COOKE & BIELER

Q4 2019

Large Cap Value Equity

Overview

U.S. equity markets ended the year on a very strong note, with indices reaching record highs. Investor optimism was buoyed by easing trade tensions and indications of diminishing recession risks. Interest rates rebounded meaningfully during the quarter after declining most of the year. Against this backdrop, the Russell 1000® Value Index (RLV) generated a 7.41% return. Notably, growth outperformed value and bond-proxy sectors underperformed the broader market. For the full year period, US equity indices – soothed by the Fed's accommodative monetary policy pivot – were up broadly and significantly, posting returns upwards of 20%, with particular strength in Technology. Volatility receded from very high levels in 2018.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy returned 8.91% gross of fees (8.74% net of fees), outperforming the benchmark for the quarter and extending its YTD lead. Stock selection and sector allocations both contributed to outperformance. Stock selection results were positive in most sectors where the portfolio had weight, led especially by strong performance in Health Care, Real Estate, and Consumer Staples. Underperformance among Consumer Discretionary, Information Technology, and Communication Services holdings detracted from relative results. From an allocation perspective, the strategy's underweight to bond-proxy sectors boosted relative results. Over the full year, the strategy outperformed the RLV by 8.89%, net of fees. Stock selection accounted for approximately 80% of outperformance, with Financials, Materials, and Health Care stocks having the strongest positive impact.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
State Street	2.6	34.5	83
UnitedHealth	2.2	35.8	71
Colfax	2.5	25.2	62
JPMorgan Chase	2.5	19.4	47
Charles Schwab	2.1	14.1	46

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Gildan Activewear	1.9	-16.4	-39
Alliance Data Systems	0.7	-11.9	-11
Whirlpool	1.7	-6.1	-11
Chubb	2.4	-3.1	-10
Johnson Controls	1.2	-6.6	-9

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

State Street (STT), the leading custodian and record keeper for financial assets, was the largest contributor. Price declines in their main business segments appear to be stabilizing. Good new business flow as well as improving cost control also helped STT's performance, while robust financial markets during the quarter provided an additional tailwind.

UnitedHealth (UNH), the largest health insurer in the United States, was the second-largest contributor. UNH reported strong earnings, again demonstrating the company's favorable underlying economics and ability to compound value at a double-digit rate on a sustained basis. The stock's positive reaction to good fundamental progress was amplified by softening political campaign rhetoric surrounding interest in single payer healthcare systems.

Colfax (CFX), an acquisitive conglomerate with strong welding and orthopedic franchises, was the third-largest contributor this quarter. CFX had strong fundamental performance in both their segments, with their ESAB welding business continuing to show good margin improvement. The company also benefited from the execution of a successful Analyst Day in December that gave further insights into their newly acquired orthopedic franchise, DJO Global. Initial results of the acquisition have been positive, with integration moving along and DJO posting better than expected organic growth.

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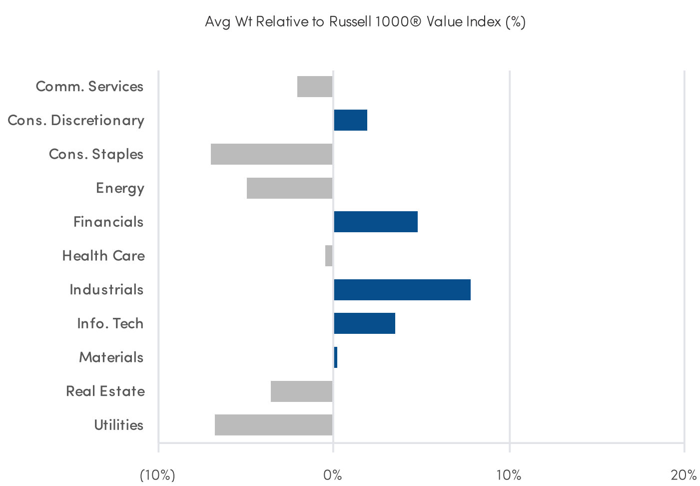
Largest Detractors

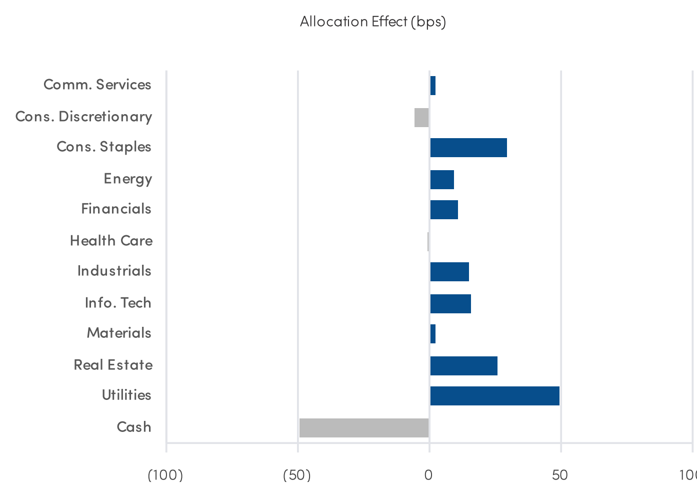
Gildan Activewear (GIL), the largest basic apparel manufacturer, was the largest detractor. GIL lowered full year guidance due to an industrywide pullback in corporate end-user demand for printwear products, despite strong innerwear sales and margin expansion potential.

Alliance Data Systems (ADS), a provider of customer loyalty and marketing solutions, was the second-largest detractor. Investor concerns over the health of its retail clients and declining credit quality in the event of a downturn weighed on the company's performance.

Whirlpool (WHR), a global manufacturer and marketer of home appliances, was the third-largest detractor. WHR posted improved overall profitability, but subsequently released North American industry shipment data weighed on the share price later in the quarter.

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 majority of the quarter's outperformance was explained by sector allocation effect, which was positive in nine of 11 economic sectors. The portfolio's underweight in Utilities, Consumer Staples, and Real Estate had the largest positive effect as these perceived safe havens lagged the overall benchmark. The portfolio's overweight to Information Technology, Industrials, and Financials was also additive. The portfolio's overweight to Consumer Discretionary was a slight headwind as was its underweight to Health Care, which was the RLV's second best performer for the quarter. Over the full year, sector allocation effect was positive in 10 out of 11 sectors, with an overweight to Industrials and underweight to Energy delivering the strongest results.

Initiations

There were no new positions this quarter.

Eliminations

Applied Materials (AMAT) reached its price target and was eliminated.

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Outlook

Looking forward, we are cautiously optimistic. Fundamentals remain strong in the portfolio, but valuations have risen to more demanding levels. Our pro-cyclical tilt benefitted performance in 2019 as recession fears moderated, but could be less of a tailwind going forward. Nonetheless, we remain confident in the portfolio's positioning and our ability to identify reasonably priced stocks of high quality businesses that will add value over the long term. All things considered, the market likely will be more volatile in the new year, creating opportunities for investors like us. We remain committed to ensuring portfolio turnover as necessary, with the knowledge that timely eliminations are as important as initiations to strengthen the portfolio.

Sources: APX, Bloomberg, FactSet, Forbes, S&P Global, The Wall Street Journal

Additional Cooke & Bieler Large Cap Value Performance Disclosures