COOKE & BIELER

Q3 2019

SMID Cap Value Equity

Overview

Though investors seem outwardly skittish, the third quarter's procession of headlines – each one conceivably unsettling enough to derail this longest-ever bull market – came and went with fairly little consequence. The Russell 2500™ Value Index (R25IV) generated a 0.13% return, despite a major disruption in the global oil supply, a prolonged trade dispute between the world's largest economies, renewed and amplified appeals for presidential impeachment, and turmoil in the repo market. Investors were not entirely unfazed, sending interest rates tumbling, displaying a slight preference for quality and relative aversion to small cap issues, and reflexively gravitating toward bond-proxy sectors. This choppiness was punctuated by September's significant rotation toward value and away from growth and momentum. But much like last quarter – indeed much like the last 15 years – Q3 felt more tempestuous than its point-to-point return would indicate and revealed new opportunities for patient investors.

Portfolio Performance & Developments

Building on its strong first half, Cooke & Bieler's SMID Cap Strategy outperformed the benchmark, returning 3.02% gross of fees (2.79% net of fees). Style was neither an obvious headwind or tailwind. The strategy's comparative performance was strong in July and August when momentum dominated the market, but also favorable in September when value returned to favor. More than all of Q3's excess return was attributable to a very strong stock selection result, which was somewhat offset by a negative sector allocation effect. Favorable stock selection was broad-based across the portfolio, contributing to relative performance in five of the seven sectors where the portfolio had weight. Materials, Health Care, and Information Technology were the strongest performers, while Consumer Discretionary and Real Estate modestly underperformed.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Helen of Troy	3.2	20.7	60
Schweitzer-Mauduit	3.0	14.3	41
FNF	3.4	11.0	39
PRA Group	1.9	20.1	36
Entegris	1.4	26.3	32

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
NOW Inc.	1.5	-22.3	-39
TCF Financial	1.7	-8.6	-25
Gates Industrial	1.5	-11.7	-21
Hanesbrands	1.6	-10.1	-20
MEDNAX	1.6	-10.3	-19

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.

Largest Contributors

Helen of Troy (HELE), a diversified consumer and household products company, was the largest contributor this quarter. The company saw rapid growth in its Housewares division and better than expected sales in its Beauty division. The secular revenue growth and margin potential in its Healthcare segment should become even more apparent now that it has fully lapped some very strong results in the year ago period driven by an unusually severe flu season.

Schweitzer-Mauduit (SWM), an advanced materials provider to tobacco, industrials and auto end markets, was the second-largest contributor this quarter. SWM was a leading detractor last quarter, but this quarter's strong margin performance gave investors renewed confidence in SWM's full year financial performance targets.

Fidelity National Financial (FNF), the largest title insurer in North America, was the third-largest contributor this quarter. Fundamentals were buoyed by solid margin performance and a strong real estate market benefiting from lower interest rates.

COOKE & BIELER

Q3 2019

SMID Cap Value Equity

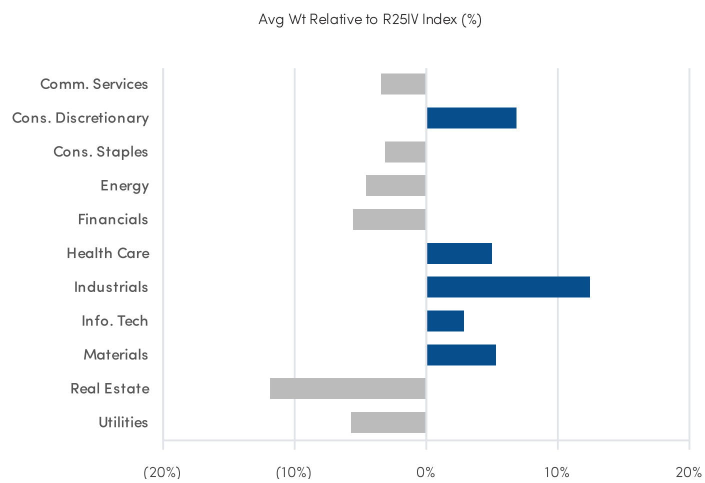
Largest Detractors

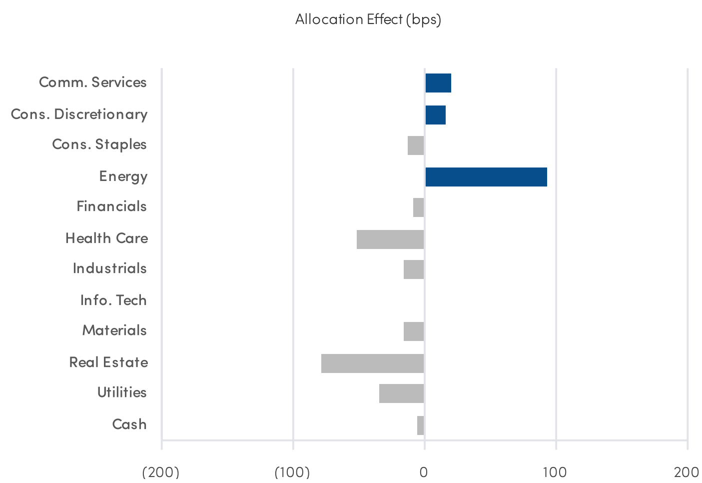
NOW Inc. (DNOW), a distributor of industrial products to oil and gas producers, was the largest detractor this quarter. DNOW's valuation suffered from concerns about global oil demand and softer than anticipated crude prices despite the curtailment of Saudi production following attacks on its facilities.

TCF Financial (TCF), the new corporate entity resulting from the merger between Chemical Financial and old TCF, was the second-largest detractor in its two months of trading. The combined entity has strong deposit and lending franchises in the Midwest and ample scope for cost cutting. The stock of the new company lagged post-merger for non-fundamental reasons.

Gates Industrial (GTES), a global manufacturer of premium transmission belt and fluid power products, was the third-largest detractor this quarter. Roughly two-thirds of sales are to the more recurring and higher margin replacement channel, which experienced continued softness related to inventory destocking by North American distributors. This, and expected weakness in European and Chinese automotive end market sales, led to disappointing results and lower guidance. GTES' replacement channel sales should stabilize results over the longer-term while growth opportunities and improving free cash flow provide attractive upside.

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 allocation effect was negative for the quarter, with the majority of sectors detracting from the strategy's relative performance. The largest drag to the portfolio was due to the underweight in the high-yielding Real Estate sector, which outperformed meaningfully. The above-benchmark allocation to Health Care and zero weight to Utilities also posed headwinds. The portfolio's zero weight in Energy was the biggest contributor, as that sector was by far the worst performer in the benchmark with a -17.54% return. Allocation effect was also favorable in Communication Services, Consumer Discretionary, and Information Technology.

Initiations

BWX Technologies (BWXT) owns and operates the only two commercial Category 1 NRC-licensed manufacturing facilities in the U.S., making the company an indispensable supplier of naval nuclear reactors needed for submarines and aircraft carriers which are integral parts of the U.S. Navy's highly visible, long-term ship build plan. This positioning should continue to lead to a steady stream of cash flows that management will ably deploy in a balanced fashion including re-investing capital to sustain its critical core offering, returning capital to shareholders, and investing in adjacent growth opportunities.

Eliminations

Actuant (ATU) was eliminated to make room for better opportunities.

SMID Cap Value Equity

Outlook

The stock market enters the fourth quarter with major indices up double digits for the year, but facing a clearly slowing economy and a well-known though concerning list of geopolitical risks. The Fed has signaled its intent to cushion any shocks, but low global interest rates and years of quantitative easing raise questions as to how helpful it can be. With valuations less supportive than they were entering the year, conditions seem likely to get bumpy, although we would not underestimate the market's ability to climb the wall of worry. Regardless of the exact path the markets take, we have learned we can rely on it to be more volatile than its underlying fundamentals – a backdrop conducive to idea generation. As always, our focus is on identifying businesses at compelling valuations that generate attractive fundamental returns for our clients, often taking advantage of others' impatience.

Sources: APX, Bloomberg, CNBC, FactSet, MarketWatch, Morgan Stanley, Reuters, S&P Global, The Hill, The New York Times, The Wall Street Journal, US News

Additional Cooke & Bieler SMID Cap Value Performance Disclosures