



# Mid Cap Value Equity

## Market Commentary

U.S. equity indices posted positive returns in the second quarter with growth outperforming value among mid and large cap stocks and small capitalization stocks outperforming larger ones. The Russell Midcap® Value Index (RMV) returned 2.41% for the quarter, with the late-quarter rise in oil prices – up 14% in the quarter – driving outsized returns among the benchmark’s Energy constituents and the flattening yield curve propelling its Real Estate and Utilities components. Together, these three sectors accounted for more than the entirety of the benchmark’s gain for the quarter.

## Portfolio Performance & Developments

For the second quarter of 2018, Cooke & Bieler’s Mid Cap Value Strategy posted positive absolute returns, but underperformed the RMV on a relative basis. While disappointing, this quarter’s performance is not unusual given the portfolio’s high active share and our focus on long-term results.

Sector allocation resulting from our bottom-up fundamental investment process was a headwind, as the strategy’s underweight in Energy and Real Estate – among the quarter’s best performing sectors – detracted from relative returns. More generally, style factors worked against the portfolio as stocks of companies with the highest P/Es performed best as did those of non-earning companies and companies with low returns on capital. Much of this style headwind seemed related to the flattening yield curve, which provided support for companies of lower quality.

Stock selection was positive for the quarter. Consumer Discretionary – a sector where we had generated negative selection results for the prior two quarters – was additive as were selection results in Financials and Industrials. Partially offsetting these positive results, the strategy’s packaging holdings in the Materials sector suffered during the quarter as investors incorrectly conflated the weakness of certain branded customers with similar weakness in broader end markets.

## Market Outlook

As we enter the second half of the year, the portfolio is now more attractive on a forward P/E basis than it was at the start of the year. More importantly, though, the market has continued to move toward a place more conducive to active management. For instance, the positive point-to-point total return for the second quarter disguised considerable underlying intra-quarter volatility. We welcome such volatility as related potential mispricings provide opportunities for skilled stock pickers. As always, we at Cooke & Bieler believe that returns ultimately track fundamentals. We remain confident in our investment team’s proven and experienced stock picking ability underpinned by a disciplined process, rigorous research effort, and unique culture.

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

The material presented represents the manager’s assessment of the Mid 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.

[Additional Cooke & Bieler Mid Cap Value Performance Disclosures](#)