



# Large Cap Value Equity

## Market Commentary

U.S. equity indices posted positive returns in the second quarter, with small capitalization stocks outperforming larger ones and growth outperforming value among large cap issues. The Russell 1000® Value Index (RLV) returned 1.18% for the quarter, with the late-quarter rise in oil prices – up 14% in the quarter – driving outsized returns among the benchmark’s Energy constituents, while the flattening yield curve propelled its Real Estate and Utilities components. Together, these three sectors accounted for more than the entirety of the benchmark’s gain for the quarter.

## Portfolio Performance & Developments

For the second quarter of 2018, Cooke & Bieler’s Large Cap Value Strategy posted a slightly negative absolute return, underperforming the RLV’s return for the quarter and surrendering the lead it accumulated during the first quarter’s down market. While disappointing, this quarter’s performance is not unusual given the portfolio’s high active share and our focus on long-term results.

Sector allocation was a headwind as the strategy’s underweight in Energy and Real Estate – two of the benchmark’s best performing sectors – detracted from relative results. Underweight positions in the worst performing sector – Consumer Staples – and an overweight in Consumer Discretionary were partial offsets. More generally, style factors worked against the portfolio as stocks of companies with the highest P/Es performed best as did those of non-earning companies, companies with low returns on capital and companies with the highest levels of debt. Much of this style headwind seemed related to the flattening yield curve, which provided support for companies of lower quality and greater financial leverage.

Stock selection was negative for the quarter with the largest drags coming from holdings in the Materials and Energy sectors. In Materials, the strategy’s packaging holdings suffered as investors incorrectly conflated the weakness of certain branded customers with similar weakness in broader end markets. In Energy, poor results were driven by the outperformance of benchmark components more favorably levered to the rising oil prices.

## Market Outlook

As we enter the second half of the year, the portfolio is now more attractive on a forward P/E basis than it was at the start of the year. More importantly, the market has continued to move toward a place more conducive to active management. For instance, relatively modest total returns in the second quarter disguised considerable underlying volatility. Though slightly calmer than the manic three-month stretch at the outset of the year, the second quarter was still a far cry from the long, quiet period preceding 2018. We welcome such volatility as related potential mispricings provide opportunities for skilled stock pickers. As always, we at Cooke & Bieler believe that returns ultimately track fundamentals. We remain confident in our investment team’s proven and experienced stock picking ability underpinned by a disciplined process, rigorous research effort, and unique culture.

Sources: Bank of America Merrill Lynch; Bloomberg; FactSet; Russell Investments

The material presented represents the manager’s assessment of the Large Cap 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. Past performance is no guarantee of future results.

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