



Concentrated 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 Concentrated Value Strategy returned 7.15% gross of fees (6.94% 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 about half of the quarter's outperformance, was generally favorable. Strong results in the Consumer Discretionary, Health Care, and Industrials sectors were somewhat offset by results in Financials, Consumer Staples and Information Technology. 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)
Winnebago	7.5	24.9	175
Syneos Health	1.9	22.4	94
Intercont'l Exchange	6.2	13.2	81
AerCap	7.0	11.8	78
FNF Inc.	6.6	11.1	71

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
State Street	4.9	-14.1	-76
Philip Morris Int'l	5.9	-9.8	-69
Arrow Electronics	5.0	-7.5	-21
Colfax	4.8	-5.6	-18
Wells Fargo	3.6	-1.1	-6

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.

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.

Syneos Health (SYNH), a clinical development outsourcer serving biopharmaceutical firms, was the second-largest contributor. The stock displayed unusually high volatility recently which we capitalized on by selling shares early during the quarter and subsequently purchasing shares in response to a negative overreaction to first quarter earnings.

Intercontinental Exchange (ICE), a leading operator of financial exchanges and provider of financial data, was the third-largest contributor. Although its price performance was poor in Q1, ICE's first quarter earnings demonstrated the resilience of the company's mostly subscription-based business model by showing revenue growth in a difficult environment for exchanges. Investors also seemed encouraged by ICE's investments in new markets, including fixed income and – more speculatively – cryptocurrency trading

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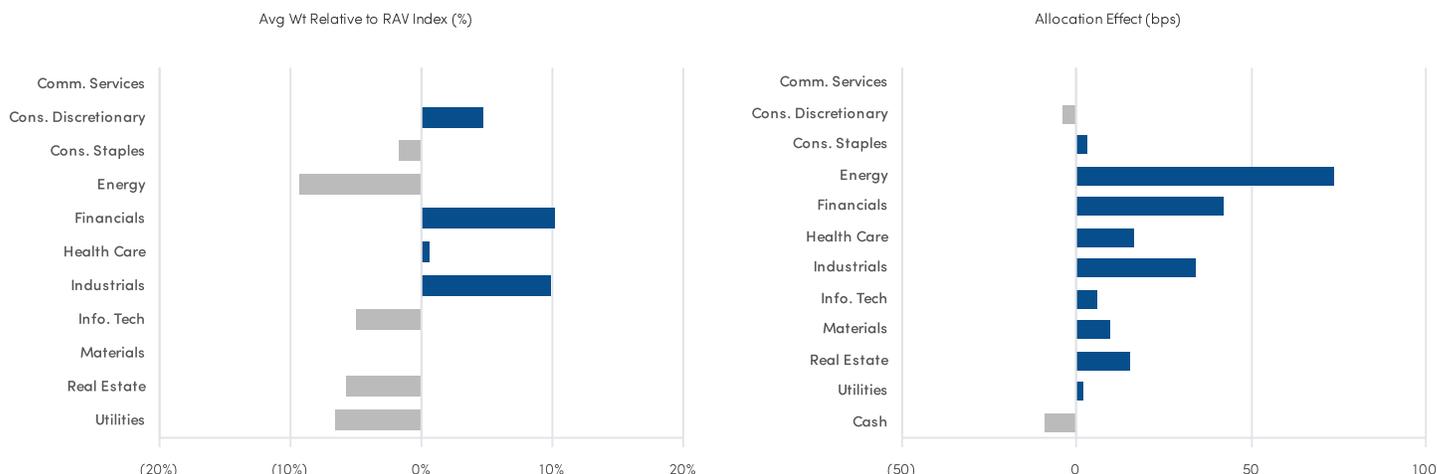
Largest Detractors

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

Philip Morris International (PM), a tobacco product manufacturer, was the second-largest detractor. PM's strong fundamental performance was overshadowed by negative investor sentiment impacting the tobacco industry as a whole. Most of this sentiment pertains to turbulence in the U.S. market, which has no bearing on PM's operations.

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 sole negative sector, Consumer Discretionary, brought total allocation effect down by only 4 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.

Initiations

Steelcase (SCS) is one of the world's leading manufacturers of office furniture with a strong position in the U.S. and many parts of Europe, as well as a growing presence in Asia Pacific. The company's scale, R&D capabilities, and strong balance sheet are durable competitive advantages. After a period of internal and external investing, the company appears well-positioned to capitalize on increasing demand for modernized workspaces. Profitability is poised to improve as restructuring programs and operational improvements in Europe take hold.

Verizon Communications (VZ) is the second-largest U.S. telecommunications company and leading wireless provider. Verizon has had a difficult several years on an accounting basis; however, the underlying economics of the wireless industry remain stable and attractive. Price weakness in the final week of April created a buying opportunity.

Eliminations

Gildan Activewear (GIL), **Schweitzer-Mauduit International (SWM)**, and **Woodward (WWD)** were eliminated to make room for better opportunities.



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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 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 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 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.

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