COOKE & BIELER

Q4 2018

All Cap Value Equity

Overview

U.S. equities performed poorly in the fourth quarter. What began as a modest pullback devolved into a market rout in December. In the end, it was the worst fourth quarter since 2008, with all major market indices posting ugly double-digit declines. As tends to be the case in sudden, major pullbacks, selling pressure was widespread and largely indiscriminate. This was especially true in December when the benchmark, the Russell 3000® Value Index (RAV), declined nearly 10% and every major sector, excluding Utilities, declined at least 7.5%.

Portfolio Performance & Developments

Cooke & Bieler's All Cap Value portfolio returned -15.02% gross of fees (-15.21% net of fees) versus the RAV's -12.24% return for the fourth quarter. Stock selection accounted for nearly 60% of the underperformance. Stock selection was roughly neutral through November, but negative in seven of the nine sectors in which the portfolio had weight in December. As nearly all portfolio companies had reported earnings by the end of November, fundamentals did not seem to be driving this result. The biggest factor appeared to be the portfolio's smaller market cap profile as compared to the RAV in an environment that strongly favored larger stocks.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Verizon	2.8	6.5	18
Helen of Troy	2.6	0.2	17
Omnicom Group	2.4	8.6	14
ICE Inc	2.4	0.9	2
Analog Devices	1.0	-0.2	1

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Colfax	2.2	-42.0	-102
AerCap	2.9	-31.2	-102
Schweitzer-Mauduit	2.4	-33.6	-90
Allergan	2.5	-29.5	-84
Schlumberger	1.6	-40.1	-78

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

Verizon Communications (VZ), the largest US wireless telecommunication company and provider of landline data and voice connection services, was the largest contributor for the quarter. VZ continues driving good underlying wireless growth and solid profitability. 5G represents an incremental opportunity for the company.

Helen of Troy (HELE), a diversified consumer goods company with leading positions in various niche categories, was the second largest contributor. HELE reported strong sales growth in the Housewares and Healthcare and Home Environment segments, offsetting weakness in the Personal Care and Beauty segment.

Omnicom Group (OMC), a global advertising agency, was the third largest contributor. Investors are noticing improving trends within the industry, particularly the streamlining of business models and the incorporation of data-driven marketing. OMC reported better organic growth results, a big account win at Ford, and continued progress in their data-driven targeted advertising capabilities.

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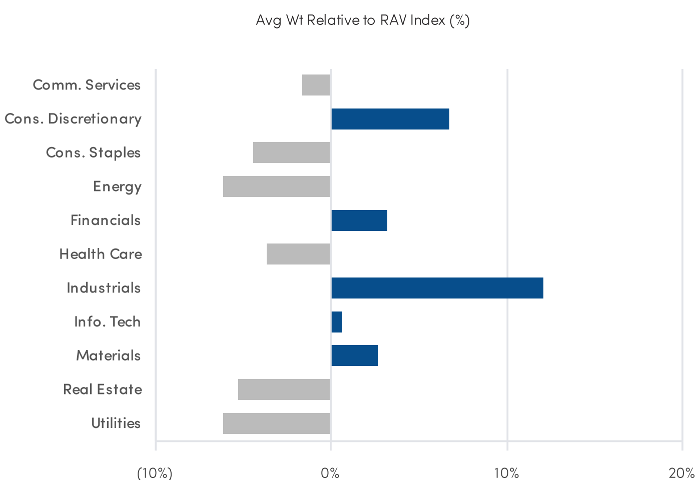
Largest Detractors

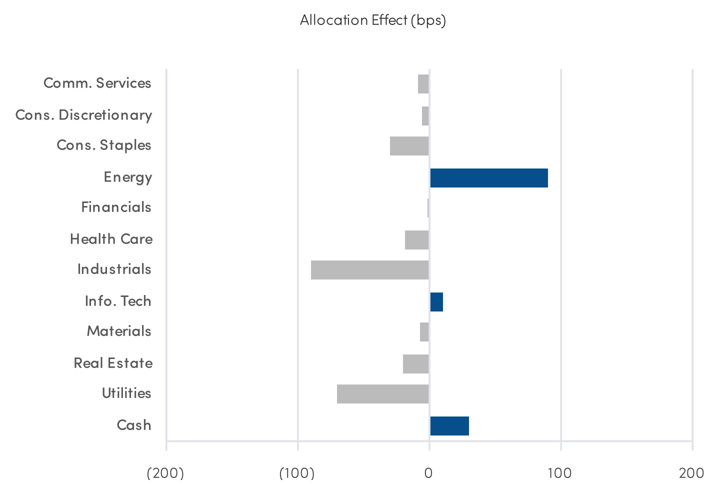
Colfax (CFX), an industrial company focused on large-scale air and gas handling equipment, welding, and other metal fabrication products and services, was the largest detractor for the quarter. CFX announced a significant acquisition in the quarter, one we believe makes long-term strategic sense and should add value over time, but which introduced complexity and financing needs at a moment the market was receptive to neither.

AerCap (AER), the world's largest independent aircraft leasing company, was the second largest detractor. Despite solid fundamentals, the stock was punished for its perceived economic sensitivity as weakening global macroeconomic conditions could affect aircraft demand growth and airline credit quality. AER's management continues buying back shares and announced a new program in light of the recent weakness.

Schweitzer-Mauduit (SWM), a leading supplier to the tobacco products industry, was the third largest detractor. SWM faced margin pressure due to input cost inflation and the final stages of rationalization in one of their facilities. In our view, stock price weakness is less due to fundamental results and more to general weakness in small cap Materials and fears of continued input cost inflation.

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 contributed to poor relative performance. The portfolio's overweight in Industrials and zero weight in Utilities generated the biggest negative impact. The portfolio's underweight in Energy was a partial offset as this sector was the worst performing sector in the RAV for the quarter. Significantly negative allocation effects are not unusual for the strategy in sudden downdrafts, when investors seem to reflexively seek out the yield, perceived earnings stability and lack of cyclicality in Utilities and REITs – areas the portfolio is frequently underweight due to high valuations and extended balance sheets, respectively.

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Initiations

Analog Devices (ADI) is the leading designer, manufacturer, and marketer of analog semiconductors. Analog semiconductors are an attractive industry given the vital and ubiquitous nature of these chips in electronic systems and the diverse nature of the chips. Analog design and production requires talent and experience and, as the industry leader, ADI attracts and retains top talent. The company generates strong free cash flow and continues to pay down debt from the Linear Technology acquisition.

PGT Innovations (PGTI) is the leading manufacturer of laminated, impact resistant (i.e. hurricane-safe) windows in the US, with a majority share of the Florida market. Florida building codes should help drive further impact resistant window penetration. PGTI is more vertically integrated than its peers and operates its own transportation fleet, giving it a margin and lead time advantage over competitors. On a fundamental basis, PGTI has outperformed nearly all other building products companies, but still trades at a discount to other top tier companies with less attractive growth prospects.

TE Connectivity (TEL) designs and manufactures connectivity and sensor products for harsh environments within the automotive, transportation, and industrials markets. TEL has shifted away from consumer electronics, PCs, and networking, which have been commoditized over the past decade, to applications and end markets requiring more unique, customized solutions. Their connectors are highly engineered into products, but represent a small part of the product cost, creating high switching costs and long product lifecycles. Although the stock has traded down given recent adjustments in key end markets, we believe the company will continue to win content and compound value.

Eliminations

Cardinal Health (CAH) and Progressive (PGR) offered significantly less appreciation potential than recently purchased stocks.

Outlook

As we enter 2019, the portfolio's holdings represent attractive values, trading at 11.5x earnings – a 16% discount to the RAV – and the largest discount from intrinsic value in many years. Moreover, the companies in the portfolio generate higher returns on capital and have lower debt-to-EBITDA levels than the RAV. Today, the market appears to be pricing in a significant economic slowdown or contraction. We do not believe this is the most likely case, given continued consumer strength and relatively accommodative fiscal and monetary policies. However, despite their skew toward more economically sensitive sectors we believe the portfolio's holdings are well positioned to weather even a severe downturn and prosper from the opportunities it creates. Should the economy continue its modest growth path, allowing the Federal Reserve to maintain its tightening program, the portfolio's lack of exposure to bond proxy sectors will be especially beneficial.

Sources: Bloomberg; FactSet; FTSE Russell

Additional Cooke & Bieler All Cap Value Performance Disclosures