



COOKE
&BIELER

Q1
2018

All Cap Value Equity

Market Commentary

After delivering nine consecutive quarters of positive returns, U.S. equities, as measured by the S&P 500 Index, delivered the first quarter of negative returns since the third quarter of 2015. Volatility also returned during the first quarter. In 2017, there were eight days in which the S&P 500 advanced or declined more than 1%. In the first quarter of 2018, there were 23.

The Russell 3000® Value Index fell 2.82% in 1Q. Declines, while not dramatic, were broad-based with every sector except Information Technology posting negative returns.

Portfolio Performance & Developments

For the first quarter of 2018, Cooke & Bieler's All Cap Value Strategy posted negative absolute results, but modestly outperformed in relative terms. Sector allocation was positive, aided by the underweights in Consumer Staples, Real Estate, and Energy. The Consumer Staples sector presents a useful example of how our process works and how sector weightings evolve over time. For years this sector was fertile soil for our high-quality, long-term style, with many companies featuring businesses with favorable underlying economics reinforced by strong competitive positions and great balance sheets. But in recent years we have grown concerned about secular headwinds, as consumer shopping habits and tastes shift. At the same time, valuations expanded as investors sought out perceived reliability. Thus, we reduced the portfolio's exposure last year and entered 2018 meaningfully underweight; a positioning that was rewarded in the quarter. The strategy's underweight in Real Estate represents a longer-standing portfolio position familiar to our longer-term clients and is the result of our ongoing assessment that most REITs – which are the bulk of the Index weight in Real Estate – are competitively undifferentiated and aggressively levered.

Stock selection was slightly negative, driven by poor results in Industrials due to demand concerns for machinery and commercial supplies manufacturers. Consumer Discretionary was also a drag as some of the portfolio's apparel manufacturers encountered some early-year weakness. In general, our assessment is that these issues will prove temporary and over time the competitively advantaged nature of these businesses will be rewarded.

Market Outlook

While we are always disappointed to report a down quarter, a more volatile market creates temporary disconnects between stock prices and long-term value drivers. As always, good assessment of long-term business fundamentals in the face of these disconnects is a requisite skill for investors like us. We remain confident that our proven and experienced stock picking ability – underpinned by our disciplined process, rigorous research efforts, and unique culture – will allow us to continue generating value for our clients.

Sources: Bank of America Merrill Lynch; Bloomberg; FactSet; Reuters; 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.

[Additional Cooke & Bieler All Cap Value Performance Disclosures](#)

