



Large 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 Large 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 1000® Value Index (RLV) 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 RLV 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 RLV return.

Portfolio Performance & Developments

The Cooke & Bieler Large Cap Value portfolio outperformed solidly during this tricky quarter, thanks particularly to strong stock selection, the impact of which was positive in seven of the eight sectors represented in the portfolio. Industrials were strongest, as many of the companies we had added when they were out of favor in 2015 performed especially well. These firms had performed 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. Included in these firms were those with some exposure to oil and gas-related end markets. These stocks returned to favor in the first quarter as sales declines began to decelerate, foreign exchange headwinds moderated, and oil prices seemingly found a bottom. While these companies continue to face cyclical headwinds, we are excited to participate in the long-term value they are creating. Laggards were mainly interest-sensitive banks that came down in the lower-for-longer interest rate environment. There were no notable fundamental disappointments.

Sector weights did not have a material 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 RLV 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. We are 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 Large 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 Large Cap Value Performance Disclosures](#)