



All Cap Value Equity

Market Commentary

The first quarter of 2016 highlighted the importance of a long-term perspective in two ways. First, the quarter's extreme volatility – both the early-period retreat and the late-period rally – were, from our vantage, unrelated to any meaningful economic development. Second, a number of Cooke & Bieler All Cap Value portfolio holdings that saw intense 2015 sell-offs disproportionate to the severity of any underlying fundamental setbacks recovered strongly in Q1, without any significant change in their underlying prospects.

The start to 2016 was the worst ever recorded for the broad equity market. Fear of impending disaster, both foreign and domestic, drove less stalwart investors away from stocks. By February 11th, worries of global recession pushed the Russell 3000® Value Index (RAV) into correction territory and oil prices down 29%. This environment allowed us to selectively add to the portfolio's holdings at attractive prices. Our long-term perspective helped us to recognize and take advantage of the gaps that emerged between value and price.

And then, of course, sentiment turned. The RAV rebounded nearly 14% before quarter-end, and oil roared back 46%. Both finished in positive territory, turning a wild quarter into a placid 1.6% point to point RAV return.

Portfolio Performance & Developments

The Cooke & Bieler All Cap Value portfolio outperformed impressively during this tricky quarter, thanks particularly to strong stock selection. Though the portfolio's holdings outperformed those of the benchmark in six of the eight sectors represented in the portfolio, Financials, Consumer Discretionary, and Industrials stocks especially stood out. On an absolute basis, many of the portfolio's Financials holdings were only fair performers (in fact, three of them were among the quarter's bottom five performers), but the Financials not held in the portfolio fared far worse as interest rates declined in the quarter. The portfolio's Consumer Discretionary companies, on the other hand, virtually all did very well on both a relative and an absolute basis. In Industrials, many of the companies we had added when they were out of favor in 2015 performed especially well. These businesses had done better on a fundamental basis in 2015 than their stock price performance indicated, and in response we had meaningfully increased the portfolio's weight in them. The only fundamental disappointment was a Materials company.

Sector weights did not have a major effect on relative performance, with the exception of the portfolio's zero weight positioning in Utilities and Telecommunication Services, which was a drag on performance as investors sought yield in those sectors. We continue to think both are overvalued and that it is shortsighted to accept the bond-like returns these companies offer in exchange for equity risk. The portfolio's Energy underweight, which has been a tailwind in recent quarters, was also a modest drag as Energy company prices recovered. Finally, we continue to see good values in Consumer Discretionary firms, and the portfolio's overweight there relative to the RAV helped in the quarter.

Market Outlook

We continue to find great companies at reasonable valuations, and firmly believe that the portfolio will perform well if the economy continues to grind forward, but also provide a degree of downside protection if it does not. As pleased as we are with this past quarter, we are also excited about the portfolio's current positioning and its enviable collection of reasonably valued, financially strong, well-positioned companies that can dependably grow earnings and cash flows, and we are confident it will continue compounding value at an above average rate.

Sources: FactSet; Bloomberg; Russell Investments; The Financial Times

The material presented represents the manager's assessment of the All 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 sector.

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