



Concentrated 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 3000® Value Index (RAV) generated a 1.23% 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 Concentrated Value Strategy outperformed the benchmark, returning 3.48% gross of fees (3.27% net of fees). Style was not a significant headwind or tailwind. The strategy's comparative performance was strong in the July through August period when momentum dominated the market, but also favorable in September when value returned to favor. Stock selection accounted for more than all of Q3's excess return, while sector allocation effect was modestly negative. Stock selection results were especially strong in Financials, Industrials, and Materials. Underperformance in Consumer Discretionary, Consumer Staples, and Communication Services detracted from relative results.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Brookfield Asset Mgmt	5.5	11.5	63	UnitedHealth	4.7	-10.5	-54
Chubb	6.0	10.1	60	Johnson & Johnson	3.2	-6.4	-23
FNF	5.2	11.0	56	Winnebago	7.4	-0.5	-19
Intercont'l. Exchange	5.7	7.7	50	Allergan	2.1	-4.6	-16
AerCap Holdings	7.3	5.3	39	Gates Industrial	2.1	-8.5	-16

Source: FactSet

Past performance is not indicative of future results. The performance attribution is an analysis of a representative Concentrated Value institutional portfolio's gross of fees return relative to the Russell 3000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Concentrated 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

Brookfield Asset Management (BAM), a global investor, operator, and asset manager of real assets, was the largest contributor this quarter. Investor sentiment improved given the favorable impact of lower interest rates on the return prospects for real assets. Additionally, investors were pleased with BAM's strategic acquisition of Oaktree Capital.

Chubb (CB), a leading global property and casualty insurer, was the second-largest contributor this quarter. The prospect of profitable growth continues to improve due to price increases across business lines and geographic segments.

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.



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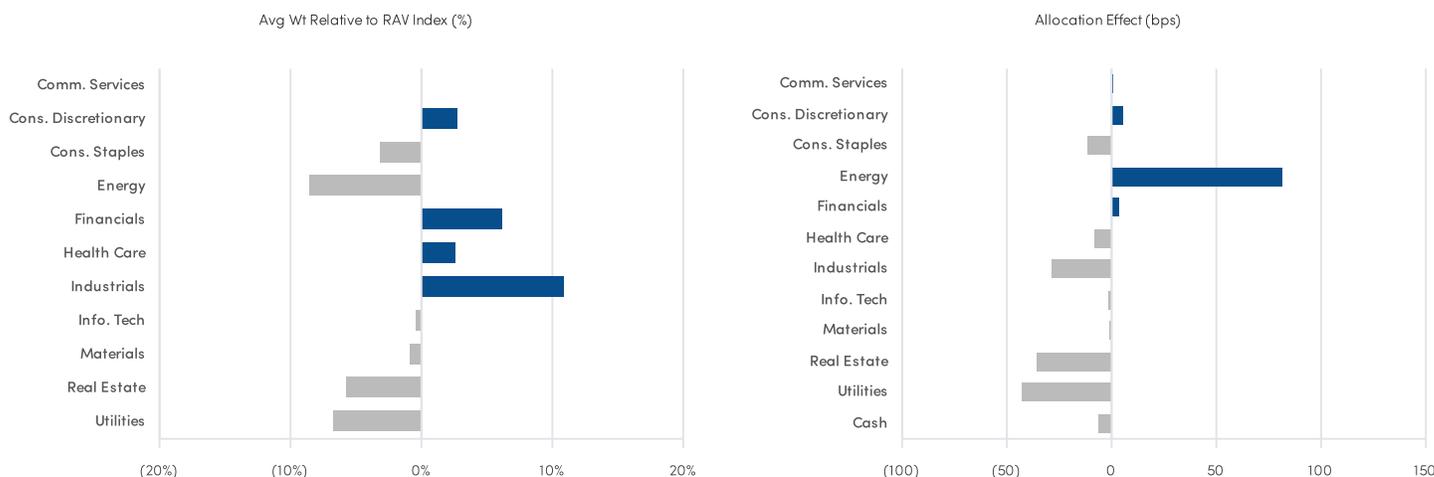
Largest Detractors

UnitedHealth Group (UNH), the largest health insurer in the United States, was the largest detractor this quarter. The company’s fundamentals remain strong. The stock’s valuation has been negatively impacted by political debate surrounding a move to a single-payer health care system. Since nearly half of earnings are generated by the company’s non-managed care Optum enterprise, we do not see an existential threat to the company in the unlikely scenario that a single-payer concept becomes reality.

Johnson & Johnson (JNJ), a leading manufacturer of pharma, medical devices, and consumer products, was the second-largest detractor this quarter. Despite continuing solid fundamental progress, JNJ was negatively affected by headlines and uncertainty surrounding opioid litigation. We believe the related financial impact on the company will be manageable and that the stock’s valuation is overly discounted.

Winnebago (WGO), a leading designer and manufacturer of recreational vehicles, was the third-largest detractor this quarter. Industry concerns weighed on shares of RV manufacturers as dealer destocking continued. WGO continues to outperform its peers and is gaining meaningful market share.

Sector Positioning



Source: FactSet
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Sector allocation effect was modestly negative for the quarter, with the majority of sectors detracting from the strategy’s relative performance. Most of the drag was explained by the portfolio’s zero weighting to the high-yielding Utilities and Real Estate sectors, which outperformed meaningfully. Above-benchmark positions in Industrials and below-benchmark allocations to Consumer Staples also posed headwinds. The portfolio’s underweight to Energy was the biggest contributor, as that sector was by far the worst performer in the benchmark with a -7.51% return. Allocation effect was also favorable in Consumer Discretionary, Financials, and Communication Services.

Initiations

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. Roughly two-thirds of GTES’ sales are to the more recurring and higher margin replacement channel which recently experienced softness related to unexpected inventory destocking by North American distribution partners. Despite this setback, GTES’ exposure to the replacement channel should serve to stabilize results over the longer-term while attractive organic and inorganic growth opportunities combined with an improving free cash flow profile provide attractive upside potential.

Gildan Activewear (GIL) is a low-cost manufacturer of basic, high volume, frequently-replenished apparel, including t-shirts, sweatshirts, socks, and underwear. Their scale, technology, manufacturing footprint and vertical integration make them the industry’s low-cost producer, with particular strength in the wholesale printwear channel that supplies local and regional screenprinters. Continued market share gains in U.S. and international printwear markets, a secular shift to higher margin basics categories and new private label retail opportunities make Gildan’s long-term growth outlook attractive.





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Eliminations

Allergan (AGN) advanced sharply on the news that it would be acquired by AbbVie and was sold to make room for better opportunities.

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 them to be more volatile than their 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

Past performance is not indicative of future results. The material presented represents the manager's assessment of the Concentrated 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 Concentrated Value institutional portfolio for the quarter ending 9/30/19. 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 3000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Concentrated 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.

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