COOKE & BIELER

Q4 2018

SMID 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. As tends to be the case in sudden, major pullbacks, selling pressure was widespread and largely indiscriminate. This was especially true in December when the Russell 2500™ Value Index (R25IV) declined 11% and every sector but Utilities declined at least 8%.

Portfolio Performance & Developments

Cooke & Bieler's SMID Cap Value portfolio returned -17.55% gross of fees (-17.75% net of fees) versus the -17.12% return for the R25IV in the fourth quarter. Stock selection was positive but overwhelmed by negative allocation effect. Company fundamentals appeared strong and selection results were strongest in Consumer Discretionary and Information Technology.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Entegris	1.7	1.7	10
Helen of Troy	3.6	0.2	6
Ball	1.3	-0.9	2
Hexcel	0.1	0.8	1
RenaissanceRe	1.8	0.3	0

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Colfax	3.1	-42.0	-150
AerCap	3.1	-31.2	-109
Schweitzer-Mauduit	2.9	-33.6	-105
Perrigo	1.9	-45.1	-103
Syneos Health	3.2	-23.7	-69

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

Entegris (ENTG), a new holding this quarter, was the largest contributor for the quarter. ENTG benefited from its more consumables-oriented sales mix as investors grew concerned about the semiconductor cycle. We continued building our position on stock price weakness.

Helen of Troy (HELE), a diversified consumer goods company with leading positions in various niche categories, was the second largest contributor. HELE reported strong sales growth in the Housewares and Healthcare and Home Environment segments, offsetting weakness in the Personal Care and Beauty segment.

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.

Schweitzer-Mauduit (SWM), a leading supplier to the tobacco products industry, was the third largest detractor. SWM faced margin pressure due to input cost inflation and the final stages of rationalization in one of their facilities. In our view, stock price weakness is less due to fundamental results and more to general weakness in small cap Materials and fears of continued input cost inflation.

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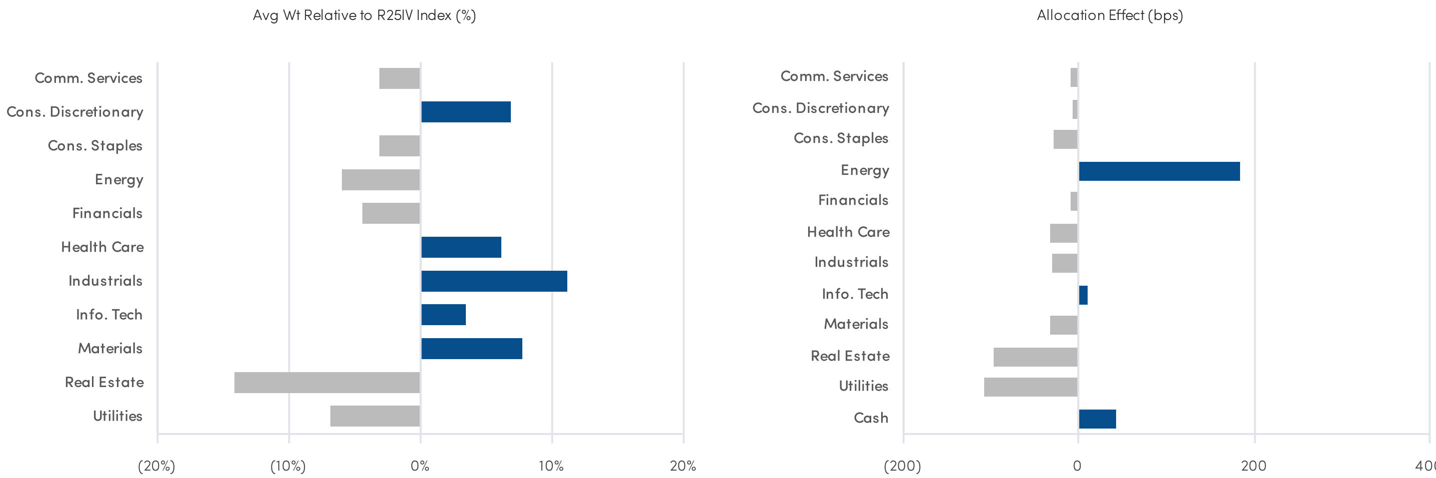
Sector Positioning



Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative 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 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 R25IV 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

Entegris (ENTG) is a former portfolio holding we have followed for years. The company provides products and systems that purify, protect, and transport critical materials used in semiconductor fabrication. Their focus on product and system purity enables semiconductor manufacturers to make smaller and faster microchips with greater yield. ENTG benefits from high market share in older technologies as well as new opportunities at the leading edge, with manufacturers engaging them in the early stages of process design. Although always a high quality business, the stock was eliminated in Q4 2017 after reaching our estimate of fair value. Positive revisions to our long-term outlook and recent volatility in the semiconductor space allowed us to re-initiate a position.

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.

PGT Innovations (PGTI) is the leading manufacturer of laminated, impact resistant (i.e. hurricane-safe) windows in the US, with a majority share of the Florida market. Florida building codes should help drive further impact resistant window penetration. PGTI is more vertically integrated than its peers and operates its own transportation fleet, giving it a margin and lead time advantage over competitors. On a fundamental basis, PGTI has outperformed nearly all other building products companies, but still trades at a discount to other top tier companies with less attractive growth prospects.

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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Outlook

As we enter 2019, the portfolio's holdings represent attractive values, trading at 11.5x earnings – a 24% discount to the R25IV – and the largest discount from intrinsic value in many years. Moreover, the companies in the portfolio generate higher returns on capital and have slightly lower debt-to-EBITDA levels than the R25IV. 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 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 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 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.

Additional Cooke & Bieler SMID Cap Value Performance Disclosures