



All Cap Value Equity

Overview

The second quarter was a bumpy ride for the U.S. stock market. The rally that began late last year continued through April, was upended in May by renewed concerns about the economy and a more protracted trade war, then was revived in June by the Fed's clear pivot toward monetary easing. The June recovery was enough to push major indices into solidly positive territory for the quarter, capping a strong first half of the year which saw stocks up double digits. Returns were strongest for large cap stocks, but otherwise underlying market dynamics lacked discernable themes. The Russell 3000® Value Index (RAV) returned 3.68%, with every sector except Energy posting gains, led by Financials and Industrials.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value Strategy returned 6.25% gross of fees (6.07% net of fees), handily beating the RAV and building on its healthy Q1 outperformance. Both stock selection and sector allocation contributed to returns, while style factors were a modest headwind, mainly due to the underperformance of value and the strategy's below-benchmark market capitalization. Stock selection, accounting for approximately half of the quarter's outperformance, was mixed across sectors. Favorable results in Consumer Discretionary, Health Care, Information Technology, and Industrials were slightly offset by underperformance among the strategy's Financials and Consumer Staples holdings. Fundamental progress continued to be solid across most of the portfolio's holdings, which we believe will bode well for the future.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Winnebago	3.2	24.9	73	Schweitzer-Mauduit	2.6	-13.1	-39
TE Connectivity	2.2	19.2	38	State Street	2.2	-14.1	-34
FNF Inc.	3.2	11.1	35	Arrow Electronics	3.2	-7.5	-22
PGT Innovations	1.8	20.7	35	Philip Morris Int'l	1.8	-9.8	-22
Helen of Troy	2.6	12.6	33	Carnival	2.3	-7.3	-15

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

Winnebago Industries (WGO), a leading designer and manufacturer of recreational vehicles, was the largest contributor this quarter. Fundamental performance within WGO's towable division continues to buck industry trends. Though industry-level concerns persist, investors seem to be warming to the company's long-term topline growth and margin expansion opportunities.

TE Connectivity (TEL), a company specializing in highly engineered connector technologies, was the second-largest contributor. Investors began the quarter concerned about TEL's automotive exposure, but price performance improved over the quarter as they better recognized the positive potential of the firm's broader industrial exposure.

Fidelity National Financial (FNF), a title insurer and real estate services provider, was the third-largest contributor. Investors saw falling interest rates as a positive for housing transactions (both purchase and refinance), which are the main driver of FNF's earnings. In addition, they made progress toward gaining regulatory approval for their acquisition of Stewart Title which should be meaningfully accretive to earnings.

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Largest Detractors

Schweitzer-Mauduit International (SWM), an advanced materials and engineered solutions provider, was the largest detractor this quarter. SWM was a top performer last quarter and this quarter's underperformance partially reflected a reversal of investor enthusiasm. Some fundamental volatility in reported results has investors more cautious on management's targets for the full year.

State Street (STT), a financial holding and investment management company, was the second-largest detractor. Interest rate compression, as well as increased fee pressure from other competitors, strained STT's revenue generation this quarter.

Arrow Electronics (ARW), a solutions provider for users of electronic components and enterprise computing, was the third-largest detractor. Although ARW previously had good operating income growth and margin expansion, progress reverted during this quarter. Concerns about general levels of tech spending as well as elevated inventories in the semiconductor components supply chain also negatively affected ARW's performance this quarter.

Sector Positioning



Source: FactSet
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Sector allocations explained approximately half of the strategy's second quarter outperformance. The largest contributors were the portfolio's meaningful underweight in Energy and overweight in Financials and Industrials – the RAV's best performing sectors for the quarter. The relative performance drag from the sectors with negative allocation results totaled only 15 basis points. Exiting the quarter, the strategy remains underweight the high-yielding Utilities and Real Estate sectors and broadly overweight economically sensitive sectors including Industrials and Consumer Discretionary. Energy continues to be a significant underweight and partial offset to the portfolio's pro-cyclical tilt.



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Initiations

3M (MMM) is a diversified materials sciences company, operating in the abrasives, adhesives, coatings, filtration, specialty materials, medical, and electronic categories. A focus on increasing their commercialization rate and speed-to-market, as well as healthy emerging markets exposure, should support their generous capital return policies. Margins in excess of 20% should provide good cash flow to support these initiatives as well as the company's disciplined acquisition program.

American Woodmark (AMWD) is the second-largest residential cabinet and vanity manufacturer in the United States. AMWD is a demonstrated share gainer thanks to its competitively advantaged, low-cost supply chain. Having recently acquired a leading manufacturer of in-stock cabinetry at a lower/opening price point – a category in which AMWD has not previously participated – management intends to leverage its unique installation network and existing relationships in the new construction channel to penetrate the entry-level housing and multifamily market segments.

Medtronic (MDT) is the world's largest pure-play medical devices company. Solid and steady revenue growth driven by its leading market share positions across many segments of a growing global industry, operating margin improvement opportunities, and improved free cash flow conversion should make MDT an attractive value compounder.

Reliance Steel & Aluminum (RS) is the largest metals service center in North America. Metals processing is value-added to the customer since it requires high-volume production to be cost effective, but the average customer requires volumes at a much lower scale. The company's attractive business model is underpinned by the pass-through nature of metals prices and countercyclical working capital requirements. Unimpressed by the company's proven ability to manage cyclicity and strong balance sheet, the market appears to be deeply undervaluing the stock.

Eliminations

Abbott Laboratories (ABT) and **Diageo (DEO)** were eliminated after reaching their price target. **FirstCash (FCFS)**, **Quanex Building Products (NX)**, and **Woodward (WWD)** were eliminated to make room for better opportunities.

Outlook

Bumpy quarters like Q2 tend to reinforce investors' short-term focus. But rather than try to guess the next twist in the market, we find it more profitable to look to the long term and focus on fundamentals. Taking the long view, over the last 15 years – a period that saw two oil price spikes, a global financial crisis, unprecedented monetary intervention, and countless political shocks – the RAV has generated a fairly typical 7.8% annualized return. In other words, the confusion and cross currents of the second quarter are par for the course, presenting an opportunity to profit from others' impatience rather than a cause for alarm for long-term oriented investors. From a fundamental standpoint, the business environment remains mostly positive, albeit with pockets of weakness emerging as trade tensions begin to take their toll. Valuations, broadly speaking, seem fair – neither compellingly cheap, nor worryingly expensive. This combination leads us to believe returns will be volatile, but positive over time. We remain confident that our long-term approach and disciplined focus on fundamentals, balance sheets, and valuation are well suited to profit both from the opportunities created by volatility as well as the long-term compounding ability of quality businesses.

Sources: Bloomberg; FactSet; FTSE Russell; Market Watch; The New York Times; T. Rowe Price

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 6/30/19. 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.

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