Cooke & Bieler

Q2 2021

Mid Cap Value Equity

Overview

U.S. equity markets advanced for the fifth consecutive quarter, posting solid gains in the second quarter led by large cap stocks. Though all major indices were up, underlying return composition diverged wildly across style and size. Among small cap stocks, value slightly outperformed growth, while at the other end of the spectrum large cap growth and mid cap growth handily topped value. Across large and mid, the lowest quality companies underperformed. That trend was very different in the small cap value category, where many of the same drivers witnessed early in the year reemerged in late April and non-earning, low sales growth companies dominated the Index return.

Portfolio Performance & Developments

Cooke & Bieler's Mid Cap Value Strategy lagged the benchmark in the second quarter, returning 4.29% gross of fees (4.10% net of fees) against a 5.66% return for the Russell Midcap® Value Index. Sector allocation and stock selection both modestly detracted from the portfolio's relative performance. The portfolio's Financials holdings – in particular, insurance companies RenaissanceRe and Essent – posed the largest headwind. Industrials holdings also detracted, mostly due to AerCap, which was the largest individual detractor following its standout showing in Q1. Materials, Utilities, and Real Estate holdings also generated a negative selection effect. The portfolio's Consumer Discretionary holdings were a partial positive offset, with particularly strong performance coming from Gildan and American Eagle. Communication Services and Health Care stocks were also additive to relative results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Gildan Activewear	3.5	20.9	67
American Eagle	2.4	28.4	65
FirstCash	3.5	16.9	50
Syneos Health	2.7	18.0	45
Synchrony Financial	1.4	19.9	28

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	3.0	-12.8	-38
BWX Technologies	2.4	-11.6	-27
Schweitzer-Mauduit	1.0	-16.7	-18
Gentex	2.3	-6.9	-17
RenaissanceRe	1.9	-6.9	-15

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

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the largest contributor. GIL has seen demand for its imprintable garments rebound as the economy reopens and group events return. Additionally, the company's cost control efforts have structurally improved its margin profile and should increase normal earnings power once demand has fully recovered.

American Eagle Outfitters (AEO), a leading teen and young adult retailer operating through the American Eagle and Aerie brands, was the second-largest contributor. AEO posted strong sales and margins led by its Aerie brand. Long a hidden gem within AEO's business, Aerie has reached a size where it is attracting more attention from investors who are now better reflecting its value in the company's stock price.

FirstCash (FCFS), the largest pawn shop operator in North America and Mexico, was the third-largest contributor. FCFS recovered from underperformance earlier in the year. The company's pawn loan business showed signs of stabilization as government stimulus payments continued to flow through the system and consumer liquidity began to normalize. Their retail merchandise business continues to generate strong margins, benefiting from healthy customer demand as well as reduced competition due to supply chain disruptions and retail closures.

Mid Cap Value Equity

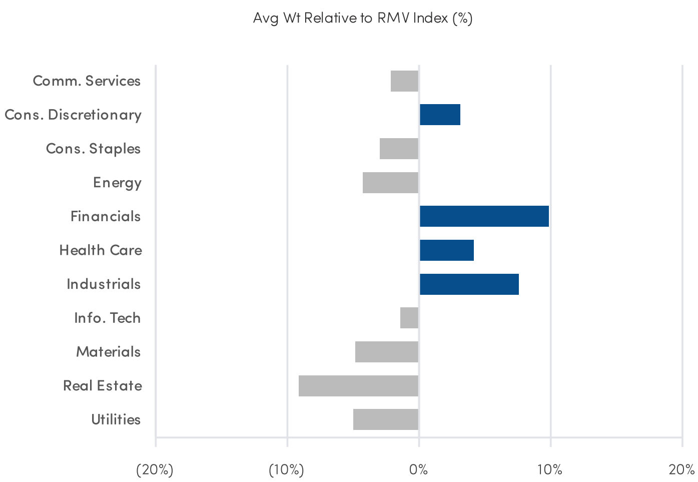
Largest Detractors

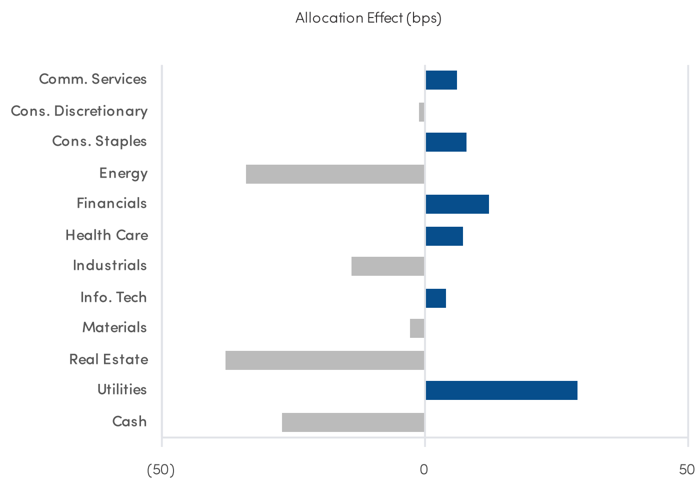
AerCap (AER), the largest independent aircraft lessor, was the largest detractor. AER gave back some of its post-pandemic gains amid concerns global air travel would be slow to recover as the pandemic continues to rage in much of the world.

BWX Technologies (BWXT), a provider of nuclear reactors needed for submarine and aircraft carrier propulsion, was the second-largest detractor. In the quarter, the company provided intermediate term guidance consistent with our expectations, but in the near term there is a lack of clear positive catalysts. The company's defensive demand profile, conservative balance sheet, thoughtfully constructed management incentives, and consistent cash flow generation are attractive but often underappreciated in strong up markets.

Schweitzer-Mauduit (SWM), an engineered papers and advanced materials manufacturer, was the third-largest detractor. SWM navigated the pandemic well thanks to its diverse mix of products spanning tobacco, industrial, and medical end markets, managing to grow earnings power on an organic basis and complete a well received, transformative acquisition. Recent raw material inflation has created some near-term uncertainty in the company's margin outlook, but we believe its long-term prospects remain favorable.

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.

Overall sector allocation effect was negative, though it was additive in six of the 11 sectors. An underweight to the second-best performing sector, Real Estate, detracted most. Similarly, an underweight to the highly volatile Energy sector was the next largest drag on relative results, as Energy posted the highest return of all benchmark sectors for both the quarter and the year-to-date periods. Conversely, the portfolio's underweight to Utilities, the only benchmark sector with a negative absolute return, was a tailwind, as was its overweight to Financials.

Mid Cap Value Equity

Initiations

General Mills (GIS) is a packaged food company with strong brands, healthy margins, and good cash flows. 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 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.

Hasbro (HAS) is a leading global play and entertainment company with a broad and deep portfolio of brands and entertainment properties spanning toys, games (mostly traditional but increasingly digital), licensed products, and television and film entertainment. Retailer liquidations, tariffs, and COVID-19 limited fundamental progress during the 2017-2020 period. We believe that the company's results should improve as these headwinds fade, thanks to its strong position and growth opportunities in the global play and entertainment industry.

Ingredion (INGR) is an agricultural commodities refiner that produces sweeteners, starches, and other ingredients. The company has been transitioning away from its prior role as a basic core refiner and into a hybrid core refiner and specialty products company. The specialty products often require more complex conversion steps and garner higher returns for the company.

Eliminations

Axalta Coating Systems (AXTA) and **Hexcel (HXL)** were eliminated to make room for better opportunities.

Extended Stay America (STAY) was acquired by a joint venture between Blackstone and Starwood at a price we believed to be significantly below its intrinsic value.

Outlook

Only a little more than a year ago the global pandemic was raging, the U.S. economy was locked down in deep recession, and the stock market was in free fall. Today, the pandemic is receding quickly in the U.S., the economy is growing at or near unprecedented rates, and the stock market is hitting new highs. Though relieved to be comfortably removed from last year's tumult, we are vigilant by nature and worry that the market has come too far, too fast. We see clear signs of speculation, including very tight high yield spreads, scores of companies going public conventionally and via SPACs, and numerous cases of nonsensical price movements spurred by internet rumors. Surging earnings growth has fueled the optimism, but as the economy laps the worst of the downturn, growth off normalized levels will be more challenging and valuations are stretched in many cases. We see a more trying investing environment going forward – one characterized by greater volatility, more modest and dispersed returns, and driven more by fundamentals than by sentiment.

Our long term, fundamental approach has tended to thrive in similar environments. A year ago, the portfolio favored stocks of financially strong, well-positioned companies that were negatively affected by the initial fallout of the pandemic as investors fled these businesses in favor of perceived safe havens. Today, many of these safe haven businesses have been left behind in the enthusiasm for the recovery. Some of them have solid long-term growth profiles and on the margin, we are identifying opportunities among this set, positioning the portfolio in reasonably priced companies poised to compound earnings power at attractive rates, with less economic sensitivity than a year ago. We believe the combination of advantaged business economics and discounted valuations creates both upside in an advancing market and downside protection in a challenging one.

Sources: Advent Portfolio Exchange, Barrons, Bloomberg, FactSet, MarketWatch, Morningstar, Reuters, Stock Analysis

Past performance is not indicative of future results. The material presented represents the manager's assessment of the Mid 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 Mid Cap Value institutional portfolio for the quarter ending 6/30/21. The 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 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.

Additional Cooke & Bieler Mid Cap Value Performance Disclosures