COOKE & BIELER

Q2 2019

Mid Cap Value Equity

Overview

The second quarter was a bumpy ride for the U.S. stock market. The rally that began late last year continued through April, was upended in May by renewed concerns about the economy and a more protracted trade war, then was revived in June by the Fed's clear pivot toward monetary easing. The June rally was enough to push major indices into positive territory for the quarter, capping a strong first half of the year which saw stocks up double digits. Returns were strongest for large cap stocks, but otherwise underlying market dynamics lacked discernable themes. The Russell Midcap® Value Index (RMV) returned 3.19%, with the strongest gains in Industrials and Communication Services, while Energy lagged significantly.

Portfolio Performance & Developments

Cooke & Bieler's Mid Cap Value Strategy returned 6.09% gross of fees (5.90% net of fees), handily beating the RMV and building on its healthy Q1 outperformance. Both stock selection and sector allocation contributed to returns, while style factors were a modest headwind, mainly due to the underperformance of value and the strategy's below-benchmark market capitalization. Stock selection, accounting for over 25% of the outperformance, was strongest in the Consumer Discretionary sector, and was partially offset by weak results in Industrials and Health Care. Fundamental progress continued to be solid across most of the portfolio's holdings, which we believe will bode well for the future.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
FNF Inc.	3.8	11.1	41
FirstCash	2.5	15.9	40
Hexcel	2.1	17.2	37
TE Connectivity	2.0	19.2	36
Amdocs	2.3	15.3	35

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Schweitzer-Mauduit	2.8	-13.1	-42
State Street	2.4	-14.1	-37
Gates	1.5	-20.4	-33
Alliance Data Systems	1.0	-19.6	-24
Arrow Electronics	3.2	-7.5	-22

Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Mid Cap Value institutional portfolio's gross of fees return relative to the Russell Midcap® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Mid 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

Fidelity National Financial (FNF), a title insurer and real estate services provider, was the largest contributor this quarter. Investors saw falling interest rates as a positive for housing transactions (both purchase and refinance), which are the main driver of FNF's earnings. In addition, they made progress toward gaining regulatory approval for their acquisition of Stewart Title which should be meaningfully accretive to earnings.

FirstCash (FCFS), a pawnshop operator and consumer lender, was the second-largest contributor. Investors reacted positively as FCFS reported a solid first quarter and raised their earnings expectations for the year.

Hexcel (HXL), a global leader in designing and manufacturing advanced composites, was the third-largest contributor. Early in the quarter, the company reported solid earnings results and later management released new long-term projections at a well-attended investor day. Management's projected free cash flow generation was encouraging and consistent with our long-term thesis that's driven by HXL's enviable competitive positioning and a continued increase in composite content on products in growing end markets.

Mid Cap Value Equity

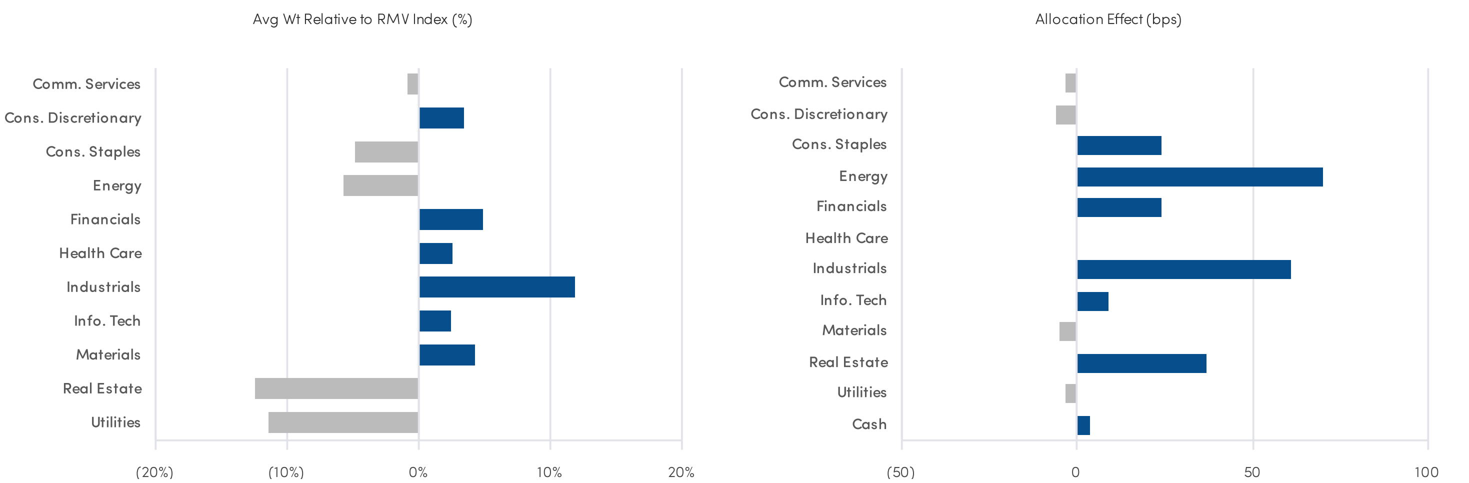
Largest Detractors

Schweitzer-Mauduit International (SWM), an advanced materials and engineered solutions provider, was the largest detractor this quarter. SWM was a top performer last quarter and this quarter's underperformance partially reflected a reversal of investor enthusiasm. Some fundamental volatility in reported results has investors more cautious on management's targets for the full year.

State Street (STT), a financial holding and investment management company, was the second-largest detractor. Interest rate compression, as well as increased fee pressure from other competitors, strained STT's revenue generation this quarter.

Gates (GTES), a global manufacturer of premium transmission belt and fluid power products, was the third-largest detractor. Roughly two-thirds of GTES' sales are to the more recurring and higher margin replacement channel, which experienced softness in the quarter related to unexpected inventory destocking. This, and more expected weakness in European and Chinese first fit sales in automotive end markets, led to disappointing quarterly results and lowered full-year guidance. Despite this setback, GTES' exposure to the replacement channel should serve to stabilize results over the long term while attractive organic and inorganic growth opportunities combined with an improving free cash flow profile provide attractive upside potential.

Sector Positioning



Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Mid Cap Value institutional portfolio's gross of fees sector return relative to the Russell Midcap® Value Index. Please see additional performance disclosures at the end of this document.

Sector allocation explained almost 75% of the strategy's second quarter outperformance. The portfolio's zero weight in the benchmark's worst performing sector – Energy – and significant overweight in the benchmark's best performing sector – Industrials – were the largest contributors to the strategy's positive allocation effect, followed by an underweight in the underperforming Real Estate sector. The portfolio's overweight in Consumer Discretionary holdings was a slight drag, as was its overweight in Materials and underweight in Communication Services and Utilities. Exiting the quarter, the strategy remains underweight the high-yielding Utilities and Real Estate sectors and broadly overweight economically sensitive sectors including Industrials and Consumer Discretionary. Energy continues to be a significant underweight and partial offset to the portfolio's pro-cyclical tilt.

COOKE & BIELER

Q2 2019

Mid Cap Value Equity

Initiations

American Eagle Outfitters (AEO) is a teen and young adult retailer operating under two brands: American Eagle and Aerie. Aerie is a women's innerwear concept that appears well positioned for long-term growth. AEO's valuation does not accurately incorporate this potential, and investor concern surrounding China trade tension gave us the opportunity to initiate a position.

Activision Blizzard (ATVI) is a video game developer and publisher comprised of three reportable segments: Activision, Blizzard, and King. Video games are increasingly mainstream, with new gamers aging in but old gamers only partially aging out. Additionally, gaming's share of leisure time continues to grow. Among the large publishers, ATVI stands out for relying on owned intellectual property to generate its revenues. Concerns over the health of some of its long-running franchises and its ability to create new intellectual property gave us the opportunity to purchase.

Leidos (LDOS) is the largest government services and consulting firm. Modernization of government IT infrastructure, growing healthcare spending, and the heightened threat of cyberattacks all result in a good secular backdrop for the company's services. Its current valuation is attractive for a somewhat counter-cyclical business with recurring revenues, sticky long-term customer relationships, meaningful scale, and strong cash generation.

MKS Instruments (MKSI) supplies components and subsystems to companies in the semiconductor capital equipment industry, among others. MKSI's growth strategy of adding more content per customer system as well as expanding into adjacent markets has proven effective. Recent concerns about the level of semiconductor capital equipment spending created a buying opportunity.

Eliminations

Genpact (G) was eliminated after reaching its price target. **RenaissanceRe (RNR)** was eliminated to make room for better opportunities.

Outlook

Bumpy quarters like Q2 tend to reinforce investors' short-term focus. But rather than try to guess the next twist in the market, we find it more profitable to look to the long term and focus on fundamentals. Taking the long view, over the last 15 years – a period that saw two oil price spikes, a global financial crisis, unprecedented monetary intervention, and countless political shocks – the RMV has generated a fairly typical 9.3% annualized return. In other words, the confusion and cross currents of the second quarter are par for the course, presenting an opportunity to profit from others' impatience rather than a cause for alarm for long-term oriented investors. From a fundamental standpoint, the business environment remains mostly positive, albeit with pockets of weakness emerging as trade tensions begin to take their toll. Valuations, broadly speaking, seem fair – neither compellingly cheap, nor worryingly expensive. This combination leads us to believe returns will be volatile, but positive over time. We remain confident that our long-term approach and disciplined focus on fundamentals, balance sheets, and valuation are well suited to profit both from the opportunities created by volatility as well as the long-term compounding ability of quality businesses.

Sources: Bloomberg; FactSet; FTSE Russell; Market Watch; The New York Times; T. Rowe Price

Additional Cooke & Bieler Mid Cap Value Performance Disclosures