COOKE & BIELER

Q1 2021

SMID Cap Value Equity

Overview

U.S. equity markets continued to surge during the first quarter of 2021. Intensifying economic momentum, another enormous dose of fiscal stimulus, highly accommodative monetary policy, and expanding vaccine availability further fueled the market's appetite for risk. That appetite was voracious for the stocks of companies poised to benefit most from economic reopening and recovery, keeping small cap well ahead of the pack along with cyclical and financial issues. The resurgence of value stocks that began late last year also intensified, with value beating growth by the widest margin since Q1 2001.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy returned 14.83% gross of fees (14.58% net of fees), underperforming the Russell 2500™ Value Index, which returned 16.83%. Broadly negative stock selection effect overwhelmed the positive impact of sector allocation effect and drove more than all of the portfolio's shortfall. Financials – which represents the largest sector weight in the portfolio – detracted most, despite all holdings except FirstCash and RenaissanceRe Holdings posting positive absolute results. Industrials and Consumer Discretionary stocks were also a headwind. Conversely, the portfolio's Information Technology and Materials companies contributed to relative performance, with especially strong returns from Onto Innovation and Schweitzer-Mauduit International. Over the trailing twelve months, the strategy has recovered well post-pandemic, posting strong absolute performance and outperforming the Index over that period. The portfolio has benefited from generally positive sector allocation effect and favorable stock selection within Industrials, Information Technology, and Real Estate holdings.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
American Eagle	3.1	46.4	145
Winnebago	4.0	28.2	110
Onto Innovation	2.1	38.2	77
AerCap	2.6	28.9	72
Acuity Brands	2.0	36.4	66

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
IAA	2.5	-15.1	-36
Perrigo	1.8	-9.0	-17
FirstCash	2.4	-5.8	-9
ReniassanceRe	1.7	-3.1	-4
Helen of Troy	2.4	-5.2	-3

Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative SMID Cap Value institutional portfolio's gross of fees return relative to the Russell 2500™ Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's SMID 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

American Eagle Outfitters (AEO), a leading teen and young adult retailer operating through the American Eagle and Aerie brands, was the largest contributor. AEO reported strong earnings despite ongoing COVID-related store closures and outlined a plan to double sales in their Aerie brand over the next three years while improving profitability.

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the second-largest contributor. WGO continued to benefit from strong overall demand for recreational vehicles and to gain share in its towables segment. Motorized segment margins have also improved dramatically after several years of supply chain initiatives.

Onto Innovation (ONTO), a provider of optical process controls and yield enhancement tools to silicon wafer manufacturers, was the third-largest contributor. ONTO benefited from growing strength in its end markets, as well as from growing investor appreciation for new product introductions expanding ONTO's available served market.

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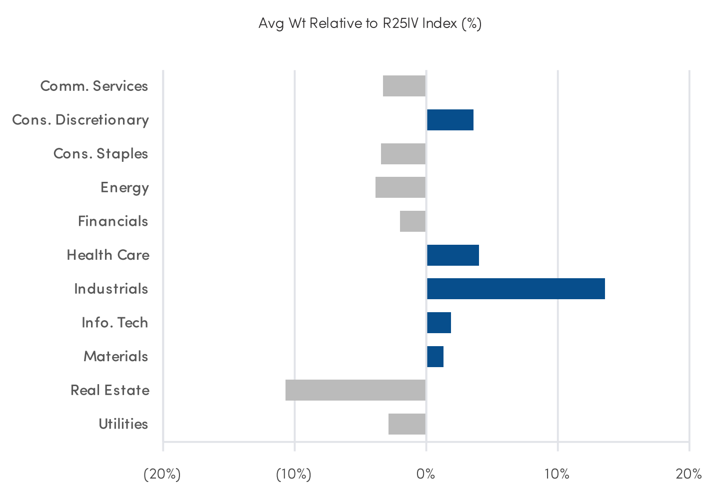
Largest Detractors

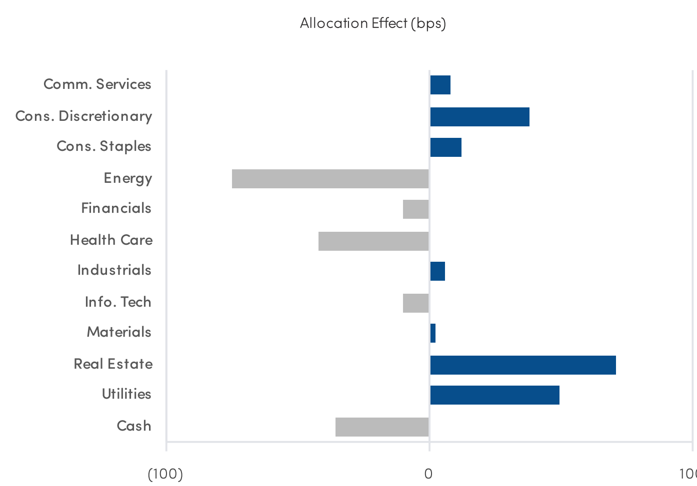
IAA (IAA), an owner and operator of a leading auction marketplace for the sale of total loss, damaged, and low value vehicles, was the largest detractor. IAA underperformed as investors drove the stock's valuation down, potentially due to concern over the sustainability of recent elevated average selling prices, worry about short-term disruption related to winter storms in Texas, or disappointment that management did not provide guidance due to COVID-19 related uncertainty.

Perrigo (PRGO), a manufacturer and supplier of over-the-counter and generic pharmaceutical products, was the second-largest detractor. PRGO lagged during the quarter due to short-term earnings pressure from an unusually mild cold season and the lingering effects of last year's pantry loading.

FirstCash (FCFS), the largest pawn shop operator in North America and Mexico, was the third-largest detractor. FCFS reported solid fourth quarter results but noted that demand for pawn loans would likely be restrained by a fresh round of stimulus payments. Over time, we expect pawn loan demand to recover to pre-pandemic levels and FCFS management to deploy the business' considerable cash flow in value-added ways.

Sector Positioning





Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative SMID Cap Value institutional portfolio's gross of fees sector return relative to the Russell 2500™ Value Index. Please see additional performance disclosures at the end of this document.

Sector allocation effect was additive for the quarter, with the majority of sectors contributing on a relative basis. The underweights to Real Estate and Utilities led the way as perceived safe-haven sectors did not fare as well during the continued market exuberance. The overweight to holdings within Consumer Discretionary, one of the best performing sectors, was also additive. Partially offsetting these positive results, the portfolio's underweight in Energy was again a headwind given the sector's very strong performance during the quarter. The overweight to Health Care and Information Technology as well as the underweight to Financials also detracted from relative results.

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Initiations

Armstrong World Industries (AWI) is the leading North American manufacturer of non-residential ceiling systems. Its pricing power, mix trends, and margins are among the most favorable and consistent in the building products industry. AWI's commercial new construction and renovation end markets are depressed due to COVID-related weakness, but the favorable competitive dynamics and profitability of AWI's mineral fiber ceilings business should persist after non-residential construction activity recovers. Mix tailwinds should accelerate as a broader set of customers seek out more differentiated ceiling tiles and systems designed to improve air quality.

Atmos Energy (ATO) is one of the largest regulated gas utilities in North America. With over 70% of earnings generated in Texas, Atmos has favorable regulatory relationships and a long runway of capital projects centered around modernizing their distribution and transmission system to improve safety and reliability. ATO's low debt levels and dividend payout ratio provide flexibility and lessens the company's dependence on the equity markets to fund its growth. Negative investor sentiment and concerns about the role of natural gas utilities in decarbonization created an opportunity for us to enter the position. We monitor these risks and believe them to be generally overstated relative to ATO's fundamentals. Given ATO's advantageous geographic footprint and the favorable economics for gas utility customers, we believe the company has a good line of sight to strong fundamental returns over the next decade.

Eliminations

Donaldson (DCI) and **Snap-on (SNA)** reached their price targets and were eliminated.

TCF Financial (TCF) was eliminated to make room for better opportunities in the wake of their acquisition by Huntington Bancshares.

Outlook

Markets are clearly forecasting a strong recovery fueled by pent up consumer demand and ongoing fiscal and monetary stimulus. However, with indices well above pre-pandemic levels, even a strong recovery may not be enough to sustain further gains. Though investors are prone to forget it in moments of enthusiasm, valuations matter – and large parts of the market are currently expensive even relative to optimistic assumptions. The most extreme examples of this disconnect are currently found among smaller capitalization stocks, where in some cases social media has driven waves of buying, willfully oblivious to any fundamental assessment of value. However, valuations are stretched among larger capitalization stocks as well, and at current prices we are quite sure many of these investments will turn out badly.

While markets are efficient over the long run, in the short term they are driven by human emotion and it is impossible to predict when fickle natured sentiment will turn. The wise investor must remain focused on business fundamentals and valuations. A year ago – in light of a once-a-century pandemic – we were working diligently to re-underwrite the portfolio, with a focus on companies' abilities to survive a severe and prolonged downturn. Today, our challenge is finding value in a market that has quickly forgotten about risk. Regardless of the market environment, the core features of our process and discipline remain consistent: exhaustive research to identify businesses that can compound value, insistence on conservative balance sheets that can withstand economic shocks, and a patient focus on buying businesses below intrinsic value.

Sources: Advent Portfolio Exchange, Bloomberg, FactSet, Russell, The Wall Street Journal, Zacks Investment Research

Additional Cooke & Bieler SMID Cap Value Performance Disclosures