



Mid Cap Value Equity

Market Commentary

In the first quarter, the Russell Midcap® Value Index (RMV) posted the highest return of any of the major Russell Value Indices, a continuation of the robust performance seen in 2016. Performance drivers differed from those of late 2016, though, as investors struggled to process and predict the impact of legislative outcomes across a variety of industries. Sectors that did well in the post-election surge, including Energy and Financials, took a step back, and others, particularly Health Care and Information Technology, advanced. Similarly, the style characteristics that propelled equities higher in November and December shifted. Investors rewarded size this quarter, and displayed a renewed interest in higher quality businesses with good growth prospects. Companies with the highest return on capital profiles tended to outperform those with the lowest and growth outperformed value, standing in clear contrast to the patterns that drove markets in Q4 2016.

Portfolio Performance & Developments

After strong outperformance in 2016, the Cooke & Bieler Mid Cap Value portfolio's results fell short of the Index return this quarter. Sector positioning was additive as a whole, with a notable tailwind from the strategy's underweight in Energy partially offset by a drag from its zero weight in Utilities. The impact of stock selection was negative, but there were a number of puts and takes among individual companies this quarter. Though most of the portfolio's holdings performed well fundamentally, a few company-specific setbacks negatively impacted performance in Q1. Both the top detractors and top contributors came from a variety of industries and sectors.

Portfolio activity during the quarter centered on existing holdings. We trimmed Financials and Industrials positions early in the quarter after valuations rose sharply in those areas post-election. Those decisions contributed to first quarter results. We added to some Health Care and Consumer Discretionary holdings as we saw good opportunities there. The portfolio remains underweight in Energy, where we continue to see limited investment opportunities from our bottom-up vantage point for a combination of fundamental and valuation reasons, despite our view that oil prices likely will rise a bit going forward as supply and demand dynamics cyclically change.

The portfolio continues to have relatively little exposure to higher-yielding securities in what is being called the "RUST" group: Real Estate, Utilities, Staples, and Telecommunications Services, which generally remain overvalued despite their marked underperformance over the past year or so. Overall, we were pleased with the fundamental performance of the portfolio's holdings and are optimistic about their ability to continue to compound value at an attractive rate.

Market Outlook

The RMV has returned 19.8% over the last 12 months as investors anticipate growth in overall corporate profits for the first time in three years. Gains from here, and indeed support for current valuations, will depend on that optimism being borne out. However, after years of sub-par growth and with a generally favorable macro-economic outlook, there is room for positive surprises as well. Regardless, our investment decisions are based on a detailed understanding of fundamentals and a disciplined approach to quality and valuation.

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

The material presented represents the manager's assessment of the Mid 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 Mid Cap Value Performance Disclosures](#)