COOKE & BIELER

Q4 2020

Small 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 Small Cap Value Strategy underperformed the Russell 2000® Value Index for the quarter, returning 29.22% gross of fees (28.92% net of fees) against the benchmark's 33.36%. Stock selection effect and allocation effect were both negative. Stock selection was weakest in the Industrials and Materials sectors, where despite all holdings having positive absolute returns and contributing to portfolio results, they were not able to keep up with surging benchmark constituents. Financials, Consumer Discretionary, and Energy holdings also detracted from relative results. Information Technology and Health Care holdings helped to offset some of these results, led by standout performers Cohu and Integra LifeSciences. In the first half of 2020, the portfolio realized significant relative gains, and although it gave back some of that outperformance in the second half of 2020 when the Index rallied mightily, the portfolio finished well ahead of the benchmark for the year and in positive territory for the year as well. Diligent scrubbing and review of all holdings when the COVID-19 crisis emerged, as well as re-underwriting the portfolio throughout this unpredictable year, helped achieve these results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
TCF Financial	3.0	60.2	165
Gildan Activewear	4.1	42.4	159
Cohu	1.4	122.2	145
American Eagle	3.9	36.5	134
Glacier Bancorp	2.9	45.8	128

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Hanesbrands	1.2	-6.3	-12
BrightView	0.1	7.4	3
NOW	0.1	25.6	3
Gorman-Rupp	0.7	10.7	10
Donaldson	0.1	10.1	11

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

TCF Financial (TCF), a Midwest bank with strong deposits and a unique lending platform, was the 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 second-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.

Cohu (COHU), a provider of back-end semiconductor equipment and services, was the third-largest contributor. The continued automotive recovery, coupled with the rising penetration rates for 5G technology, increased investors' confidence in Cohu's revenue prospects.

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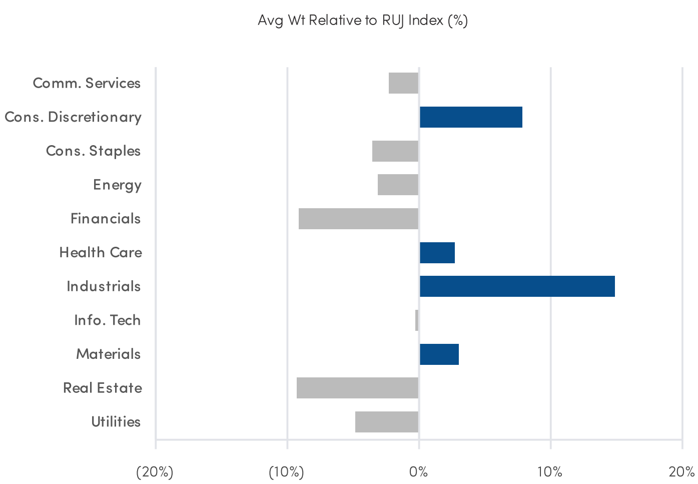
Largest Detractors

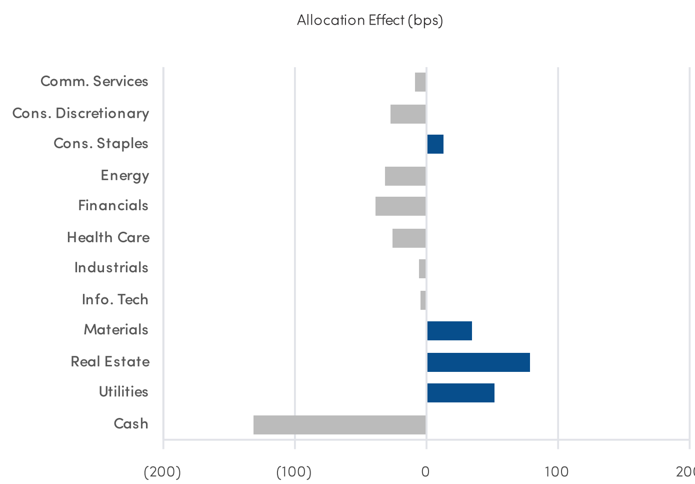
Hanesbrands (HBI), a manufacturer and marketer of basic apparel products, was the largest detractor. HBI suffered from investor concerns that its new CEO, Stephen Bratspies, would reset the company's short-term margins expectations.

BrightView (BV), the leading domestic commercial landscaping services company, was the second-largest detractor. BV 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.

NOW (DNOW), a distributor of industrial products to oil and gas suppliers, was the third-largest detractor. Progress in its tank battery business was significantly slower than investors expected. As a result, DNOW was eliminated from the portfolio this quarter.

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 detracted from results for the quarter. While there was no single outsized driver, the underweight to Financials and Energy, two of the benchmark's strongest performing sectors, had the biggest negative effects on the portfolio. While the Energy sector posted very strong performance in Q4, it remained the worst performer for the year. The overweight to Consumer Discretionary and Health Care, two benchmark sectors with weaker performance, also hurt results. Offsetting some of this negative impact was the underweight to Real Estate and Utilities, bond proxy sectors that didn't rally as significantly as the others during this historic quarter. The overweight to Materials and underweight to Consumer Staples also benefited relative results.

Initiations

BrightView (BV) is the leading commercial landscaping services company in the U.S., with sales 10x those of the next largest competitor. BV's scale advantage provides buying power, ability to consistently invest in technology and training, and route density, allowing the company to profitably provide high quality and attractive ROIC solutions for customers. Due to COVID-19 disruptions on more discretionary services, the company's existing sales base is more skewed to defensive recurring maintenance contract work, but BV should be able to enhance future sales growth as customer discretionary spending recovers and through opportunistic acquisitions.

Eliminations

Donaldson Company (DCI) was eliminated to make room for better opportunities.

NOW (DNOW) was eliminated as progress in its tank battery business proved slower than our thesis expected.

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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

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 12/31/20. 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.

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Additional Cooke & Bieler Small Cap Value Performance Disclosures