



# SMID 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 SMID Cap Value Strategy underperformed the Russell 2500™ Value Index for the quarter, returning 25.36% gross of fees (25.10% net of fees) against the benchmark's 28.51%. Stock selection effect and allocation effect were both negative. Stock selection was weakest in the Financials and Consumer Discretionary sectors, where despite most holdings having positive absolute returns and contributing to portfolio results, they were not able to keep up with surging benchmark constituents. Materials and Information Technology holdings also detracted from relative results. Health Care and Real Estate holdings helped to offset some of these results, led by standout performers Integra LifeSciences and CBRE Group. In the first half of 2020, the portfolio realized significant relative gains, but it gave back all of that outperformance in the second half of 2020 when the Index rallied mightily. The portfolio finished modestly behind the benchmark for the year, though it did move into positive territory after the strong absolute performance in Q4.

## Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
TCF Financial	2.8	60.2	151	Hanesbrands	1.6	-6.3	-17
AerCap	2.2	80.9	145	Perrigo	2.1	-2.1	-2
American Eagle	3.9	36.5	133	RenaissanceRe	0.2	-0.6	0
Gildan Activewear	3.4	42.4	129	Whirlpool	1.9	-1.2	0
Woodward	2.2	51.7	105	NOW	0.0	25.6	2

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](mailto: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.

**AerCap (AER)**, the largest independent aircraft lessor, was the second-largest contributor. AER benefited from increasing investor optimism regarding COVID-19 vaccines and an end to the pandemic. Though AER's airline customers continue to suffer through record declines in passenger traffic, the company's cash collections and overall liquidity improved during the quarter.

**American Eagle Outfitters (AEO)**, a leading teen and young adult retailer operating through the American Eagle and Aerie brands, was the third-largest contributor. AEO posted better than expected results despite continued COVID-related disruptions. Results were particularly strong in its Aerie brand, which continues to benefit from strong execution and increasing consumer preferences for comfortable, less-structured apparel.



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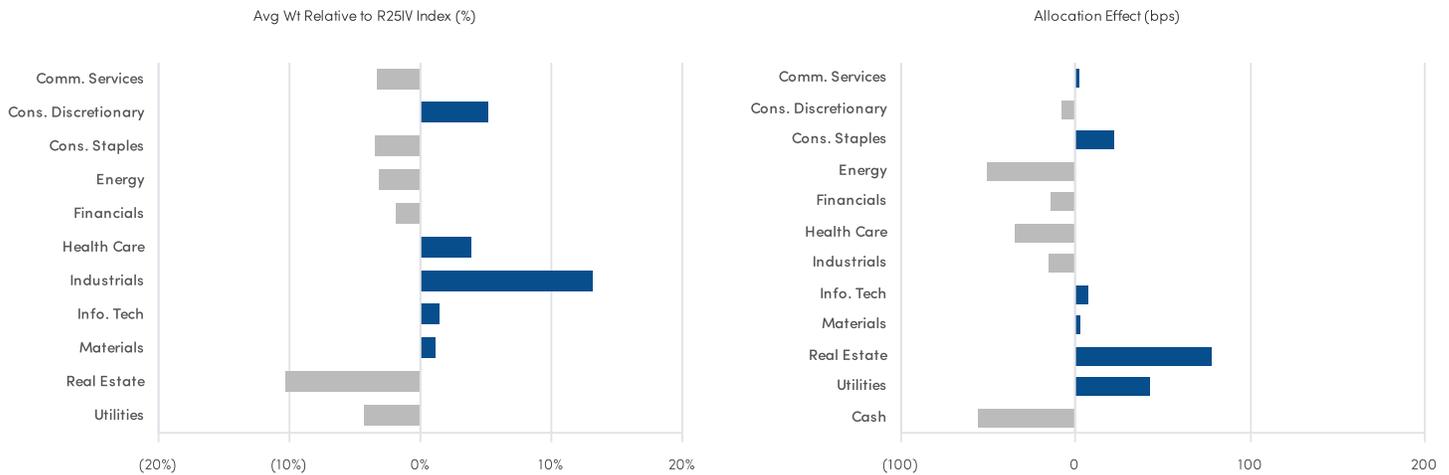
## Largest Detractors

**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.

**Perrigo (PRGO)**, a manufacturer and supplier of over-the-counter and generic pharmaceutical products, was the second-largest detractor. PRGO underperformed meaningfully as investors drove the stock's valuation down on disappointing news regarding a product recall and tax litigation developments.

**RenaissanceRe (RNR)**, a Bermuda-based catastrophe and specialty reinsurer, was the third-largest detractor. RNR 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.

## Sector Positioning



Source: FactSet  
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Sector allocation effect slightly detracted from results for the quarter. While there was no single outsized driver, the underweight to Energy, the benchmark's strongest performing sector, had the biggest negative effect on the portfolio. While the Energy sector posted the best performance in Q4, it remained the worst performer for the year. The overweight to Health Care and Industrials, 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 underweight to Consumer Staples and overweight to Information Technology 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.

**RenaissanceRe (RNR)** is a best-in-class reinsurer with superior human capital, underwriting tools, and customer relationships. In addition, they are a leading outsourced underwriter for third-party capital, generating accretive (and growing) fee income. They have managed well through a difficult year for the industry, growing book value per share meaningfully and positioning themselves to opportunistically deploy capital into an increasingly attractive underwriting environment. Having sold RNR in 2019 as it approached fair value, we were able to re-initiate the stock after its recent underperformance.





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## Eliminations

**CBRE Group (CBRE)** was eliminated after its market capitalization grew beyond the strategy's appropriate range.

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

## 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 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 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 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](mailto:contact@cooke-bieler.com).

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