfolio. In addition, their recent merger with Chemical Financial gives them significant opportunities for cost savings over the next 18 months.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the third-largest detractor. GIL saw an industrywide pullback in end-user demand for printwear products that has deteriorated further due to the impact of COVID-19. We believe GIL's conservative balance sheet will permit it to successfully weather this disruption.

Sector Positioning





Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Mid Cap Value institutional portfolio's gross of fees sector return relative to the Russell Midcap® Value Index. Please see additional performance disclosures at the end of this document.

Sector allocation effect was additive for the quarter, offsetting a portion of the portfolio's negative stock selection outcome. An underweight to Energy was a significant tailwind as oil prices plummeted to $20 a barrel, the lowest level in 18 years. The portfolio's overweight to Health Care was also additive – with demand increasing for products such as hospital beds – as was an overweight to Information Technology and Industrials and an underweight to Real Estate. Conversely, the most notable headwind was an underweight to Consumer Staples and Utilities, demand stable sectors that meaningfully outperformed the broader benchmark amid fears of a deep recession. The overweight to the Consumer Discretionary and Financials sectors also hindered results.

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Initiations

Alleghany (Y) is a classic C&B insurer. Conservative both financially and operationally, Y owns a handful of insurance companies that are well positioned in their respective niches. Their total return and long-term ownership mentality - over the last 50 years they have only had three CEOs - emphasizes solid returns while taking minimal risk. We believe their balance sheet is particularly well positioned to be opportunistic during market uncertainty.

Essent (ESNT) is a private mortgage insurer with a focus on managing credit risk, both through disciplined and granular underwriting on the front-end and the use of reinsurance on the back-end. As a relatively new entrant, ESNT benefits from an improved industry structure, including a new regulatory regime, new capital market solutions, and more rational competitors. These factors have led to improved industry economics for ESNT, resulting in a solid compounder with good downside protection through the credit cycle.

Huntington Ingalls (HII) is a military shipbuilder for the U.S. Navy, and is the Navy's sole supplier for nuclear-powered aircraft carrier construction, refueling, and inactivation. The American military ship-building business is a low-growth, but stable duopoly driven by long construction lead times and long term contracted backlogs. With the recent award of two carriers, HII's backlog has expanded from two to five times its revenue. HII's well protected and highly visible revenues, as well as the modest margin increases that should occur as they wind down their current capital expenditure schedule, make it an attractive holding.

Norwegian Cruise Lines (NCLH) was added to the portfolio in the early stages of the coronavirus pandemic when it seemed likely the virus would be contained and the impacts muted. The stock underperformed significantly as the pandemic spread and the cruise industry - like many others - was forced to temporarily shut down. As with all portfolio holdings, NCLH was subject to a rigorous balance sheet and cash flow analysis focused on their ability to withstand unexpected events, and we believe the company has the balance sheet and financing to survive the current crisis. Once it has passed, we believe returns to investors could be considerable as the cruise industry is highly concentrated, with high barriers to entry and strong popularity with its customers.

Eliminations

Alliance Data Systems (ADS) and **Crown (CCK)** were eliminated to make room for better opportunities.

Williams-Sonoma (WSM) reached its price target and was eliminated.

Outlook

Across the globe, the coronavirus pandemic has upended expectations of all types – personal, political, social, and economic – in an astoundingly short time. Government attempts to slow the spread of the virus have resulted in an unprecedented halt to economic activity, countered in part by equally unprecedented fiscal and monetary stimulus actions. What happens next will depend heavily on how quickly the disease is contained and vaccines or other effective therapies are developed. As long as the range of possible outcomes for both the disease and its economic impact remains wide, markets are likely to remain extremely volatile. However, now is not a time to reflexively seek safety, or to rush blindly to call a bottom in the market. Now is the time for careful, disciplined analysis to uncover opportunities in the turmoil.

Sources: APX, Bloomberg, CNN, FactSet, The New York Times, Reuters

Additional Cooke & Bieler Mid Cap Value Performance Disclosures