COOKE & BIELER

Q3 2018

Large Cap Value Equity

Overview

U.S. markets performed well in the third quarter, propelled by strong corporate profits and economic growth. The Russell 1000® Value Index (RLV) saw positive returns in all but one sector. In a reversal from the year's first half, large company stocks outpaced smaller ones and low volatility returned.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value portfolio returned of 4.97% gross of fees (4.80% net of fees) versus the RLV's 5.70% return for the third quarter. Portfolio positioning added value but was more than offset by weak stock selection. While strong up markets generally do not favor Cooke & Bieler's approach, the quarter's result was mildly disappointing.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Ball Corp.	2.3	24.0	52
Allergan PLC	3.1	14.7	43
World Fuel Services	1.2	35.9	36
Colfax Corp.	2.2	17.7	36
Eaton Corp.	2.1	17.0	34

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Whirlpool Corp.	1.9	-18.1	-39
Hanesbrands Inc.	1.8	-15.6	-30
Omnicom Group	2.4	-10.0	-27
State Street Corp.	2.4	-9.5	-24
Applied Materials	0.9	-14.1	-20

Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Large Cap Value institutional portfolio's gross of fees return relative to the Russell 1000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large 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

Ball Corp. (BLL), the world's leading producer of beverage cans, was the largest contributor for the quarter. BLL posted a good quarter and appears on track to meet internal targets set upon acquiring Rexam in 2016. The company's best-in-class management has it well positioned for years to come.

Allergan (AGN), a multi-national pharmaceutical producer of branded and generic drugs with a strong presence in the medical aesthetics market, was the second largest contributor. AGN is in the throes of a revenue growth slowdown attributable to a wave of patent expirations. However, this wave is receding and the strength of their product portfolio and substantial competitive advantages are becoming apparent again to investors.

World Fuel Services (INT), a logistics company that markets and distributes aviation, marine, and land fuel products and related services, was the third largest contributor. After multiple quarters of negative results, driven by weakness in their marine and land segments, INT is beginning to stabilize margins albeit at lower levels. We continue to monitor and hold positions on the belief that new management and board appointments will improve operations.

Largest Detractors

Whirlpool Corp. (WHR), a global manufacturer and marketer of home appliances with leading market positions in North America, Latin America, and Asia, was the largest detractor for the quarter. WHR is generally operating well but continues to struggle integrating its recently acquired European operations. While valuation is very compelling, we continue to hold current positions awaiting tangible operational improvement.

Hanesbrands Inc. (HBI), a well-managed basic apparel company, was the second largest detractor. HBI, a second quarter leader, announced in late July that Target failed to renew its long-running activewear program with Hanes' Champion brand. The current contract runs for another 18 months, and the Champion brand is growing well globally, but investors were nevertheless concerned. We continue to like the business due to its strong cash flow characteristics.

Omnicom Group (OMC), a global marketing and corporate communications company providing traditional media advertising, customer relationship management, public relations, and specialty communications, was the third largest detractor. Investors question whether advertising industry weakness is cyclical or indicative of an existential crisis. Although not immune to these concerns, OMC agencies have strong reputations, global scale, and needed digital capabilities.

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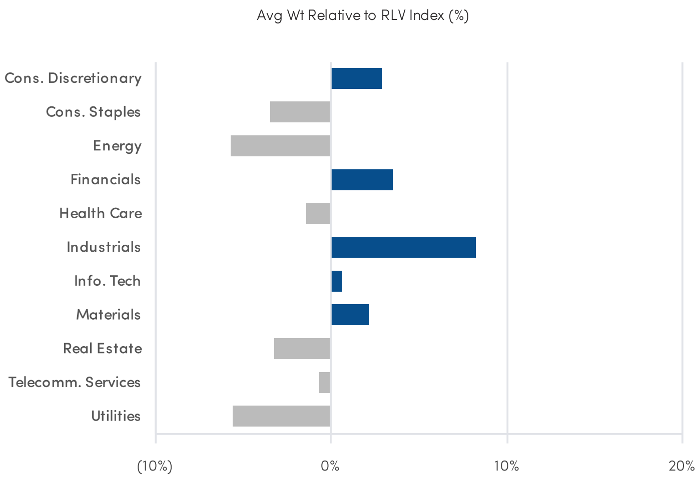
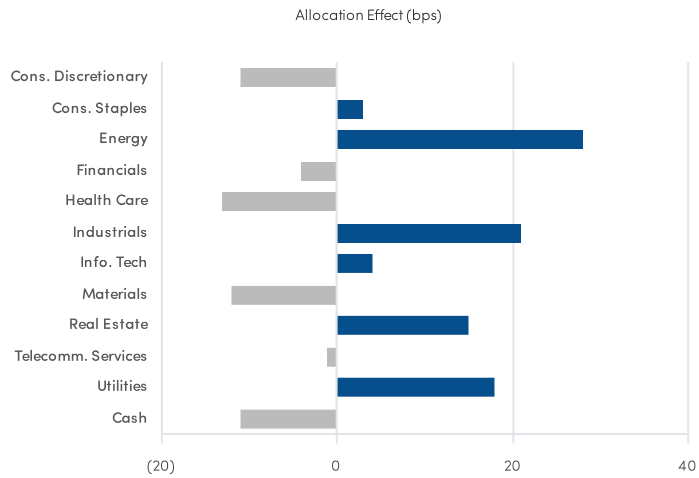
Sector Positioning





Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Large Cap Value institutional portfolio's gross of fees sector return relative to the Russell 1000® Value Index. Please see additional performance disclosures at the end of this document.

The strategy's underweight in Energy, Utilities and Real Estate and overweight in Industrials were the primary positive drivers. Energy stocks stalled after climbing furiously most of the past twelve months. In addition, a solid economy and rising interest rates took a relative toll on Utilities and Real Estate. Conversely, the economically sensitive Industrials sector rallied strongly, and the portfolio benefited from its significant overweight. Meanwhile, the portfolio's slight underweight in Health Care, the benchmark's best performing sector, was a slight drag. Low P/E, previously out-of-favor issues, including Big Pharma stocks, led the charge. The overweights in Materials and Consumer Discretionary were slight drags as well, as Materials companies seemed to struggle with trade concerns and Consumer Discretionary returns were weighed down by auto and housing-related stocks.

Initiations

Arch Capital Group (ACGL) is a Bermuda-based specialty property & casualty (P&C) and mortgage insurer. Their niche approach to P&C underwriting and emphasis on risk management in mortgage insurance combined with their superior cycle management and appreciation for capital preservation – all engrained in their culture – have led to a long track record of above-average returns. Despite this track record, which we expect to continue, the stock trades at a discount to peers as investors seem to prefer insurers with less diverse business mixes.

Applied Materials Inc. (AMAT) is a leading semiconductor capital equipment manufacturer. By leveraging their size and understanding of the entire semiconductor fabrication process they have built a differentiated and market-leading product portfolio and a strong services business. Investors are concerned about a prospective cyclical downturn, but the semiconductor capital equipment industry continues to be attractive given its above-average growth profile, high barriers to entry, and low capital intensity. In the long run, we believe AMAT is well positioned to maintain industry leadership and gain market share in new high-growth areas of the market.

Eliminations

Accenture (ACN) was eliminated as it reached fair value. **Markel Corp. (MKL)** performed well during its relatively short tenure in the portfolio, but we decided to swap it for ACGL, another insurer with a more compelling valuation.

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Outlook

As we enter the final quarter of 2018, we continue to see pockets of value in a market that as a whole has grown more exuberant. Consumer Staples, Utilities, and Energy in particular seem more than fairly valued, and the strategy remains underweight these areas. We find more compelling value in the Industrials, Consumer Discretionary, and, increasingly, the Information Technology sectors. The economy appears to be growing robustly and corporate profits are benefiting from lower taxes, which should provide support for stock prices. However, after an extended period of extraordinary monetary stimulus, the Federal Reserve has been steadily moving toward a more neutral stance – raising rates seven times since December 2016. Rising interest rates will put pressure on companies and business models that have grown dependent on cheap financing and should slow the economy over time. The risks of a more significant crisis, while not high, are rising as well. Against this backdrop, the strategy continues to be positioned in conservatively financed, high-quality businesses.

Sources: Bank of America Merrill Lynch; Bloomberg; FactSet; Russell Investments; Wall Street Journal

Additional Cooke & Bieler Large Cap Value Performance Disclosures