



SMID Cap Value Equity

Market Commentary

Investors shrugged off ongoing drama on the political stage both here and abroad along with continued Fed tightening to deliver a quiet second quarter for equities. The quarter was also a profitable one for equity investors, with gains across most major indices. The Cooke & Bieler SMID Cap Value strategy generated strong outperformance relative to the Russell 2500™ Value Index (R25IV).

Portfolio Performance & Developments

Fundamental company performance and investor preferences aligned well for the Cooke & Bieler SMID Cap Value portfolio. The market's continued preference for quality businesses drove much of the portfolio's outperformance in Q2. The highest ROIC quintile in the Index outperformed the worst by over 8% in the quarter.

Both stock selection – the impact of which was positive in seven of the nine sectors in which the portfolio had weight – and sector allocation contributed to the portfolio's favorable relative results. Energy companies, particularly those with weaker capitalization structures, suffered along with the price of oil, and the portfolio's Energy underweight generated significant value. The portfolio's overweight in Health Care and Consumer Discretionary stocks was also additive. In Health Care, generally solid fundamental progress and increasingly favorable investor sentiment have driven stocks meaningfully higher this year across much of the sector. Still, we see attractive opportunities across the space and have maintained existing positions in the portfolio. Within the Consumer Discretionary sector, a heterogeneous group, we continue to find businesses with strong brands and well-entrenched competitive positions and the portfolio remains significantly overweight.

Market Outlook

Looking ahead, the market's recent tranquility is unlikely to persist. With valuations at high levels relative to historical averages, the economic expansion in its seventh year, tightening monetary policy and perhaps more than the usual domestic and international political uncertainty, there seems ample scope for increased volatility. However, we believe the Cooke & Bieler SMID Cap Value portfolio is well positioned for a more turbulent backdrop, with its focus on businesses with strong cash flow generation, conservative balance sheets and reasonable valuations.

We believe our long-term, fundamental perspective in an increasingly short-term oriented world is a major advantage and source of value creation. And so, despite the portfolio's fine quarter, we believe it is better to focus on the longer term: we are more pleased with the portfolio's outperformance over the cycle than we are with the strong year-to-date results. We also acknowledge our clients' role in their success: our ability to implement our philosophy depends on their willingness to take the long-term view, as well.

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

The material presented represents the manager's assessment of the SMID 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.

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