



SMID Cap Value Equity

Overview

U.S. equity markets continued higher in the third quarter on the heels of further government stimulus, improving economic data, encouraging readouts from COVID-19 vaccine trials, and better clinical outcomes for COVID-19 patients. Though the trend reversed in September, growth stocks again led the charge, with the Russell 2500™ Growth Index up 9.37% for the three-month period versus 3.54% for the Russell 2500™ Value Index. Within the value universe mid cap stocks once again fared best, narrowing the lead amassed by their large cap peers during the Q1 market decline. Given continued resilience in consumer spending and increasing evidence of economic recovery, the generally broad-based market advance included particular strength among Consumer Discretionary and other economically sensitive constituents, though Energy stocks declined meaningfully in the face of persistently low oil prices.

Portfolio Performance & Developments

After a strong start to 2020, Cooke & Bieler's SMID Cap Value Strategy returned 2.25% gross of fees (2.02% net of fees), underperforming the Russell 2500™ Value Index. Allocation effect was strongly positive, but significantly negative stock selection effect was an offset. The portfolio's Health Care and Industrials holdings detracted most, with a number of Q2 standouts including Hill-Rom and AerCap surrendering some of their second quarter strength. Materials, Consumer Discretionary, and Financials also detracted from relative results. Information Technology and Real Estate holdings were tailwinds to performance. Despite lagging in Q3, the portfolio is still solidly ahead of the benchmark YTD.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
American Eagle	3.1	35.9	98	Winnebago	3.7	-22.3	-93
Whirlpool	2.5	42.9	84	TCF Financial	2.8	-19.6	-60
IAA	2.6	35.0	76	Hill-Rom	2.3	-23.7	-57
Gildan Activewear	2.9	27.0	64	FirstCash	2.3	-14.8	-41
Hanesbrands	1.6	40.8	53	AerCap	2.1	-18.2	-39

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. Although disruptions caused by widespread store closures negatively affected reported results, AEO posted solid underlying fundamentals. Their Aerie brand in particular demonstrated strong momentum.

Whirlpool (WHR), a global manufacturer and marketer of home appliances, was the second-largest contributor. WHR executed solidly against a difficult backdrop, posting strong margin performance in North America and offering encouraging commentary on future profitability in its European segment. Strong overall housing and home improvement trends also benefitted share price performance in the quarter.

IAA (IAA), an owner and operator of a leading auction marketplace for the sale of total loss, damaged, and low value vehicles, was the third-largest contributor. Sales in the second quarter were more resilient than feared, as higher revenue per vehicle meaningfully offset lower volumes caused by COVID-19-related declines in driving activity. Industry volumes improved substantially further into the third quarter. IAA's profitability and cash generation capabilities remained promising despite the quarter's overall soft volumes.





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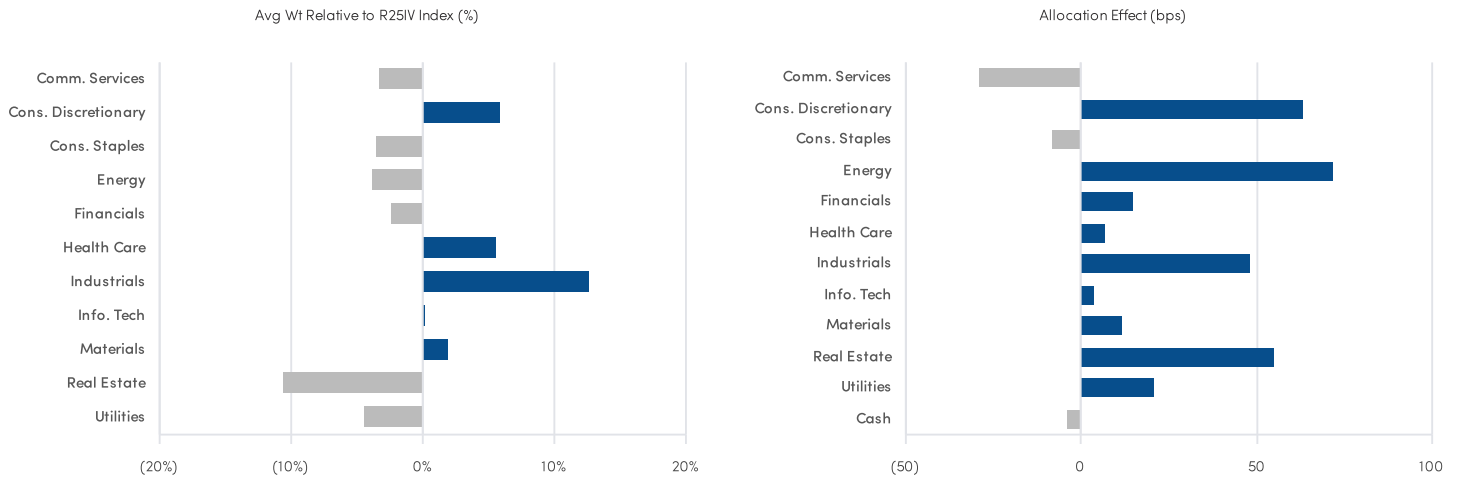
Largest Detractors

Winnebago (WGO), a leading manufacturer of recreational vehicles, was the largest detractor. WGO relinquished some of its strong second quarter price performance as investors questioned the sustainability of recent RV market strength. While near-term demand is clearly benefitting from COVID-related tailwinds, industry volumes remain well below previous peaks and Winnebago continues to win market share from larger peers.

TCF Financial (TCF), a Midwest bank with a strong deposit base and a diversified lending platform, was the second-largest detractor. TCF lagged during the quarter as a combination of falling interest rates and rising credit costs weighed on expectations for profitability. However, TCF's recent merger with Chemical Financial should provide them with cost saving opportunities that could offset falling rates and credit losses in their diversified and conservatively underwritten loan portfolio.

Hill-Rom (HRC), a provider of hospital beds and patient monitoring devices, was the third-largest detractor. HRC's valuation contracted significantly from its second quarter levels due to uncertainty about the near-term demand for hospital beds.

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.

Strong sector allocation effect benefitted the portfolio's relative results during the quarter. An underweight to Energy made the most notable contribution, as the sector posted by far the benchmark's worst return. Energy has been incredibly volatile this year – having been the worst performing sector in Q1, the best in Q2, and again the worst in Q3 – and remains the market's weakest sector YTD. An overweight to Consumer Discretionary – the benchmark's best performing sector – contributed meaningfully as economies reopened and consumer confidence improved. An underweight to Real Estate and Utilities and an overweight to Industrials were also additive. The only sectors that did not contribute to the portfolio's favorable allocation effect were Communication Services and Consumer Staples.

Initiations

Huntington Ingalls (HII) is a military shipbuilder for the U.S. Navy, and is the Navy's sole supplier for nuclear-powered aircraft carrier construction, refueling, and inactivation. The American military ship-building business is a low-growth, but stable duopoly driven by long construction lead times and long term contracted backlogs. With the recent award of two carriers, HII's backlog has expanded from two to five times its revenue. We believe HII's well protected and highly visible revenues, as well as the modest margin increases that should occur as they wind down their current capital expenditure schedule, make it an attractive holding.

Onto Innovation (ONTO) provides optical process controls and yield enhancement tools to silicon wafer manufacturers, front-end chip manufacturers, and back-end chip packaging and testing companies. ONTO's products perform various functions, such as two- and three-dimensional macro defect inspection, optical critical dimension measurements, and process control analytics. The increasing complexity of leading-edge devices with ever-higher levels of silicon content has created demand for more sophisticated process control solutions across the entire semiconductor value chain. We believe that ONTO, as the leading provider of process control-enabling tools, will not only benefit from these secular industry trends but also drive market share gains and margin improvement as it grows into a larger entity.





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Eliminations

Laboratory Corporation of America (LH) was sold to make room for better opportunities.

Outlook

We remain generally constructive on the investing environment. The U.S. economy is exiting a recession and we expect the nascent recovery to persist as people slowly return to many pre-COVID routines, driven by human nature and emboldened by improving therapies and eventually vaccines. This process likely will not be linear, and we expect market volatility along the way, but highly accommodative fiscal and monetary policy should provide continuing support. Offsetting the improving fundamental backdrop to some degree are very high expectations embedded in valuations in parts of the market. As the economy normalizes, we expect investors will better appreciate the enormous valuation disparity between the stocks of companies that have benefitted from the pandemic and those that have been negatively impacted. We have selectively favored the latter group, emphasizing reasonably valued stocks of the best positioned, financially strong companies that possess both staying power and latent fundamental improvement potential. We expect the portfolio to perform well as underlying fundamentals progress and these characteristics are better recognized.

Sources: American College of Cardiology, APX, Axios, Bloomberg, FactSet, Forbes, NIH

Past performance is not indicative of future results. The material presented represents the manager's assessment of the SMID 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 SMID Cap Value institutional portfolio for the quarter ending 9/30/20. 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 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 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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