COOKE & BIELER

Q3 2019

All Cap Value Equity

Overview

Though investors seem outwardly skittish, the third quarter's procession of headlines – each one conceivably unsettling enough to derail this longest-ever bull market – came and went with fairly little consequence. The Russell 3000® Value Index (RAV) generated a 1.23% return, despite a major disruption in the global oil supply, a prolonged trade dispute between the world's largest economies, renewed and amplified appeals for presidential impeachment, and turmoil in the repo market. Investors were not entirely unfazed, sending interest rates tumbling, displaying a slight preference for quality and relative aversion to small cap issues, and reflexively gravitating toward bond-proxy sectors. This choppiness was punctuated by September's significant rotation toward value and away from growth and momentum. But much like last quarter – indeed much like the last 15 years – Q3 felt more tempestuous than its point-to-point return would indicate and revealed new opportunities for patient investors.

Portfolio Performance & Developments

Building on its strong first half, Cooke & Bieler's All Cap Value Strategy outperformed the benchmark, returning 4.01% gross of fees (3.82% net of fees). Style was not a significant headwind or tailwind. The strategy's comparative performance was strong in July and August when momentum dominated the market, but also favorable in September when value returned to favor. Stock selection accounted for more than all of Q3's excess return, while sector allocation effect was negative. Stock selection results were positive in six of nine sectors where the portfolio had weight, led especially by strong performance in Financials, Industrials, and Materials. Underperformance in Consumer Staples, Consumer Discretionary, and Energy detracted from relative results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Helen of Troy	2.6	20.7	50
UPS	2.4	17.0	39
Schweitzer-Mauduit	2.6	14.3	35
FNF	3.2	11.0	35
Brookfield Asset Mgmt	2.7	11.5	31

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
UnitedHealth	2.0	-10.5	-24
Schlumberger NV	1.1	-12.7	-17
Exxon Mobil	2.0	-6.7	-14
Johnson & Johnson	2.0	-6.4	-14
Gildan Activewear	1.9	-7.9	-14

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 and household products company, was the largest contributor this quarter. The company saw rapid growth in its Housewares division and better than expected sales in its Beauty division. The secular revenue growth and margin potential in its Healthcare segment should become even more apparent now that it has fully lapped some very strong results in the year ago period driven by an unusually severe flu season.

United Parcel Service (UPS), the world's leading parcel delivery service, was the second-largest contributor this quarter. The company's technology investments and transformation initiatives appear to be paying off as they posted both strong revenue growth and margins for the second quarter.

Schweitzer-Mauduit (SWM), an advanced materials provider to tobacco, industrials and auto end markets, was the third-largest contributor this quarter. SWM was a leading detractor last quarter, but this quarter's strong margin performance gave investors renewed confidence in SWM's full year financial performance targets.

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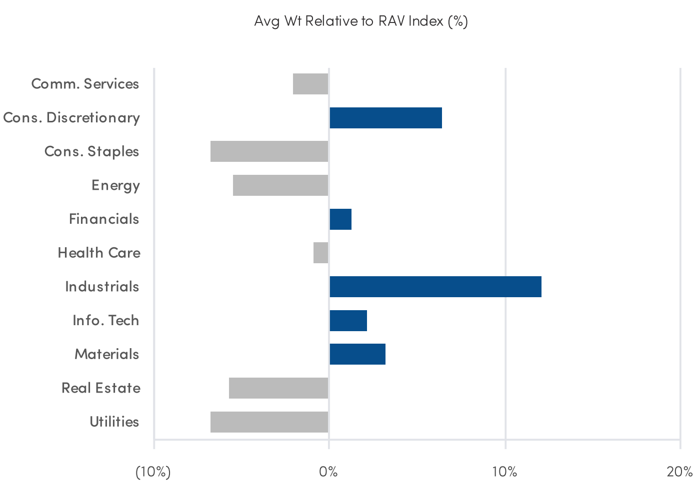
Largest Detractors

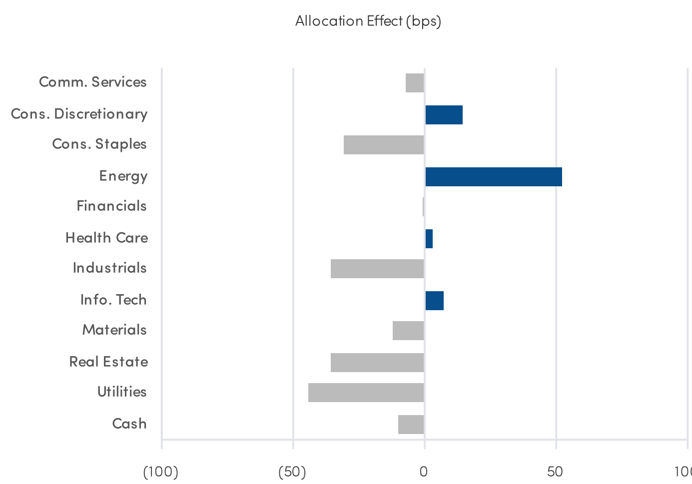
UnitedHealth Group (UNH), the largest health insurer in the United States, was the largest detractor this quarter. The company's fundamentals remain strong. The stock's valuation has been negatively impacted by political debate surrounding a move to a single-payer health care system. Since nearly half of earnings are generated by the company's non-managed care Optum enterprise, we do not see an existential threat to the company in the unlikely scenario that a single-payer concept becomes reality.

Schlumberger (SLB), a leading oil field services company, was the second-largest detractor this quarter. Broader weakness in the Energy sector was the primary driver of SLB's price performance in the quarter.

Exxon Mobil (XOM), one of the world's largest integrated producers of petroleum products, was the third-largest detractor this quarter. In addition to sector-wide concerns over crude prices and weaker global demand, XOM also suffered from a decline in profitability in its chemical business caused by recent, industry-wide capacity additions.

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.

Sector allocation effect was negative for the quarter, with the majority of sectors detracting from the strategy's relative performance. Most of the drag was explained by the portfolio's zero weighting to the high-yielding Utilities and Real Estate sectors, which outperformed meaningfully. Above-benchmark positions in Industrials and below-benchmark allocations to Consumer Staples also posed headwinds. The portfolio's underweight to Energy was the biggest contributor, as that sector was by far the worst performer in the benchmark with a -7.51% return. Allocation effect was also favorable in Consumer Discretionary, Information Technology, and Health Care.

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Initiations

Activision Blizzard (ATVI) is a video game developer and publisher comprised of three reportable segments: Activision, Blizzard, and King. Video games are increasingly mainstream, with new gamers aging in but old gamers only partially aging out. Additionally, gaming's share of leisure time continues to grow. Among the large publishers, ATVI stands out for relying on owned intellectual property to generate its revenues. Concerns over the health of some of its long-running franchises and its ability to create new intellectual property gave us the opportunity to purchase.

Becton, Dickinson and Company (BDX) is a medical technology company which develops, manufactures, and sells medical devices and instruments used by a broad array of end customers. The company is a global market share leader across most of its product portfolio, with significant scale advantages in manufacturing, selling, distribution, and R&D. The majority of revenues derive from disposable devices. These qualities help the company generate dependable, recurring revenues, making it an attractive holding.

Charles Schwab (SCHW) is a leading provider of investment services to individuals and independent investment advisors. With total client assets of $3.5 trillion, the company has a 7% share of total retail assets in the United States. Their strategy is to drive organic growth in client assets through innovation and competitive pricing while investing scale benefits back into the business to drive further share gains, allowing them to compound shareholder value over the long term. Investor concerns over slowing earnings growth caused by Federal Reserve rate cuts created the opportunity to purchase.

Gates Industrial (GTES) is a leading global manufacturer of highly engineered power transmission and fluid power solutions – primarily belts and hydraulic hoses – to diverse replacement channel customers and original equipment manufacturers serving automotive, construction, agriculture, general industrial, and oil and gas markets. Roughly two-thirds of GTES' sales are to the more recurring and higher margin replacement channel which recently experienced softness related to unexpected inventory destocking by North American distribution partners. Despite this setback, GTES' exposure to the replacement channel should serve to stabilize results over the longer-term while attractive organic and inorganic growth opportunities combined with an improving free cash flow profile provide attractive upside potential.

HCA Healthcare (HCA) is the largest and most profitable for-profit hospital management company in the US. The company has unmatched scale and infrastructure, including comprehensive IT services and revenue cycle management capabilities, the country's second-largest GPO, nurse staffing agencies, and medical malpractice insurance operations. HCA facilities hold commanding market share positions, primarily in large metropolitan areas in the southeast and southwest. This gives HCA a favorable footprint in terms of utilization and demographic trends, laying the groundwork for sustained above-average growth and profitability.

Eliminations

Allergan (AGN) advanced sharply on the news that it would be acquired by AbbVie and was sold to make room for better opportunities. **PRA Group (PRAA)** was sold to make room for better opportunities.

Outlook

The stock market enters the fourth quarter with major indices up double digits for the year, but facing a clearly slowing economy and a well-known though concerning list of geopolitical risks. The Fed has signaled its intent to cushion any shocks, but low global interest rates and years of quantitative easing raise questions as to how helpful it can be. With valuations less supportive than they were entering the year, conditions seem likely to get bumpy, although we would not underestimate the market's ability to climb the wall of worry. Regardless of the exact path the markets take, we have learned we can rely on them to be more volatile than their underlying fundamentals – a backdrop conducive to idea generation. As always, our focus is on identifying businesses at compelling valuations that generate attractive fundamental returns for our clients, often taking advantage of others' impatience.

Sources: APX, Bloomberg, CNBC, FactSet, MarketWatch, Morgan Stanley, Reuters, S&P Global, The Hill, The New York Times, The Wall Street Journal, US News

Additional Cooke & Bieler All Cap Value Performance Disclosures