COOKE & BIELER

Q3 2018

All Cap Value Equity

Overview

U.S. markets performed well in the third quarter, propelled by strong corporate profits and economic growth. The Russell 3000® Value Index (RAV) saw positive returns in all sectors with the most significant gains coming from Health Care, Industrials, and Telecommunication Services. In a reversal from the year's first half, large company stocks outpaced smaller ones and low volatility returned.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value portfolio generated a total return of 4.78% gross of fees (4.59% net of fees) versus the RAV's 5.39% return for the third quarter. Portfolio positioning added value but was more than offset by weak stock selection. While strong up markets generally do not favor Cooke & Bieler's approach, the quarter's result was mildly disappointing.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Helen of Troy	3.7	33.0	109
Steelcase Inc.	2.5	38.0	88
Allergan PLC	2.7	14.7	38
Colfax Corp.	2.2	17.7	37
Johnson & Johnson	2.1	14.6	30

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Whirlpool Corp.	1.8	-18.1	-36
Schweitzer-Mauduit Int'l	2.9	-11.4	-34
Hanesbrands Inc.	1.4	-15.6	-25
Winnebago Industries	0.9	-14.7	-25
Omnicom Group	2.1	-10.0	-23

Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative All Cap Value institutional portfolio's gross of fees return relative to the Russell 3000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's All 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

Helen of Troy (HELE), a diversified consumer goods company with leading positions in various niche categories, was the largest contributor for the quarter. HELE had been unfairly penalized in the first half of the year following the publication of a poorly-researched short thesis that misunderstood the company's distribution channels, ignored its very attractive valuation, and discounted its significant balance sheet flexibility. The stock price has been steadily recovering since.

Steelcase Inc. (SCS), a leading manufacturer of office furniture and systems, was the second largest contributor. SCS delivered earnings results that were considerably above expectations, driven by an improving environment, better traction for the company's new offerings, and good expense leverage.

Allergan (AGN), a multi-national pharmaceutical producer of branded and generic drugs with a strong presence in the medical aesthetics market, was the third largest contributor. AGN is in the throes of a revenue growth slowdown attributable to a wave of patent expirations. However, this wave is receding and the strength of their product portfolio and substantial competitive advantages are becoming apparent again to investors.

Largest Detractors

Whirlpool Corp. (WHR), a global manufacturer and marketer of home appliances with leading market positions in North America, Latin America, and Asia, was the largest detractor for the quarter. WHR is generally operating well but continues to struggle integrating its recently acquired European operations. While valuation is very compelling, we continue to hold current positions awaiting tangible operational improvement.

Schweitzer-Mauduit (SWM), a leading supplier to the tobacco products industry, was the second largest detractor. SWM reported encouraging fundamental earnings results but will incur higher interest expense as it refinanced some acquisition-related debt.

Hanesbrands Inc. (HBI), a well-managed basic apparel company, was the third largest detractor. HBI, a second quarter leader, announced in late July that Target failed to renew its long-running activewear program with Hanes' Champion brand. The current contract runs for another 18 months, and the Champion brand is growing well globally, but investors were nevertheless concerned. We continue to like the business due to its strong cash flow characteristics.

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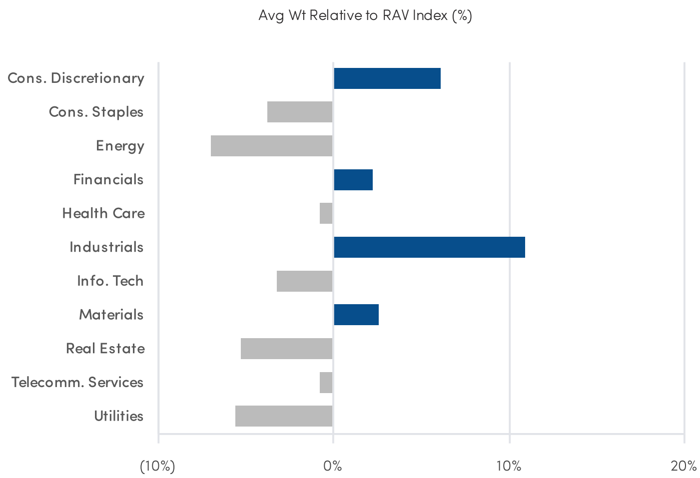
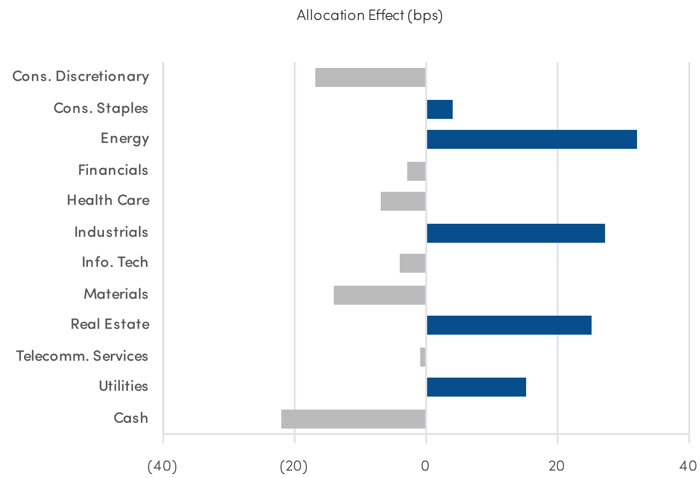
Sector Positioning





Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative All Cap Value institutional portfolio's gross of fees sector return relative to the Russell 3000® Value Index. Please see additional performance disclosures at the end of this document.

The strategy's underweight in Energy, Utilities and Real Estate and overweight in Industrials were the primary positive drivers. Energy stocks stalled after climbing furiously most of the past twelve months. In addition, a solid economy and rising interest rates took a relative toll on Utilities and Real Estate. Conversely, the economically sensitive Industrials sector rallied strongly, and the portfolio benefited from its significant overweight. Meanwhile, the portfolio's slight underweight in Health Care, the benchmark's best performing sector, was a slight drag. Low P/E, previously out-of-favor issues, including Big Pharma stocks, led the charge. The overweights in Materials and Consumer Discretionary were slight drags as well, as Materials companies seemed to struggle with trade concerns and Consumer Discretionary returns were weighed down by auto and housing-related stocks.

Initiations

Arch Capital Group (ACGL) is a Bermuda-based specialty property & casualty (P&C) and mortgage insurer. Their niche approach to P&C underwriting and emphasis on risk management in mortgage insurance combined with their superior cycle management and appreciation for capital preservation – all engrained in their culture – have led to a long track record of above-average returns. Despite this track record, which we expect to continue, the stock trades at a discount to peers as investors seem to prefer insurers with less diverse business mixes.

Applied Materials (AMAT) is a leading semiconductor capital equipment manufacturer. By leveraging their size and understanding of the entire semiconductor fabrication process they have built a differentiated and market-leading product portfolio and a strong services business. Investors are concerned about a possible cyclical downturn, but the semiconductor capital equipment industry continues to be attractive given its above-average growth profile, high barriers to entry, and low capital intensity. In the long run, we believe AMAT is well positioned to maintain industry leadership and gain market share in new high-growth areas of the market.

Winnebago Industries (WGO) is a leading U.S. manufacturer of both motorized and towable recreational vehicles (RVs) under the Winnebago and Grand Design brands. RV volumes have returned to normal after a period of depressed volumes, but WGO's towable business is gaining market share rapidly. However, motorized operations are underearning due to supply constraints and related costs. Additionally, investors are concerned about high dealer inventories. We believe these are short-term headwinds and expect WGO to improve margins in its motorized business, to continue to gain share in towables.

Eliminations

Accenture (ACN), **Becton Dickinson (BDX)**, **RenaissanceRe (RNR)**, **TCF Financial (TCF)**, and **Unilever (UN)** were eliminated as they approached fair value. We reallocated the funds to new investment ideas and other holdings with more compelling valuations.

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Outlook

As we enter the final quarter of 2018, we continue to see pockets of value in a market that as a whole has grown more exuberant. Consumer Staples, Utilities and Energy in particular seem more than fairly valued, and the strategy remains underweight these areas. We find more compelling value in the Industrials, Consumer Discretionary, and, increasingly, the Information Technology sectors. The economy appears to be growing robustly and corporate profits are benefiting from lower taxes, which should provide support for stock prices. However, after an extended period of extraordinary monetary stimulus, the Federal Reserve has been steadily moving toward a more neutral stance – raising rates seven times since December 2016. Rising interest rates will put pressure on companies and business models that have grown dependent on cheap financing and should slow the economy over time. The risks of a more significant crisis, while not high, are rising as well. Against this backdrop, the strategy continues to be positioned in conservatively financed, high-quality businesses.

Sources: Bank of America Merrill Lynch; Bloomberg; FactSet; Russell Investments; Wall Street Journal
Past performance is not indicative of future results. The material presented represents the manager's assessment of the All 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 All Cap Value institutional portfolio for the quarter ending 9/30/18. 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 3000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's All 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.

Additional Cooke & Bieler All Cap Value Performance Disclosures