



# Large Cap Value Equity

## Market Commentary

Large cap equities generated solid returns in the third quarter. Many alternatives to stocks remain unappealing, while the continuing combination of moderate economic growth, low inflation, and accommodative monetary policy is supporting robust valuations and driving the bull market, now the second-longest on record. Volatility was low, with the Standard & Poor's 500® Index changing by less than 1% daily for almost two months, the longest such period in two years.

With volatility low, the "risk-on" trade remained in full force. Smaller cap companies outperformed larger, and high beta stocks dominated as well. The highest beta quintile within the Russell 1000® Value Index (RLV) outperformed the lowest quintile by 1300 basis points. Similarly, stocks of companies generating no earnings advanced sharply, while cyclical industries such as Technology and Consumer Discretionary outperformed the broader Index.

## Portfolio Performance & Developments

Reflecting the favorable equity investing environment, the Cooke & Bieler Large Cap Value portfolio generated solid absolute returns during the quarter. And though a risk-on backdrop generally presents relative performance headwinds for our style, the portfolio also outperformed the RLV, reclaiming much of the ground lost during the second quarter when it encountered strong headwinds associated with the market's strong preference for current yield, lower quality, and commodities-driven businesses.

Sector allocation decisions, always the result of our bottom-up fundamental research as opposed to macro predictions, drove the strategy's success this quarter. The portfolio's significant underweight in Utilities and Telecommunication Services was especially helpful as those sectors lagged meaningfully. For both groups, this effect marked a reversal from trends seen during first half of the year, when declining interest rates pushed many investors toward high-yielding stocks.

Stock selection results were mixed and modestly negative overall for the quarter. Good performance among most of the portfolio's Industrials, Materials, and Health Care holdings was offset primarily by an idiosyncratic development in an Information Technology holding and some temporary weakness in a Consumer Discretionary holding. We remain constructive on both companies.

We are pleased with the Cooke & Bieler Large Cap Value portfolio's positioning and the way its holdings are performing. The impact of stock selection decisions for the year-to-date period has been favorable and overall, portfolio companies are thriving. Importantly, we believe the valuations of their stocks do not adequately reflect the strength of their longer-term fundamental prospects. On the other hand, the portfolio is devoid of increasingly risky high-yielding stocks that have become very expensive relative to their underlying fundamentals. Indeed, it is the market's single-minded focus on current yield that has given us the opportunities this year to add to the portfolio a group of very high quality companies at very reasonable prices.

## Market Outlook

Many active managers have found the yield-driven backdrop a difficult terrain to navigate. Some have capitulated in the face of this grind, but we have stayed true to our belief that long-term success is built by owning businesses with attractive fundamentals and not just attractive current yields.

Sources: Bank of America Merrill Lynch; Bloomberg; FactSet; Russell Investments; S&P Dow Jones Indices LLC

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.

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