COOKE & BIELER

Q2 2020

Mid Cap Value Equity

Overview

Equity indices staged a remarkable comeback in the second quarter following last quarter's quickest-ever bear market descent. Posting their best quarterly return since 1998, U.S. stocks shrugged off the continued spread of the coronavirus, dismal real-time economic data, and nationwide civil unrest sparked by the death of George Floyd. Buoyed by massive government stimulus, the hope for a COVID-19 vaccine, and indications of sequential economic improvement, value stocks performed well on an absolute basis, with the Russell Midcap® Value Index (RMV) returning 19.95%, but they again lagged their growth counterparts. Perhaps not surprisingly, this quarter was often a story of reversals, with many stocks and sectors hardest hit in the first quarter performing best in Q2, while the strongest performers in Q1 often advanced the least in the second quarter.

Portfolio Performance & Developments

Cooke & Bieler's Mid Cap Value Strategy returned 21.28% gross of fees (21.07% net of fees), outperforming the benchmark and partially offsetting its underperformance during the first quarter. Sector allocation effect was additive to relative results. Stock selection effect detracted from relative results. The negative impact of stock selection was attributable mainly to holdings within Financials and Communication Services, the sectors in which the portfolio posted its strongest stock selection during the first quarter. Conversely, the performance of Real Estate, Health Care, and Information Technology holdings benefitted relative performance, having been detractors in the first quarter.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Colfax	3.0	40.9	127
Syneos Health	2.8	47.8	124
Arrow Electronics	3.3	32.4	109
Helen of Troy	3.3	30.9	95
Whirlpool	1.9	52.6	93

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Alleghany	1.7	-11.4	-21
IAA	0.6	-1.8	-19
FirstCash	2.5	-5.6	-16
Omnicom Group	2.1	0.6	-3
Arch Capital Group	2.0	0.7	-1

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

Colfax (CFX), an acquisitive conglomerate with strong welding and orthopedic franchises, was the largest contributor. After the stock underperformed during the first quarter, investors were pleasantly surprised to find that CFX's results prior to the emergence of COVID-19 were stronger than expected. Management also assuaged investor concerns over a potential debt covenant issue by amending their revolver at a minimal cost.

Syneos Health (SYNH), an outsourced contract research organization, was the second-largest contributor. SYNH's most recent quarterly results indicated that demand for the company's clinical trial services remains strong.

Arrow Electronics (ARW), a solutions provider for users of electronic components and enterprise computing, was the third-largest contributor. The stock bounced back after poor first quarter performance as investors became increasingly comfortable with the demand outlook and the company's ability to generate strong cash flows.

Cooke & Bieler

Q2 2020

Mid Cap Value Equity

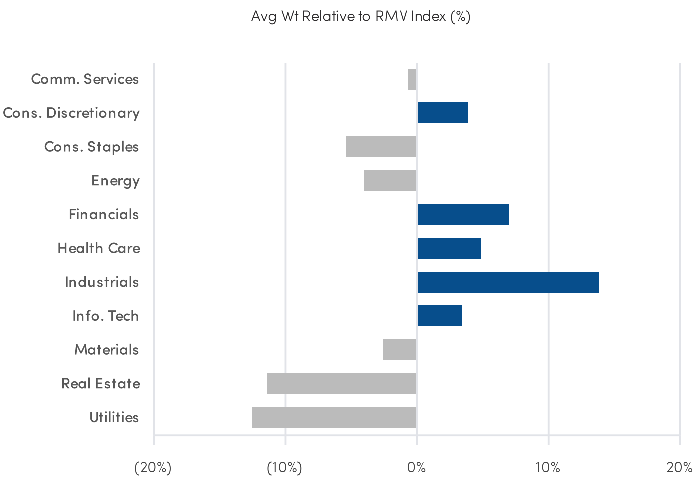
Largest Detractors

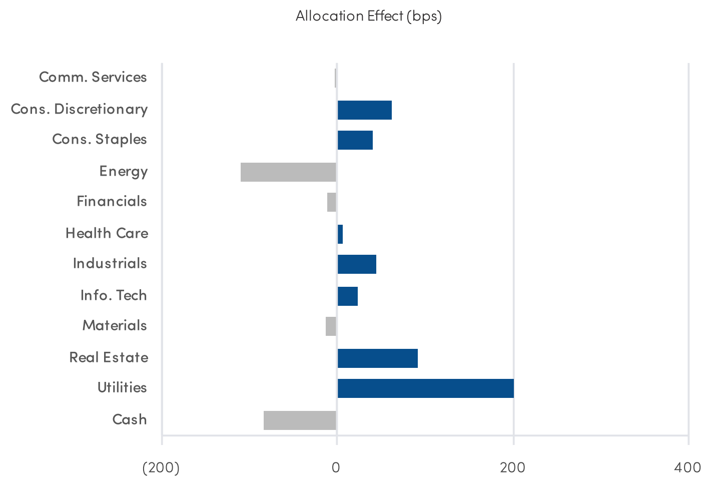
Alleghany (Y), a diversified insurance and reinsurance company, was the largest detractor. The underfollowed insurer was left behind by the strong market really despite the lack of any negative fundamental news. Having initiated Y late in the first quarter, we used the weakness to build out the position.

IAA (IAA), an owner and operator of the leading marketplace for the sale of loss, damaged, and low value vehicles, was the second-largest detractor. IAA was a new portfolio holding this quarter, purchased during the second half of the quarter. We were drawn to IAA's strong market share in the consolidated and secularly growing North American salvage auction industry along with its durable competitive advantages and credible margin expansion opportunities.

FirstCash (FCFS), the largest pawn shop operator in North America and Mexico, was the third-largest detractor. The stock lagged the recovery as demand for pawn loans was restrained by a combination of aggressive stimulus measures and a pullback in consumer spending.

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 positive in seven of 11 economic sectors and explained more than all of this quarter's outperformance. A zero weight position in Utilities – the most pronounced laggard within the benchmark by far – drove the majority of the portfolio's favorable allocation effect as enthusiasm for perceived safe havens waned. As was the case in the first quarter, an underweight to Real Estate was also a tailwind to relative results. The portfolio's underweight in Energy posed a headwind in the quarter as benchmark constituents rebounded from their first quarter lows, but the sector remains the biggest laggard year to date. An underweight to Materials and overweight to Financials detracted from relative performance as well.

Initiations

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

Norwegian Cruise Lines (NCLH) was eliminated as the cessation of all sailings due to COVID-19 caused the stock to become unanalyzable.

Mid Cap Value Equity

Outlook

The market's resilience in the midst of unimaginable circumstances has been no less than miraculous. Just three months ago we warned against reflexively seeking safety. Now, with stock prices nearly back to pre-pandemic levels and many valuations at historic highs, we worry investors are being cavalier about still elevated economic, political, and social uncertainties. This quick and sharp reversal reflects the fickle, unpredictable nature of investors' impulses. We recognize sentiment often moves markets in the short term, but sentiment-driven strategies transform investing into a game of chance. We also know that fundamentals ultimately drive stock prices and that companies with sustainable, favorable underlying economics are positioned to drive long-term outperformance. So, as always, we remain intently focused on long-term fundamental investing. Given current circumstances, we are evaluating the portfolio's existing and prospective holdings through the lens of two critical questions: does the company have the near-term financial wherewithal and liquidity to endure a prolonged economic downturn, and is the business positioned to thrive in the post-COVID world. We are confident the portfolio is composed of companies well positioned to survive the downturn and ultimately succeed. The market recently began to recognize these characteristics after largely ignoring them during the February/March meltdown, but there appears to be further upside based on the portfolio's meaningfully discounted valuation.

Sources: APX, Bloomberg, FactSet, Forbes, Financial Times, MarketWatch

Additional Cooke & Bieler Mid Cap Value Performance Disclosures