



Mid 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 Midcap® Value Index (RMV) returned 14.37%, with nine of eleven sectors posting double-digit gains. Reflecting the remarkable change in sentiment, sectors and stocks that performed worst during the late 2018 sell-off generally performed best. Unlike in Q4, growth outperformed value.

Portfolio Performance & Developments

Cooke & Bieler's Mid Cap Value Strategy returned 16.93% gross of fees (16.72% net of fees), handily beating the RMV's 14.37% in what was a difficult quarter for most active managers in the mid cap space. Favorable stock selection – positive in six of eight sectors in which the portfolio had weight – explained more than all of the strong relative result this quarter, with particular strength in Materials, Industrials and Financials. Valuations normalized for holdings that were unduly punished late last year, with three of the five largest contributors this quarter having been among the portfolio's largest detractors in Q4 2018. More broadly, solid fundamental progress across most of the portfolio's holdings contributed to the strategy's excess return.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Schweitzer-Mauduit	3.0	56.3	134
Colfax	3.5	42.0	128
Crown Holdings	3.1	31.3	98
Syneos Health	2.6	31.5	88
Synchrony Financial	2.4	36.9	80

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Helen of Troy	2.2	-11.6	-29
Mednax	1.6	-17.7	-28
Amdocs	2.0	-7.1	-15
Markel	0.4	-1.7	-1
Omnicom	2.3	0.5	4

Source: FactSet

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

Schweitzer-Mauduit (SWM), a Materials holding that supplies the tobacco products industry as well as the automotive, infrastructure and filtration industries, was the largest contributor in the quarter. It was a leading portfolio detractor in Q4 2018 as investors grew concerned about the health of its industrial end markets and higher commodity input costs. However, fourth quarter organic growth and margin performance were strong, and guidance implies that this strength should continue.

Colfax (CFX), a designer and manufacturer of air/gas handling and fabrication products, was the second largest contributor. 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 third 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.

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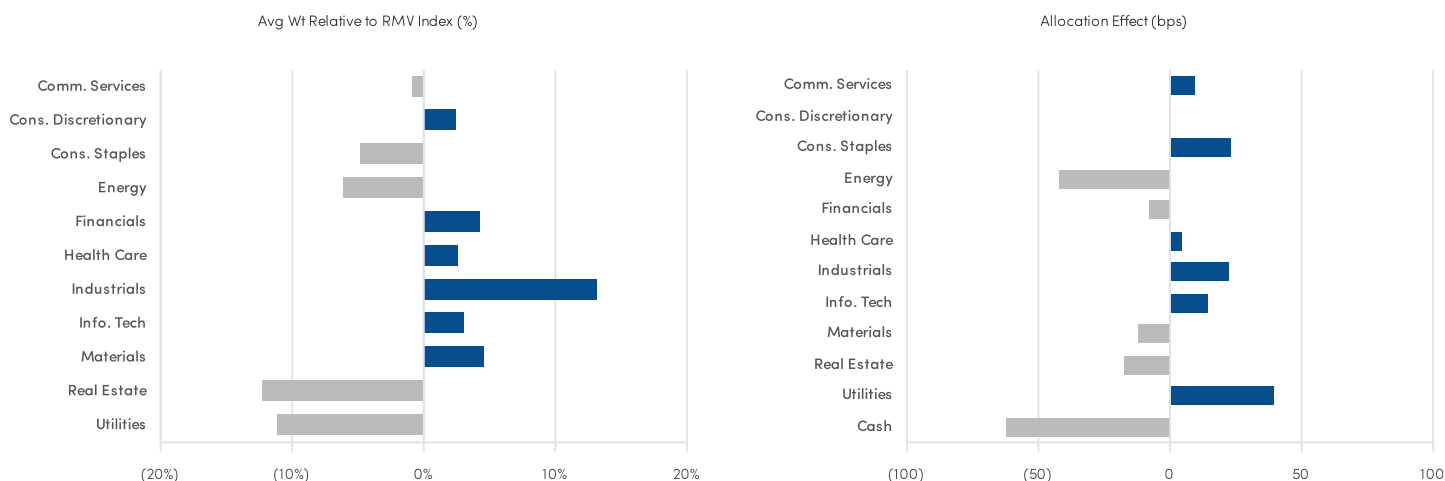
Largest Detractors

Helen of Troy (HELE), a diversified consumer products company and a leading portfolio contributor in 2018, was the largest detractor in the quarter. HELE posted favorable results in the quarter but warned of temporary disruption related to tariff implementation. Sales growth remains robust within the company's leadership brands as it prepares to divest its slower growing personal care business, net debt should be minimal by year end and the stock's valuation is compelling.

Mednax (MD), a leading national physician group practice provider of neonatal, anesthesia, and radiology services, was the second largest detractor. MD has been wrestling with several macro headwinds that have pressured profitability. When these headwinds abate we expect the stock will more appropriately reflect the free cash flow generative power of the business and management's actions to grow revenue organically by expanding relationships with hospitals and improve profitability by cutting general and administrative costs and restructuring physician compensation programs.

Amdocs (DOX), a software and services company, was the third largest detractor. 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.

Sector Positioning



Source: FactSet

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

Sector allocations, a byproduct of Cooke & Bieler's bottom-up process, were a modest drag on relative results in the quarter. The strategy's large underweight positions in both Utilities and Consumer Staples were additive but were offset by the underweight in Energy and Real Estate. The portfolio's modest level of frictional cash was also an outsized negative given the quarter's strong positive showing.

Initiations

There were no new positions initiated in the quarter, following last quarter's high level of activity.

Eliminations

Analog Devices (ADI) reached our price target. **PRA Group (PRAA)** and **Markel (MKL)** were eliminated to reallocate funds into existing holdings with more attractive valuations.



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

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