COOKE & BIELER

Q4 2018

Mid 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. Not surprisingly, investors flocked to perceived safe havens, helping large cap stocks outperform mid and small cap issues. Selling pressure was widespread and largely indiscriminate, especially in December when the Russell Midcap® Value Index (RMV) declined more than 10% and every sector, excluding Utilities, declined at least 8%.

Portfolio Performance & Developments

Cooke & Bieler's Mid Cap Value portfolio returned -17.01% gross of fees (-17.19% net of fees) versus the RMV's -14.95% return for the fourth quarter. The most disappointing aspect of the quarter was poor stock selection which was negative in six of the ten sectors in which the portfolio had weight. Fundamental progress among the portfolio's holdings, however, was generally good as stock selection was positive through November by which time nearly all portfolio companies had reported third quarter earnings. In December, negative stock selection results were driven by the portfolio's smaller market cap profile as compared to the RMV – a negative in a risk-off environment which favored larger stocks.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Omnicom Group	2.7	8.6	15
RenaissanceRe	1.9	0.3	1
Ball	1.3	-0.9	1
Hexcel	0.1	0.8	1
Helen of Troy	3.2	0.2	1

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Colfax	3.1	-42.0	-149
AerCap	3.1	-31.2	-109
Perrigo	1.9	-45.1	-108
Schweitzer-Mauduit	2.7	-33.6	-99
Syneos Health	3.0	-23.7	-67

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

Omnicom Group (OMC), a global advertising agency, was the largest contributor for the quarter. 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.

RenaissanceRe (RNR), a best-in-class reinsurer with superior human capital, customer relationships, and underwriting tools and infrastructure, was the second largest contributor. RNR's acquisition of Tokio Millenium Re should be accretive given the clear path to re-underwrite the less attractive pieces of the acquired platform.

Ball (BLL), the world's leading producer of beverage cans, was the third largest contributor. BLL is now more exposed to favorable, demand-defensive businesses after recent divestitures. Also, there is increased optimism that North American pricing will improve helped by consolidation.

Largest Detractors

Colfax (CFX), an industrial company focused on large-scale air and gas handling equipment, welding, and other metal fabrication products and services, was the largest detractor for the quarter. 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.

AerCap (AER), the world's largest independent aircraft leasing company, was the second largest detractor. 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.

Perrigo (PRGO), the world's largest manufacturer of over-the-counter healthcare products and supplier of infant formulas for the store brand market, was the third largest detractor. Perrigo reported modestly disappointing Q3 results and a dispute with the Irish tax authorities. It is also in the middle of a

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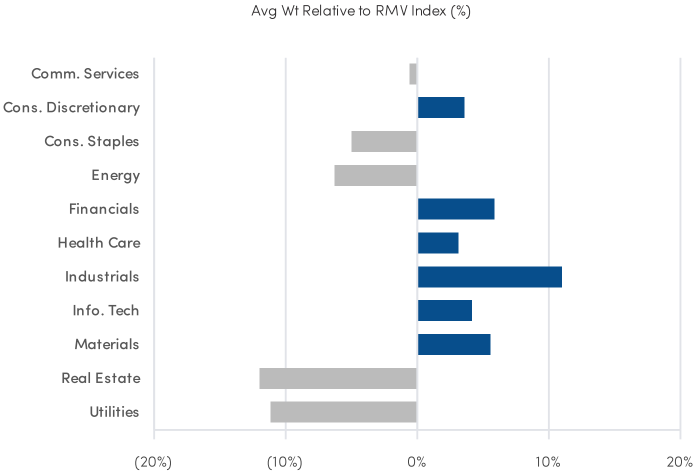
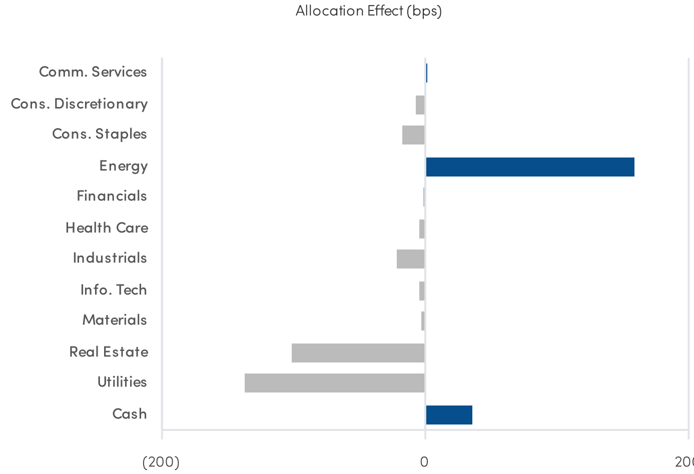
Sector Positioning





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 contributed to poor relative performance. From a positioning standpoint, the portfolio's zero weight in Utilities and underweight in Real Estate 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 RMV for the quarter. Negative allocation effects are not unusual for the strategy in sudden downdrafts, when investors seem to reflexively seek out the yield, perceived earnings stability and lack of cyclicality in Utilities, REITs and Consumer Staples – areas the portfolio is frequently underweight due to high valuations, extended balance sheets and deteriorating fundamentals, respectively.

Initiations

Applied Materials (AMAT) is a leading semiconductor capital equipment manufacturer. By leveraging its size and understanding of the entire semiconductor fabrication process, it has built a differentiated and market-leading product portfolio and a strong services business. Investors are concerned about a prospective cyclical downturn, but the semiconductor capital equipment industry continues to be attractive given its above-average growth profile, high barriers to entry, and low capital intensity. In the long run, we believe AMAT is well positioned to maintain industry leadership and gain market share in new high-growth areas of the market.

Gates Industrial (GTES) is a leading global manufacturer of highly engineered power transmission and fluid power solutions – primarily belts and hydraulic hoses – to diverse replacement channel customers and original equipment manufacturers serving automotive, construction, agriculture, general industrial, and oil and gas markets. Since its January 2018 IPO, Gates' stock price has underperformed despite respectable fundamental performance buoyed by attractive exposure to less cyclical replacement demand. Gates' strong brand, distribution, and low cost but critical nature of its products lead to solid ROIC, and the business has strong organic and inorganic growth opportunities.

Hexcel (HXL) develops, manufactures and markets lightweight, high-performance structural materials for use in commercial aerospace, space and defense, and industrial applications allowing their customers to make lighter, more durable and more efficient products. HXL benefits from increased composite content in aircraft; their competitive advantages include long-standing customer relationships, strict aerospace qualifications, and the significant and compounding nature of investments in R&D and capital expenditure. Additionally, the company maintains a conservative balance sheet, and long-term management incentives align decision-makers with shareholders.

Eliminations

Ball (BLL), United Natural Foods (UNFI) and World Fuel Services (INT) were each sold to make room for more compelling ideas.

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Q4 2018

Mid Cap Value Equity

Outlook

As we enter 2019, the portfolio's holdings represent attractive values, trading at just over 11x earnings – a 22% discount to the RMV – and the largest discount from intrinsic value in many years. Moreover, the companies in the portfolio generate higher returns on capital and have lower debt-to-EBITDA levels than the RMV. Today, the market appears to be pricing in a significant economic slowdown or contraction. We do not believe this is the most likely case, given continued consumer strength and relatively accommodative fiscal and monetary policies. However, despite their skew toward more economically sensitive sectors we believe the portfolio's holdings are well positioned to weather even a severe downturn and prosper from the opportunities it creates. Should the economy continue its modest growth path, allowing the Federal Reserve to maintain its tightening program, the portfolio's lack of exposure to bond proxy sectors will be especially beneficial.

Sources: Bloomberg; FactSet; FTSE Russell
Past performance is not indicative of future results. The material presented represents the manager's assessment of the Mid 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 Mid Cap Value institutional portfolio for the quarter ending 12/31/18. The 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 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.

Additional Cooke & Bieler Mid Cap Value Performance Disclosures