Cooke & Bieler

Q4 2020

Mid 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 roll out. 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 Mid Cap Value Strategy outperformed the Russell Midcap® Value Index for the quarter, returning 24.21% gross of fees (23.99% net of fees) against the benchmark's 20.43%. Stock selection effect and allocation effect were both broadly positive. Stock selection was strongest in the Industrials sector – where it was weakest in Q3 – led by standout performers AerCap and Woodward. Health Care, Real Estate, and Communication Services holdings also contributed to positive relative results. Financials and Information Technology holdings detracted from relative results, though the sectors still performed well on an absolute basis. The portfolio finished slightly behind the benchmark for the year, though it did move into positive territory after the strong absolute performance in Q4.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
AerCap	2.3	80.9	149
TCF Financial	2.7	60.2	137
Gildan Activewear	3.4	42.4	127
American Eagle	3.6	36.5	122
Woodward	2.2	51.7	104

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Hanesbrands	1.7	-6.3	-18
Perrigo	1.8	-2.1	-2
RenaissanceRe	0.2	-0.6	0
Whirlpool	2.1	-1.2	3
Progressive	1.6	4.6	8

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

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.

TCF Financial (TCF), a Midwest bank with strong deposits and a unique lending platform, was the second-largest contributor. TCF rebounded during the quarter as investors grew more comfortable that credit losses during this downturn would be easily managed. Late in the quarter, the company announced it was being acquired by Huntington Bancshares, resulting in further outperformance.

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.

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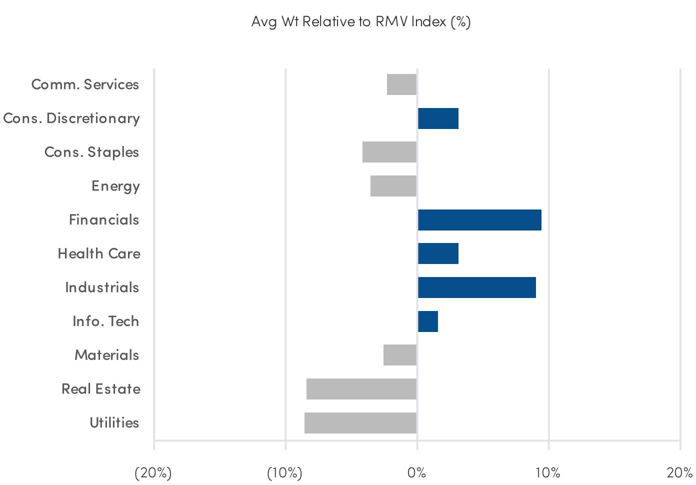
Largest Detractors

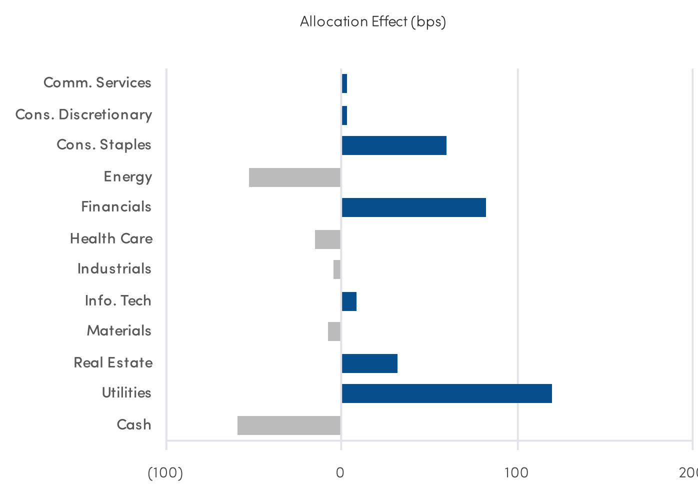
Hanesbrands (HBI), a manufacturer and marketer of basic apparel products, was the largest detractor. HBI suffered from investor concerns that its new CEO, Stephen Bratspies, would reset the company's short-term margins expectations.

Perrigo (PRGO), a manufacturer and supplier of over-the-counter and generic pharmaceutical products, was the second-largest detractor. PRGO underperformed meaningfully as investors drove the stock's valuation down on disappointing news regarding a product recall and tax litigation developments.

ReniassanceRe (RNR), a Bermuda-based catastrophe and specialty reinsurer, was the third-largest detractor. RNR 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.

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

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.

RenaissanceRe (RNR) is a best-in-class reinsurer with superior human capital, underwriting tools, and customer relationships. In addition, they are a leading outsourced underwriter for third-party capital, generating accretive (and growing) fee income. They have managed well through a difficult year for the industry, growing book value per share meaningfully and positioning themselves to opportunistically deploy capital into an increasingly attractive underwriting environment. Having sold RNR in 2019 as it approached fair value, we were able to re-initiate the stock after its recent underperformance.

Eliminations

There were no eliminations this quarter.

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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 Mid Cap Value Performance Disclosures