



All Cap Value Equity

Market Commentary

Investors shrugged off ongoing drama on the political stage both here and abroad along with continued Fed tightening to deliver a quiet second quarter for equities. The quarter was also a profitable one for equity investors, with gains across most major indices. The Cooke & Bieler All Cap Value strategy generated strong outperformance relative to the Russell 3000® Value Index (RAV).

Portfolio Performance & Developments

The path to excess returns is never smooth. Even good managers suffer periods of underperformance. But this quarter, fundamental company performance and investor preferences aligned constructively. The market's preference for high quality businesses drove much of the Cooke & Bieler All Cap Value portfolio's outperformance in Q2. Measures of ROIC generally displayed a linear pattern as companies with higher fundamental return profiles saw their stock prices perform better in the quarter.

The strategy's favorable relative results stem from broad contributions across most sectors in both stock selection and sector allocation. The impact of stock selection decisions was positive in most sectors in which the portfolio had weight, but especially so in Financials. Among other sectors, Energy companies, particularly those with weaker capitalization structures, suffered as oil prices declined, and the portfolio's Energy underweight generated significant value. The portfolio's overweight in Health Care and Consumer Discretionary stocks was also additive. In Health Care, generally solid fundamental progress and increasingly favorable investor sentiment have driven valuations higher across much of the sector. We continue to see opportunities in the space but trimmed a number of holdings during the quarter in response to higher perceived valuation risk. Within the Consumer Discretionary sector, a heterogeneous group, we continue to find businesses with strong brands and well-entrenched competitive positions, and the portfolio remains significantly overweight.

Market Outlook

Looking ahead, the market's recent tranquility is unlikely to persist. With valuations at high levels relative to historical averages, the economic expansion in its seventh year, tightening monetary policy and perhaps more than the usual domestic and international political uncertainty, there seems ample scope for increased volatility. However, we believe the Cooke & Bieler All Cap Value portfolio is well positioned for a more turbulent backdrop, with its focus on businesses with strong cash flow generation, conservative balance sheets and reasonable valuations.

We believe our long-term, fundamental perspective in an increasingly short-term oriented world is a major advantage and source of value creation. The portfolio's strong year-to-date performance is the result of decisions made and work done over prior months and years. A year ago, after a particularly difficult quarter, we suggested that the times that require the greatest patience are often followed by the greatest rewards. This quarter bore that guidance out. Despite the portfolio's favorable recent results, though, we believe it is always better to focus on longer-term results and not the vagaries of any individual quarter. Thus we are more pleased with the portfolio's outperformance over the cycle than we are with the strong year-to-date results. We also acknowledge our clients' role in their success: our ability to implement our philosophy depends on their willingness to take the long-term view, as well.

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

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