



Large Cap Value Equity

Overview

U.S. equities performed extremely well in the first quarter. Emboldened by the Fed's accommodative pivot, investors shrugged off concerns about the economy, creating an environment that was the polar opposite of last year's fourth quarter. The Russell 1000® Value Index (RLV) returned 11.93%, with every sector posting strong gains – though economically sensitive sectors tended to benefit most from this quarter's profound change in sentiment. Consistent with this pattern, smaller capitalization issues within the RLV also outperformed during the first quarter, though this strength reversed somewhat in March.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy returned 15.08% gross of fees (14.92% net of fees) versus the RLV's 11.93% return for the first quarter, recouping more than all of its Q4 relative shortfall. Favorable stock selection – positive in eight of ten sectors in which the portfolio had weight – explained the vast majority of this quarter's outperformance, with particular strength in Financials and Materials. Valuations normalized for holdings that were unduly punished late last year, with the top five contributors this quarter having ranked among the portfolio's more significant detractors in Q4 2018. Solid fundamental progress across most of the portfolio's holdings as well as the portfolio's below-benchmark market cap also contributed to the strategy's excess return.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)		Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Colfax	2.8	42.0	103	Amdocs	2.0	-7.1	-16
Crown Holdings	2.8	31.3	87	Berkshire Hathaway	1.5	-1.6	-3
Synchrony Financial	2.5	36.9	81	Kraft Heinz	0.4	-3.4	-3
Hanesbrands	1.7	43.8	67	Intercont'l Exchange	2.4	1.5	3
Philip Morris Int'l	2.2	34.1	65	UnitedHealth	1.3	-0.4	3

Source: FactSet

Past performance is not indicative of future results. The performance attribution is an analysis of a representative Large Cap Value institutional portfolio's gross of fees return relative to the Russell 1000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large 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

Colfax (CFX), a designer and manufacturer of air/gas handling and fabrication products, was the largest contributor in the quarter. After significantly detracting from returns in Q4 2018, short-term market concerns tied to an acquisition lifted as the company started to execute on financing plans. Further transparency on pro-forma expectations also helped shift investor sentiment.

Crown Holdings (CCK), a leading manufacturer of beverage, food and aerosol cans, was the second largest contributor. After weak performance in 2018, the company reported solid quarterly results with strong free cash flow generation, creating confidence in its 2019 outlook and longer-term earnings power.

Synchrony Financial (SYF), one of the largest private-label credit card providers, was the third largest contributor. After detracting from returns in 2018, the company has benefitted from a contract renewal with Sam's Club and continued good credit quality.

Large Cap Value Equity

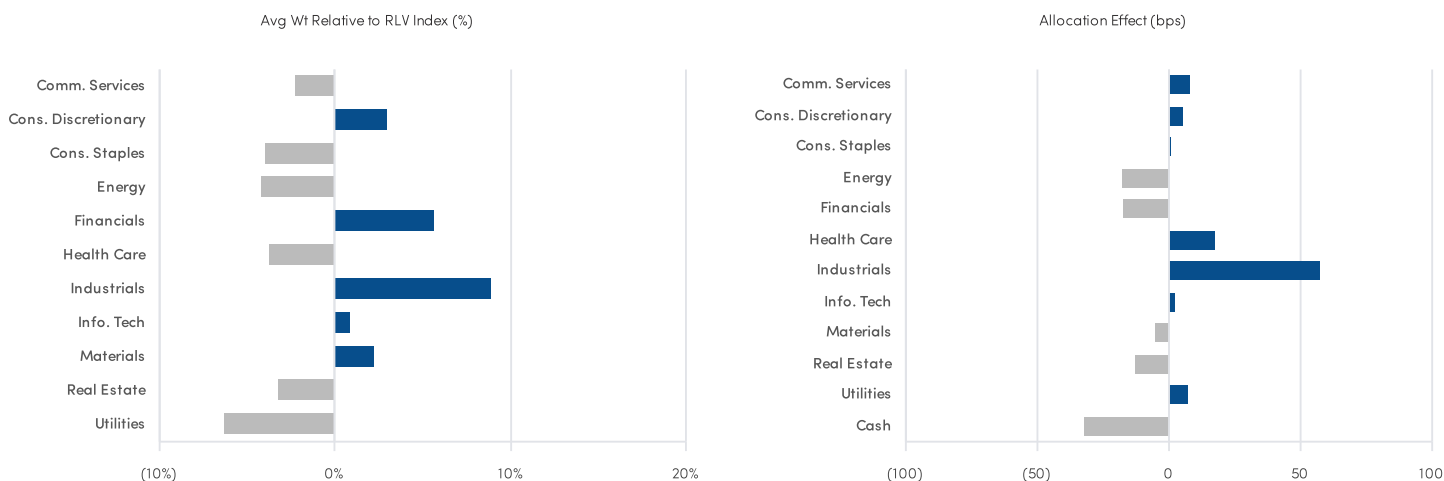
Largest Detractors

Amdocs (DOX), a software and services company, was the largest detractor during the quarter. Its top customer, AT&T, decreased spending with DOX, leading to poor top-line performance. Sentiment was also hurt by a negative report published by a short seller, which raised cash flow and accounting issues. Despite these developments, we continue to be optimistic about the company's long-term revenue growth and saw nothing significantly concerning in the short seller's analysis.

Kraft Heinz (KHC), a consumer food company, was the second largest detractor. KHC is a new holding in the portfolio and we continued to build our initial position on stock price weakness.

Berkshire Hathaway (BRK.B), a financial conglomerate operating across multiple industries, was the third largest detractor. Negative returns in the company's large equity portfolio in Q4 2018 impacted reported results this quarter at the same time new accounting rules hurt transparency regarding underlying earnings power. The company had been a top contributor in 2018.

Sector Positioning



Source: FactSet
Past performance is not indicative of future results. The performance attribution is an analysis of a representative Large Cap Value institutional portfolio's gross of fees sector return relative to the Russell 1000® Value Index. Please see additional performance disclosures at the end of this document.

Sector allocations, a byproduct of Cooke & Bieler's bottom-up process, contributed modestly to relative performance. The meaningfully positive impact of strategy's overweight in the RLV's best performing sector (Industrials) and underweight in the worst performing sector (Health Care) was mostly offset by other allocation decisions that individually posed modest headwinds, including underweights in Energy and Real Estate and an overweight in Financials. The portfolio's frictional cash position was an outsized negative given the quarter's strong positive showing.

Initiations

Kraft Heinz (KHC) is a collection of slow growing, but highly profitable consumer staples brands stemming from the 2015 merger between Kraft Foods and Heinz. KHC made headlines after overly aggressive cost-cutting forced management to rebase 2019 guidance, take a large intangible write-down and divest some assets. We believe management has recognized that cost-cutting efforts went too far and is correcting course with increased investments in its brands and a reduction of price gaps. Despite this setback, KHC continues to have a structural margin advantage and can benefit from the needed consolidation in the food industry. The stock's extremely negative reaction allowed us to initiate a position at an attractive valuation.

Eliminations

Analog Devices (ADI) reached our price target.



Large Cap Value Equity

Outlook

In the context of increasingly conflicting economic signals and a big jump in valuations resulting from the strong first quarter rally, our market outlook for the remainder of this year is somewhat guarded. Amidst growing uncertainty, we see a mixed environment, likely including increasing volatility. This backdrop should provide active investors with opportunities to add value through disciplined stock selection. We believe the portfolio continues to be positioned to outperform given its attractive combination of quality characteristics and reasonable valuation.

Sources: Bloomberg; FactSet; FTSE Russell; Jefferies; The New York Times

Past performance is not indicative of future results. 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 security or sector. The above commentary and portfolio attribution are based on a representative Large Cap Value institutional portfolio for the quarter ending 3/31/19. 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 1000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large 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.

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