



Small 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 2000® Value Index (RUJ) declined by 35.66%, 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 Small Cap Value Strategy suffered its worst quarterly decline since inception, returning -35.30% gross of fees (-35.49% net of fees), albeit modestly outperforming the benchmark for the quarter. Though almost all stocks were down, stock selection and sector allocation were both additive to relative results. Stock selection effect within the Consumer Discretionary and Financials sectors was particularly strong, with Health Care and Materials results also benefitting relative performance. Conversely, stock selection within the Industrials sector was a significant detractor, with performance among the portfolio's Information Technology holdings posing an additional headwind. While the portfolio struggled on an absolute basis this quarter, it has outperformed its benchmark over the QTD, 1, 3, and 5-year periods.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Arrow Electronics	0.0	30.8	6	Winnbago	4.5	-47.4	-231
Axalta Coating Systems	0.3	-3.9	2	Gildan Activewear	2.9	-56.4	-206
Hill-Rom	2.5	-11.1	1	PGT Innovations	3.4	-43.7	-190
Williams-Sonoma	0.5	1.6	1	TCF Financial	3.4	-51.2	-168
RenaissanceRe	0.1	-2.9	-1	Essent	1.9	-49.1	-151

Source: FactSet

Past performance is not indicative of future results. The performance attribution is an analysis of a representative Small Cap Value institutional portfolio's gross of fees return relative to the Russell 2000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Small 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

Arrow Electronics (ARW), a solutions provider for users of electronic components and enterprise computing, was the largest contributor. We initiated a position in ARW during the quarter, but were unable to establish a meaningful position before the stock recovered from undue selling pressure. The decline in the stock price was unwarranted given the countercyclical nature of ARW's free cash flow generation.

Axalta Coating Systems (AXTA), a provider of coatings to the automotive refinish and original equipment manufacturer markets, was the second-largest contributor. AXTA was initiated opportunistically due to a stock price decline during the quarter. The subsequent recovery from that decline contributed to the portfolio's overall return.

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



Small Cap Value Equity

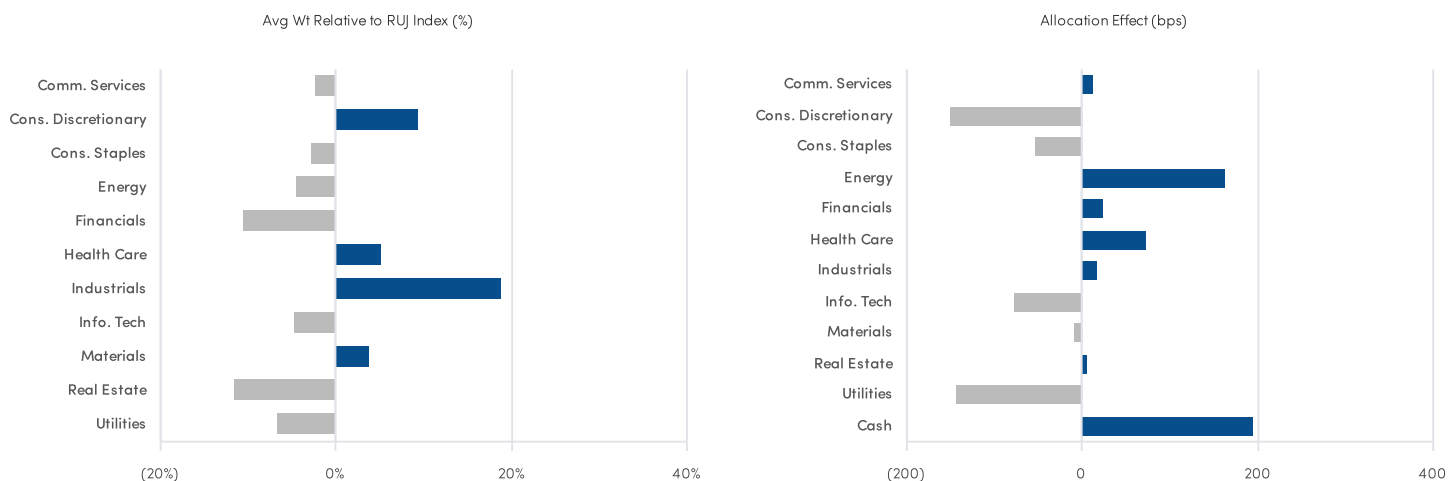
Largest Detractors

Winnabago (WGO), a leading manufacturer of recreational vehicles, was the largest detractor. WGO posted very strong topline progress in its first fiscal quarter, but has since temporarily shuttered production and will face declining near-term demand due to the COVID-19 pandemic. WGO's market share momentum is likely to return and it has ample liquidity to endure an extended and severe pullback in revenue.

Gildan Activewear (GIL), the largest basic apparel manufacturer, was the second-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.

PGT Innovations (PGTI), a leading manufacturer of laminated, impact-resistant windows, was the third-largest detractor. PGTI began to see its end markets and orders inflect positively during the quarter, but COVID-19 disrupted that positive momentum. Long-term secular trends remain favorable for its products.

Sector Positioning



Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Small Cap Value institutional portfolio's gross of fees sector return relative to the Russell 2000® Value Index. Please see additional performance disclosures at the end of this document.

Sector allocation was also additive for the quarter. The portfolio's 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. Underweight positions in Financials and Communication Services as well as an overweight in Industrials also contributed to relative performance. The portfolio's overweight to Consumer Discretionary was a headwind as was its underweight to Utilities, a demand stable sector that significantly outperformed the broader benchmark amid fears of a deep recession. Underweights to Information Technology and Consumer Staples sectors also weighed on relative results.





Small Cap Value Equity

Initiations

Arrow Electronics (ARW) has two businesses: electronic components distribution and the provision of information technology products to Value Added Resellers (VARs) that service small businesses. Several other Cooke & Bieler strategies held ARW at the start of the quarter and we were able to initiate the position at an attractive valuation as ARW's market cap fell into the range of the Small Cap Value strategy. However, as we were unable to establish a meaningful position across all client portfolios, we exited from the holding prior to the end of the quarter.

Axalta Coating Systems (AXTA) is a provider of coatings to the automotive refinish and original equipment manufacturer markets, as well as the large truck and industrial markets. Several other Cooke & Bieler strategies held AXTA at the start of the quarter. The stock became even more attractively valued as it fell into the market cap range of the Small Cap Value strategy giving us the opportunity to add this competitively advantaged business to the portfolio.

NV5 Global (NVEE) provides engineering and consulting services that surround infrastructure and construction projects. Importantly, NVEE does not engage in construction work; rather, they act as consultants. This strategy results in higher margins with less volatility. With high insider ownership – the CEO owns about 20% of shares outstanding – and a strong entrepreneurial culture, NVEE has gained significant share both organically and through acquisition. Uncertainty regarding a material internal control deficiency (non-material to financials) and a slowdown in organic growth led to investor sentiment turning negative. We believe these issues are temporary.

Eliminations

Arrow Electronics (ARW) was eliminated shortly after initiation as we were unable to establish a meaningful position across all client portfolios.

RenaissanceRE (RNR) and **Williams-Sonoma (WSM)** reached their price targets and were 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

Past performance is not indicative of future results. The material presented represents the manager's assessment of the Small 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 Small Cap Value institutional portfolio for the quarter ending 3/31/20. 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 2000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Small Cap Value clients. To obtain the calculation's methodology and a list showing very 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 Small Cap Value Performance Disclosures](#)