



# SMID Cap Value Equity

## Overview

U.S. equities performed extremely well in the first quarter. Emboldened by the Fed's accommodative pivot, investors shrugged off concerns about the economy, creating an environment that was the polar opposite of last year's fourth quarter. The Russell 2500™ Value Index (R25IV) returned 13.12%, with every sector posting strong gains – though the sectors and stocks that performed worst during the late 2018 sell-off tended to benefit most from this quarter's profound change in sentiment. Unlike in Q4, growth outperformed value.

## Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value Strategy returned 17.77% gross of fees (17.52% net of fees) versus the R25IV's 13.12% return for the first quarter, bouncing back strongly from its modest Q4 2018 relative shortfall. Favorable stock selection – positive in six of seven sectors in which the portfolio had weight – explained the vast majority of this quarter's outperformance, with particular strength in Materials and Consumer Discretionary. Valuations normalized for holdings that were unduly punished late last year, with three of the top five contributors this quarter having ranked among the portfolio's largest detractors in Q4 2018. More broadly, solid fundamental progress across most of the portfolio's holdings contributed to the strategy's excess return.

## Five Largest Contributors/Detractors

|                    | Avg Weight (%) | Total Return (%) | Contrib. to Return (bps) |
|--------------------|----------------|------------------|--------------------------|
| Schweitzer-Mauduit | 3.2            | 56.3             | 142                      |
| Colfax             | 3.5            | 42.0             | 128                      |
| Winnebago          | 4.1            | 29.2             | 112                      |
| Crown Holdings     | 2.9            | 31.3             | 91                       |
| Syneos Health      | 2.6            | 31.5             | 90                       |

|                 | Avg Weight (%) | Total Return (%) | Contrib. to Return (bps) |
|-----------------|----------------|------------------|--------------------------|
| Helen of Troy   | 2.3            | -11.6            | -33                      |
| Mednax          | 1.5            | -17.7            | -30                      |
| PGT Innovations | 2.2            | -12.6            | -24                      |
| Amdocs          | 2.0            | -7.1             | -16                      |
| Fox Factory     | 0.3            | 18.7             | 5                        |

Source: FactSet

Past performance is not indicative of future results. The performance attribution is an analysis of a representative SMID Cap Value institutional portfolio's gross of fees return relative to the Russell 2500™ Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's SMID 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](mailto:contact@cooke-bieler.com).

## Largest Contributors

**Schweitzer-Mauduit (SWM)**, a Materials holding that supplies the tobacco products industry as well as the automotive, infrastructure and filtration industries, was the largest contributor in the quarter. It was a leading portfolio detractor in Q4 2018 as investors grew concerned about the health of its industrial end markets and higher commodity input costs. However, fourth quarter organic growth and margin performance were strong, and guidance implies that this strength should continue.

**Colfax (CFX)**, a designer and manufacturer of air/gas handling and fabrication products, was the second largest contributor. After significantly detracting from returns in Q4 2018, short-term market concerns tied to an acquisition lifted as the company started to execute on financing plans. Further transparency on pro-forma expectations also helped shift investor sentiment.

**Winnebago (WGO)**, a top U.S. manufacturer of recreational vehicles, was the third largest contributor. Investor concern about a slowdown in the RV industry caused the stock to be one of the leading portfolio detractors in 2018. The stock has recovered strongly given evidence of healthier dealer inventory positions in 2019 as well as continued share gains for Winnebago but remains one of the most attractive holdings in the portfolio.

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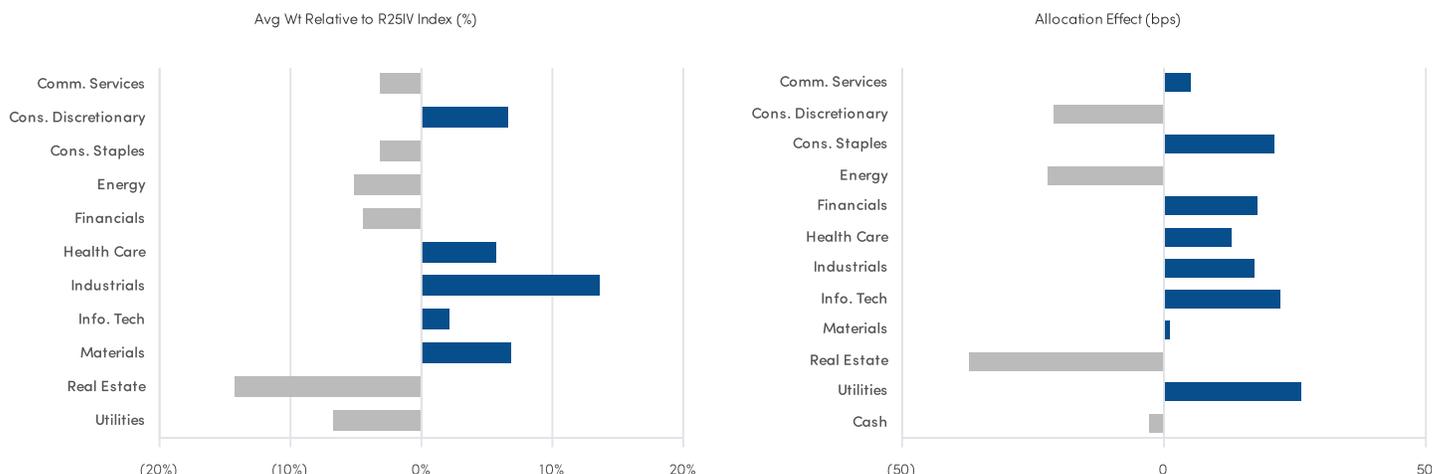
## Largest Detractors

**Helen of Troy (HELE)**, a diversified consumer products company and a leading portfolio contributor in 2018, was the largest detractor in the quarter. HELE posted favorable results in the quarter but warned of temporary disruption related to tariff implementation. Sales growth remains robust within the company's leadership brands as it prepares to divest its slower growing personal care business, net debt should be minimal by year end and the stock's valuation is compelling.

**Mednax (MD)**, a leading national physician group practice provider of neonatal, anesthesia, and radiology services, was the second largest detractor. MD has been wrestling with several macro headwinds that have pressured profitability. When these headwinds abate we expect the stock will more appropriately reflect the free cash flow generative power of the business and management's actions to grow revenue organically by expanding relationships with hospitals and improve profitability by cutting general and administrative costs and restructuring physician compensation programs.

**PGT Innovations (PGTI)**, the leading manufacturer of impact-resistant windows – serving primarily the Florida residential market – was the third largest detractor. Though reported results were very strong, a portion of that fundamental strength owed to the favorable impact of hurricane activity in the Florida market, making comparisons difficult versus 2018. Long-term demographic trends and adoption rates for PGTI's products remain favorable.

## Sector Positioning



Source: FactSet  
Past performance is not indicative of future results. The performance attribution is an analysis of a representative SMID Cap Value institutional portfolio's gross of fees sector return relative to the Russell 2500™ Value Index. Please see additional performance disclosures at the end of this document.

Sector allocations, a byproduct of Cooke & Bieler's bottom-up process, contributed modestly to relative performance. Allocation decisions were additive in eight of eleven sectors, with most of the relative benefit deriving from the strategy's underweight positions in Utilities and Consumer Staples as well as an overweight in Information Technology. Underweights in Real Estate and Energy and an overweight in Consumer Discretionary detracted slightly from relative results. The portfolio's modest level of frictional cash was also a slight negative given the quarter's strong positive showing.

## Initiations

There were no new positions this quarter.

## Eliminations

**Genpact (G)** was eliminated to reallocate funds into existing holdings with more attractive valuations.



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## Outlook

In the context of increasingly conflicting economic signals and a big jump in valuations resulting from the strong first quarter rally, our market outlook for the remainder of this year is somewhat guarded. Amidst growing uncertainty, we see a mixed environment, likely including increasing volatility. This backdrop should provide active investors with opportunities to add value through disciplined stock selection. We believe the portfolio continues to be positioned to outperform given its attractive combination of quality characteristics and reasonable valuation.

Sources: Bloomberg; FactSet; FTSE Russell; Jefferies; The New York Times

Past performance is not indicative of future results. The material presented represents the manager's assessment of the SMID 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 SMID Cap Value institutional portfolio for the quarter ending 3/31/19. 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 2500™ Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's SMID Cap Value clients. To obtain the calculation's methodology and a list showing very 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](mailto:contact@cooke-bieler.com).

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