COOKE & BIELER

Q2 2020

Small 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 2000® Value Index (RUJ) returning 18.91%, 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

Building on positive relative results in the first quarter, Cooke & Bieler's Small Cap Value Strategy returned 29.88% gross of fees (29.58% net of fees), significantly outperforming the benchmark for the quarter. Both stock selection and allocation effect were additive, with allocation effect generating the majority of the portfolio's excess return. Stock selection effect was strongest within Industrials – the sector which posed the biggest headwind in the first quarter – as some of the worst performing stocks during the March downdraft such as PGT Innovations and Colfax recovered strongly. Stock selection effect within Financials and Information Technology was also additive. Negative selection results were concentrated in those sectors with the best absolute performance in Q2: Health Care, Consumer Discretionary, and Materials.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Winnebago	4.7	140.7	502
PGT Innovations	3.6	86.9	252
Malibu Boats	2.4	80.4	182
Colfax	3.5	40.9	166
Syneos Health	2.8	47.8	139

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Varex Imaging	2.1	-33.3	-86
IAA	0.7	-1.8	-22
FirstCash	3.1	-5.6	-20
Umpqua Holdings	2.6	-2.4	-8
PRA Group	0.1	-12.4	-8

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

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the largest contributor. WGO recovered forcefully from its first quarter lows due to surging retail demand for recreational vehicles as consumers sought out open-air, domestic vacation alternatives in the face of COVID-19 related travel restrictions and transmission fears. These purchases by first-time RV consumers should augment WGO's already strong market share momentum.

PGT Innovations (PGTI), a leading manufacturer of laminated, impact-resistant windows, was the second-largest contributor. PGTI posted strong first quarter results and indicated that it could exit the second quarter at a flat year-over-year growth rate in its core Florida construction markets, despite the economic slowdown.

Malibu Boats (MBUU), a designer and manufacturer of recreational powerboats, was the third-largest contributor. MBUU entered the quarter with lean dealer inventories and a share-winning portfolio of brands. The company is now seeing early signs of strong retail boat demand as COVID-19 has sparked heightened interest in outdoor leisure activities.

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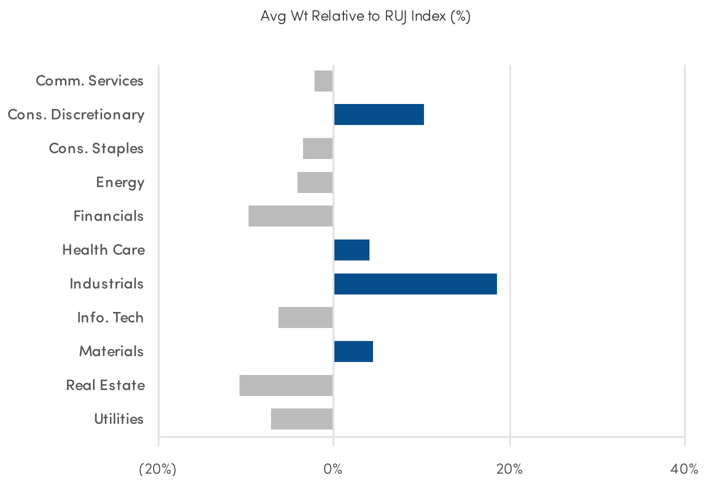
Largest Detractors

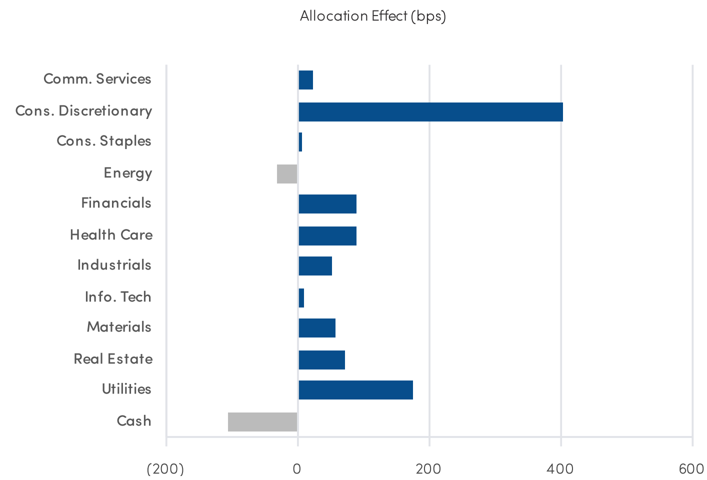
Varex Imaging (VREX), a designer and manufacturer of x-ray components, was the largest detractor. Recent results suggest that the business will be significantly negatively affected by the coronavirus pandemic, putting a large financial strain on the company.

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 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 effect was positive in 10 of 11 economic sectors and accounted for approximately 75% of the portfolio's excess return in the second quarter. Key drivers included the portfolio's overweight to Consumer Discretionary – the best performing sector within the benchmark by far – and an underweight to Utilities – the only sector within the benchmark to post a negative absolute return. The portfolio's underweight in Energy posed a modest headwind in the quarter as benchmark constituents rebounded from their first quarter lows, but the sector remains the biggest laggard year to date.

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

Entegris (ENTG) reached its price target and was eliminated.

PRA Group (PRAA) was eliminated to make room for better opportunities.

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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

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 6/30/20. 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