



Large Cap Value Equity

Overview

U.S. equities performed poorly in the fourth quarter. What began as a modest pullback devolved into a market rout in December. In the end, it was the worst fourth quarter since 2008, with all major market indices posting ugly double-digit declines. As tends to be the case in sudden, major pullbacks, selling pressure was widespread and largely indiscriminate. This was especially true in December when the Russell 1000® Value Index (RLV) declined nearly 10% and every major sector, excluding Utilities, declined at least 7.5%.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value strategy returned -13.93% gross of fees (-14.09% net of fees) versus the RLV's -11.72% return for the fourth quarter. Both stock selection and sector allocation detracted during the quarter. Fundamental performance of the portfolio's holdings, however, was generally good and stock selection was positive through the end of November, by which time nearly all portfolio companies had reported their third quarter earnings. The portfolio's smaller average capitalization hurt selection results in December, in an environment that strongly favored larger stocks. Overall, the portfolio was very much out of sync with the RLV and stock selection was negative in seven of the ten sectors in which the portfolio had weight.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Verizon	2.9	6.5	20	AerCap	3.1	-31.2	-107
Omnicom Group	2.7	8.6	16	Colfax	2.1	-42.0	-101
ICE Inc	2.8	0.9	2	Allergan	2.7	-29.5	-88
RenaissanceRe	1.5	0.3	1	Schlumberger	1.6	-40.1	-78
Diageo	1.2	0.1	0	State Street	2.8	-24.2	-60

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

Verizon Communications (VZ), the largest US wireless telecommunication company and provider of landline data and voice connection services, was the largest contributor for the quarter. VZ continues driving good underlying wireless growth and solid profitability. 5G represents an incremental opportunity for the company.

Omnicom Group (OMC), a global advertising agency, was the second largest contributor. Investors are noticing improving trends within the industry, particularly the streamlining of business models and the incorporation of data-driven marketing. OMC reported better organic growth results, a big account win at Ford, and continued progress in their data-driven targeted advertising capabilities.

Intercontinental Exchange (ICE), a leading operator of financial exchanges and clearing houses and provider of financial data, was the third largest contributor. ICE reported incrementally positive quarterly results with revenues coming in better than expected and evidence of data growth accelerating in line with management forecasts. Furthermore, the company announced a new stock repurchase program for 2019.

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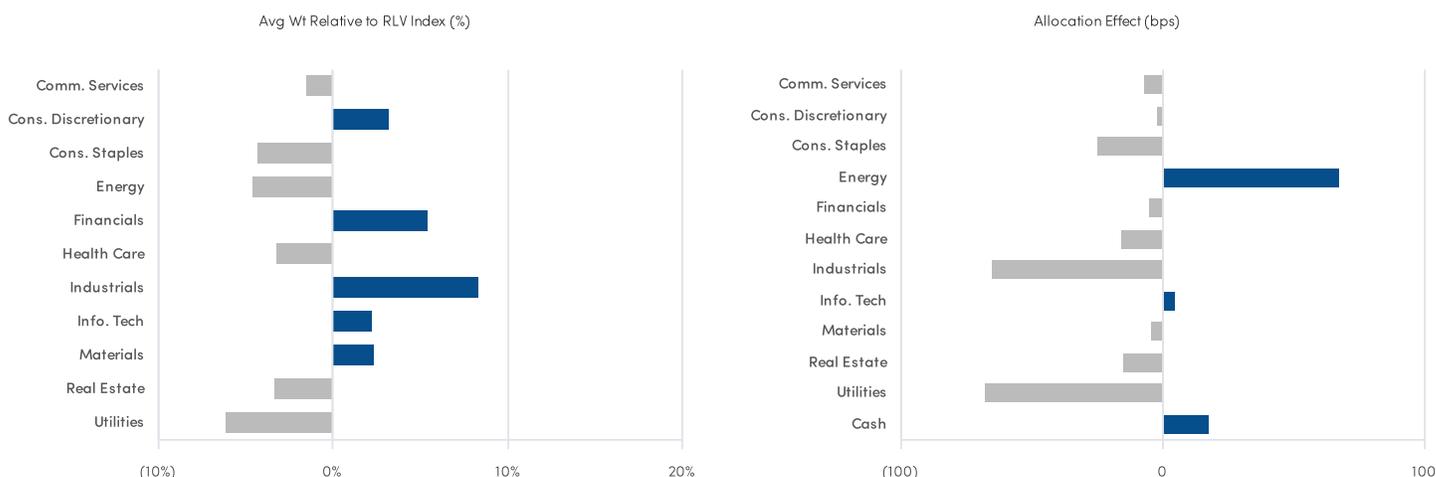
Largest Detractors

AerCap (AER), the world's largest independent aircraft leasing company, was the largest detractor for the quarter. Despite solid fundamentals, the stock was punished for its perceived economic sensitivity as weakening global macroeconomic conditions could affect aircraft demand growth and airline credit quality. AER's management continues buying back shares and announced a new program in light of the recent weakness.

Colfax (CFX), an industrial company focused on large-scale air and gas handling equipment, welding, and other metal fabrication products and services, was the second largest detractor. CFX announced a significant acquisition in the quarter, one we believe makes long-term strategic sense and should add value over time, but which introduced complexity and financing needs at a moment the market was receptive to neither.

Allergan (AGN), a multinational pharmaceutical producer of branded and generic drugs with a strong presence in the medical aesthetics market, was the third largest detractor. Despite good fundamental results, AGN continues to face a revenue growth slowdown attributable to a wave of patent expirations that keeps getting pushed out. After this wave subsides the strength of the product portfolio and substantial competitive advantages should become more apparent.

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.

Sector allocation contributed to poor relative performance. From a positioning standpoint, the portfolio's zero weight in Utilities and overweight in Industrials generated the biggest negative impact. The portfolio's underweight in Energy was a positive offset as this sector was the worst performing sector in the RLV for the quarter. With the exception of market capitalization, there existed no discernable pattern across style factors.

Initiations

Reliance Steel & Aluminum (RS) is the largest metals service center in North America. Metals processing is value-added to the customer since it requires high-volume production to be cost effective, but the average customer requires volumes at a much lower scale. The company's attractive business model is underpinned by the pass-through nature of metals prices and countercyclical working capital requirements. Unimpressed by the company's proven ability to manage cyclicity and strong balance sheet, the market is deeply undervaluing the stock.

Eliminations

Unilever (UN) and **Ball (BLL)** offered significantly less appreciation potential than recently purchased stocks.



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Outlook

As we enter 2019, we do not know when sentiment will turn more positive but do know that over longer periods of time fundamentals rule. We are confident in the portfolio, and for the first time in a long while we see valuation, especially at the portfolio level, as a potentially significant positive factor in the total return equation. Relatedly, the portfolio remains underweight the bond proxy sectors, a positioning that obviously dampened relative results in the fourth quarter. Given elevated valuations in these spaces and in many cases deteriorating long-term fundamentals, however, we remain comfortable with an overall positioning that is ostensibly less demand defensive than that of the benchmark. If fears of an economic recession prove unwarranted, this positioning will be a clear positive. And if a recession is imminent, we still prefer cheaper, better capitalized and albeit economically sensitive businesses to an expensive and indiscriminate collection of demand defensive stocks with less attractive long-term outlooks.

Sources: Bloomberg; FactSet; FTSE Russell

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 12/31/18. 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.

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