



All Cap Value Equity

Market Commentary

U.S. equity indices posted positive returns in the second quarter, with small capitalization stocks outperforming larger ones by a significant margin. The Russell 3000® Value Index (RAV) returned 1.71% for the quarter, with the late-quarter rise in oil prices – up 14% in the quarter – driving outsized returns among the benchmark's Energy constituents, while the flattening yield curve propelled its Real Estate and Utilities components. Energy and Real Estate alone accounted for more than all of the benchmark's gain for the quarter.

Portfolio Performance & Developments

For the second quarter of 2018, Cooke & Bieler's All Cap Value Strategy posted positive absolute returns and outperformed the RAV, building on the lead it established during the first quarter's down market. Overall, we were pleased the portfolio outperformed in conditions less than optimal for our style.

Sector allocation was a headwind during the second quarter. From an economic sector standpoint, the portfolio's underweight in the three best-performing Index sectors (Energy, Real Estate and Utilities) was a significant performance drag. However, the portfolio's overweighting in smaller capitalization holdings was a meaningful contributor given the extent to which small cap stocks outperformed.

Stock selection was positive for the quarter with strong returns from various sectors. Consumer Discretionary – a sector where we generated negative selection results for the prior three quarters – was additive. In addition, the portfolio benefited from positive results in Financials and Health Care. Partially offsetting these positive results, the strategy's packaging holdings in the Materials sector suffered during the quarter as investors incorrectly conflated the weakness of certain branded customers with similar weakness in broader end markets.

Market Outlook

The portfolio is now more attractive on a forward P/E basis than it was at the start of the year. More importantly, the market has moved toward a place more conducive to active management. For instance, the positive point-to-point total return for the second quarter disguised considerable underlying intra-quarter volatility. We welcome such volatility as related potential mispricings provide opportunities for skilled stock pickers. As always, we at Cooke & Bieler believe that returns ultimately track fundamentals. We remain confident in our investment team's proven and experienced stock picking ability underpinned by a disciplined process, rigorous research effort, and unique culture.

Sources: Bank of America Merrill Lynch; Bloomberg; FactSet; Russell Investments

The material presented represents the manager's assessment of the All Cap 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 sector. Past performance is no guarantee of future results.

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