COOKE & BIELER

Q3 2019

Large 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® 1000 Value Index (RLV) generated a 1.36% 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 Large Cap Value Strategy outperformed the benchmark, returning 3.15% gross of fees (2.99% net of fees). Style was neither an obvious 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 10 sectors where the portfolio had weight, led especially by strong performance in Financials, Industrials, and Materials. Underperformance in Consumer Discretionary, Consumer Staples, and Real Estate detracted from relative results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
UPS	2.6	17.0	45
FNF	2.9	11.0	32
Brookfield Asset Mgmt	2.8	11.5	31
Medtronic	2.3	12.7	29
Arch Capital	2.1	13.2	28

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
UnitedHealth	2.2	-10.5	-24
Hanesbrands	1.7	-10.1	-19
Schlumberger NV	1.1	-12.7	-17
Exxon Mobil	2.2	-6.7	-16
Johnson & Johnson	2.2	-6.4	-15

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

United Parcel Service (UPS), the world's leading parcel delivery service, was the 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 quarter.

Fidelity National Financial (FNF), the largest title insurer in North America, was the second-largest contributor this quarter. Fundamentals were buoyed by solid margin performance and a strong real estate market benefiting from lower interest rates.

Brookfield Asset Management (BAM), a global investor, operator, and asset manager of real assets, was the third-largest contributor this quarter. Investor sentiment improved given the favorable impact of lower interest rates on the return prospects for real assets. Additionally, investors were pleased with BAM's strategic acquisition of Oaktree Capital.

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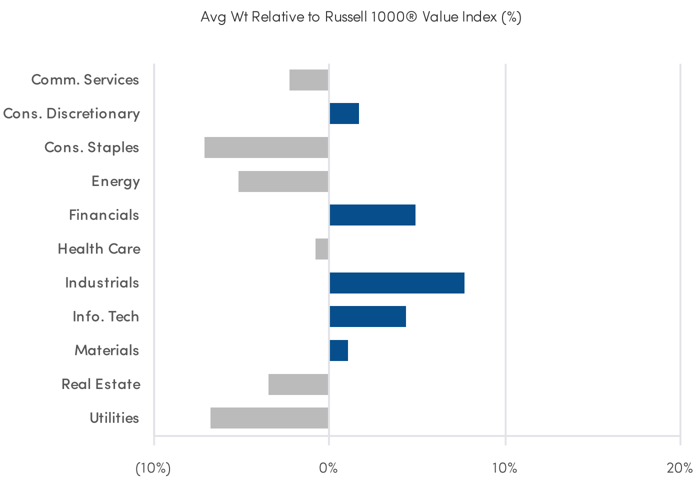
Largest Detractors

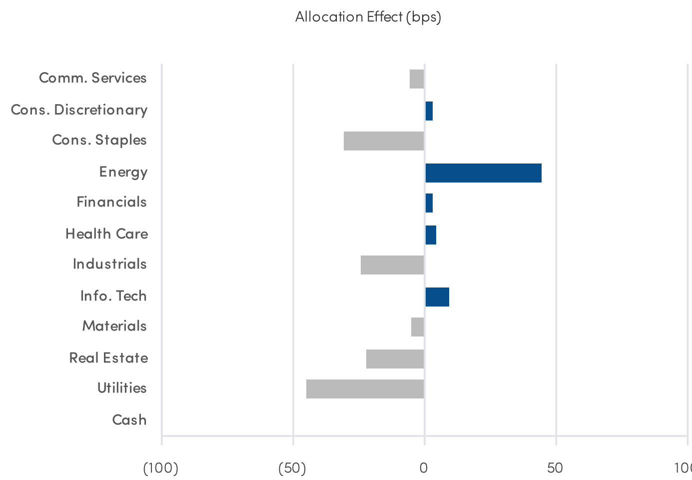
UnitedHealth Group (UNH), the largest health insurer in the United States, was the largest detractor this quarter. The company's fundamentals remain strong. The stock's valuation has been negatively impacted by political debate surrounding a move to a single-payer health care system. Since nearly half 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.

Hanesbrands (HBI), a manufacturer and marketer of basic apparel products, was the second-largest detractor this quarter. Concerns over the closure of retail stores, growing private label trends within the industry, and increased consumer goods tariffs all affected HBI's performance this quarter.

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

Sector Positioning





Source: FactSet
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Sector allocation effect was negative for the quarter, with six of 11 sectors detracting from performance. Weakness was most pronounced in Utilities and Consumer Staples, perceived safe havens that performed well during this period of market uncertainty, but where the portfolio remains underweight. The portfolio's overweight to Industrials – one of only four benchmark sectors posting a negative return – was also a detractor. Conversely, the strategy's underweight in Energy had the biggest positive effect on relative performance, as that sector was by far the worst performer within the RLV. Allocation effect was favorable in Information Technology, Health Care, and Financials.

Initiations

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.

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.

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Eliminations

World Fuel Services (INT) reached its price target and was eliminated.

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 it to be more volatile than its 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

Past performance is not indicative of future results. The material presented represents the manager's assessment of the Large Cap 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 Large Cap Value institutional portfolio for the quarter ending 9/30/19. 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 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.

Additional Cooke & Bieler Large Cap Value Performance Disclosures