



# Concentrated Value Equity

## Overview

U.S. equities performed extremely well in the first quarter. Emboldened by the Fed's accommodative pivot, investors shrugged off concerns about the economy, creating an environment that was the polar opposite of last year's fourth quarter. The Russell 3000® Value Index (RAV) returned 11.93%, with every sector posting strong gains – though the sectors and stocks that performed worst during the late 2018 sell-off tended to benefit most from this quarter's profound change in sentiment. Consistent with this pattern, smaller capitalization issues within the RAV also outperformed during the first quarter, though this strength reversed in March.

## Portfolio Performance & Developments

Cooke & Bieler's Concentrated Value Strategy returned 18.77% gross of fees (18.56% net of fees) versus the RAV's 11.93% return for the first quarter. Favorable stock selection – positive in six of eight sectors in which the portfolio had weight – explained more than all of this quarter's outperformance, with particular strength in Materials and Industrials. Valuations normalized for holdings that were unduly punished late last year, with four of the top five contributors this quarter having ranked among the portfolio's more significant detractors in Q4 2018. More broadly, solid fundamental progress across most of the portfolio's holdings contributed to the strategy's excess return.

## Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Colfax	6.5	42.0	238
Winnebago	6.8	29.2	193
Schweitzer-Mauduit	4.1	56.3	188
Philip Morris Int'l	6.1	34.1	185
Crown Holdings	4.8	31.3	149

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
PGT Innovations	0.9	-6.2	-18
UnitedHealth	3.2	-0.4	1
Omnicom	3.7	0.5	5
Intercont'l Exchange	5.1	1.5	10
Wells Fargo	4.0	5.8	29

Source: FactSet

Past performance is not indicative of future results. The performance attribution is an analysis of a representative Concentrated 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 Concentrated 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](mailto:contact@cooke-bieler.com).

## Largest Contributors

**Colfax (CFX)**, a designer and manufacturer of air/gas handling and fabrication products, was the largest contributor in the quarter. After significantly detracting from returns in Q4 2018, short-term market concerns tied to an acquisition lifted as the company started to execute on financing plans. Further transparency on pro-forma expectations also helped shift investor sentiment.

**Winnebago (WGO)**, a top U.S. manufacturer of recreational vehicles, was the second largest contributor. Investor concern about a slowdown in the RV industry caused stock price weakness in 2018. The stock has recovered strongly given evidence of healthier dealer inventory positions in 2019 as well as continued share gains for Winnebago but remains one of the most attractive holdings in the portfolio.

**Schweitzer-Mauduit (SWM)**, a Materials holding that supplies the tobacco products industry as well as the automotive, infrastructure and filtration industries, was the third largest contributor. It was a leading portfolio detractor in Q4 2018 as investors grew concerned about the health of its industrial end markets and higher commodity input costs. However, fourth quarter organic growth and margin performance were strong, and guidance implies that this strength should continue.



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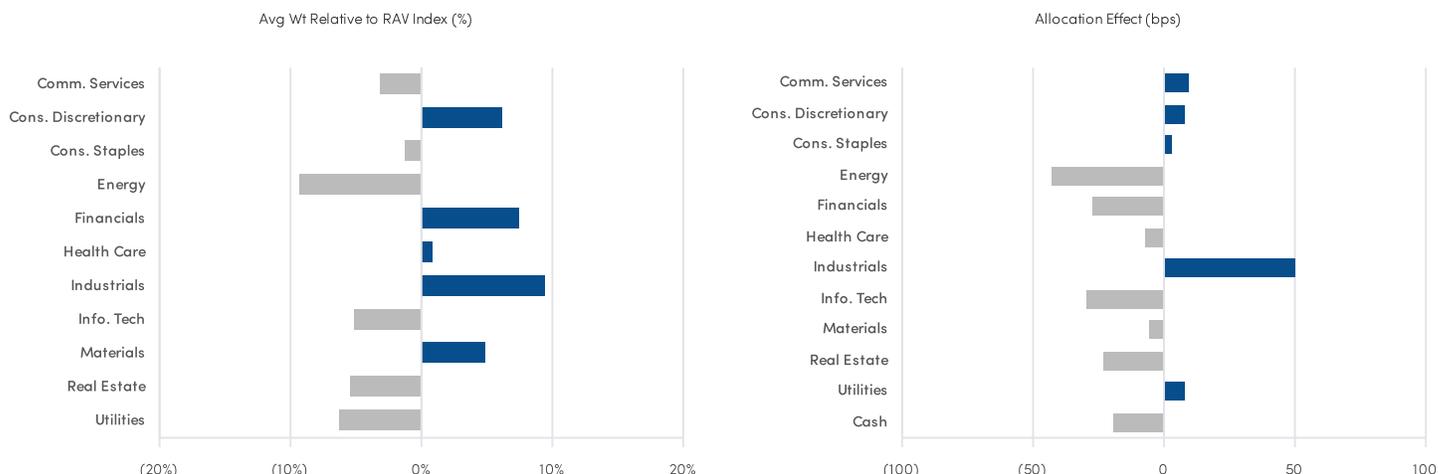
## Largest Detractors

**PGT Innovations (PGTI)**, the leading manufacturer of impact-resistant windows was the largest detractor this quarter. Though reported results were very strong, a portion of that fundamental strength owed to the favorable impact of hurricane activity in the Florida market, making comparisons difficult versus 2018. PGTI has been a longtime Cooke & Bieler holding and we viewed the recent stock price weakness as an opportunity to initiate a position in the portfolio.

**UnitedHealth (UNH)**, the largest health insurer in the U.S., was the second largest detractor. Among the top contributors in 2018, UNH's slightly negative total return in Q1 in a strong up market makes it a relative detractor despite solid fundamentals.

**Omnicom (OMC)**, a global advertising agency, was the third largest detractor. A top contributor last quarter, OMC's slightly positive total return in Q1 in a strong up market makes it a relative detractor despite respectable fundamental performance.

## Sector Positioning



Source: FactSet  
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Concentrated 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 allocations, a byproduct of Cooke & Bieler's bottom-up process, detracted slightly from relative performance. The meaningfully positive impact of the strategy's overweight in the RAV's second best performing sector (Industrials) was more than offset by its zero weighting in Energy and Real Estate and an overweight in Financials.

## Initiations

**PGT Innovations (PGTI)** is the leading manufacturer of laminated, impact resistant (i.e. hurricane-safe) windows in the US. The company has a majority share of the Florida market, where building codes and awareness 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.

## Eliminations

There were no eliminations this quarter.





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## Outlook

In the context of increasingly conflicting economic signals and a big jump in valuations resulting from the strong first quarter rally, our market outlook for the remainder of this year is somewhat guarded. Amidst growing uncertainty, we see a mixed environment, likely including increasing volatility. This backdrop should provide active investors with opportunities to add value through disciplined stock selection. We believe the portfolio continues to be positioned to outperform given its attractive combination of quality characteristics and reasonable valuation.

Sources: Bloomberg; FactSet; FTSE Russell; Jefferies; The New York Times

Past performance is not indicative of future results. The material presented represents the manager's assessment of the Concentrated 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 Concentrated Value institutional portfolio for the quarter ending 3/31/19. 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 Concentrated 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](mailto:contact@cooke-bieler.com).

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