



Large Cap Value Equity

Market Commentary

After posting robust, steady gains in the first three quarters of 2017, U.S. equities delivered another quarter of positive returns – the ninth consecutive one for the market as measured by the S&P 500 Index. Investors responded enthusiastically as the prospect of tax reform materialized, increasing the likelihood of continued earnings growth fueled by a lower corporate tax rate.

The major Russell U.S. equity indices ended Q4 and 2017 in positive territory as large cap stocks outperformed small cap stocks, reversing a trend that dominated in 2016. The Russell 1000® Value Index (RLV) returned 5.33% for the quarter, closing the year up 13.66%.

Portfolio Performance & Developments

For the fourth quarter of 2017, Cooke & Bieler's Large Cap Value Strategy posted solid absolute returns, but lagged the RLV. Sector allocation was slightly positive: the underweight in bond-proxy sectors (Real Estate, Telecommunication Services, and Utilities) added relative value, while the overweight in Industrials and underweight in Technology were a modest drag. However, poor stock selection results drove relative underperformance for the quarter with the largest drags coming from the Consumer Discretionary and Energy sectors. Within Consumer Discretionary, retailers performed exceptionally well on expectations of a strong holiday season and the potential benefits of tax reform. The strategy's Consumer Discretionary holdings are less affected by seasonal tailwinds, but also less exposed to the secular headwinds plaguing retailers that could prevent them from earning competitive returns through a full cycle. Within Energy, exploration and production companies outperformed the integrated oil and gas companies held in the strategy due to their greater sensitivity to rising oil prices.

For the full year, the C&B Large Cap Value Strategy performed well in both relative and absolute terms. Sector allocation was strongly positive: the underweight in Energy and Telecommunication Services were the largest contributors followed by the overweight in Health Care. Likewise, stock selection contributed significantly to outperformance for the year, driven by strong results in Industrials, Financials, and Consumer Staples.

Market Outlook

Expectations and valuations arguably are high, leaving little room for disappointments and unforeseen bumps in the road. At the same time, traction in the economy appears solid and the benefits of tax reform should allow fundamentals to improve. Given this backdrop, dispersion among stocks and sectors is likely to increase, creating opportunities for active managers. As always, our work at Cooke & Bieler is focused on adding value through our bottom-up stock selection process, underpinned by our meticulous identification, rigorous research and analysis, and continuous monitoring of the business fundamentals which drive value over time.

Sources: Bank of America Merrill Lynch; Bloomberg; FactSet; Reuters; Russell Investments

The material presented represents the manager's assessment of the Large Cap 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 sector. Past performance is no guarantee of future results.

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