COOKE & BIELER

Q4 2019

Mid Cap Value Equity

Overview

U.S. equity markets ended the year on a very strong note, with indices reaching record highs. Investor optimism was buoyed by easing trade tensions and indications of diminishing recession risks. Interest rates rebounded meaningfully during the quarter after declining most of the year. Against this backdrop, the Russell MidCap® Value Index (RMV) generated a 6.36% return. Notably, growth outperformed value and bond-proxy sectors underperformed the broader market. For the full year period, US equity indices – soothed by the Fed's accommodative monetary policy pivot – were up broadly and significantly, posting returns upwards of 20%, with particular strength in Technology. Volatility receded from very high levels in 2018.

Portfolio Performance & Developments

Cooke & Bieler's Mid Cap Value Strategy returned 7.98% gross of fees (7.78% net of fees), outperforming the benchmark for the quarter and extending its YTD lead. Stock selection slightly detracted from results, while sector allocation significantly contributed to outperformance. Stock selection lagged most significantly in Consumer Discretionary, while Health Care and Communication Services holdings also detracted from relative results. These results were partially offset by positive relative results in Financials, Materials, and Industrials. From an allocation perspective, the strategy's underweight to bond-proxy sectors boosted relative results. Over the full year, the strategy outperformed the RMV by 10.25%, net of fees. Stock selection accounted for approximately 75% of outperformance, with Materials, Industrials, and Financials stocks having the strongest positive impact.

Five Largest Contributors/Detractors

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
State Street	2.5	34.5	82
TCF Financial	3.2	24.0	74
Colfax	2.9	25.2	71
Reliance Steel	2.4	20.8	56
Arrow Electronics	3.3	13.6	45

	Avg Weight (%)	Total Return (%)	Contrib. to Return (bps)
Gildan Activewear	2.5	-16.4	-46
American Eagle	3.0	-8.5	-26
Hexcel	2.0	-10.5	-22
FirstCash	1.7	-11.7	-18
Perrigo	2.0	-7.2	-13

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

State Street (STT), the leading custodian and record keeper for financial assets, was the largest contributor. Price declines in their main business segments appear to be stabilizing. Good new business flow as well as improving cost control also helped STT's performance, while robust financial markets during the quarter provided an additional tailwind.

TCF Financial (TCF), a leading Midwestern regional bank, was the second-largest contributor. The company showed early integration progress following its merger with Chemical Financial in the third quarter of 2019. The combined entity has significant opportunities for both cost savings and revenue synergies as they combine TCF's consumer-focused deposit franchise with Chemical's commercial loan capabilities. Having lagged earlier in the year, the stock remains attractively valued.

Colfax (CFX), an acquisitive conglomerate with strong welding and orthopedic franchises, was the third-largest contributor this quarter. CFX had strong fundamental performance in both their segments, with their ESAB welding business continuing to show good margin improvement. The company also benefited from the execution of a successful Analyst Day in December that gave further insights into their newly acquired orthopedic franchise, DJO Global. Initial results of the acquisition have been positive, with integration moving along and DJO posting better than expected organic growth.

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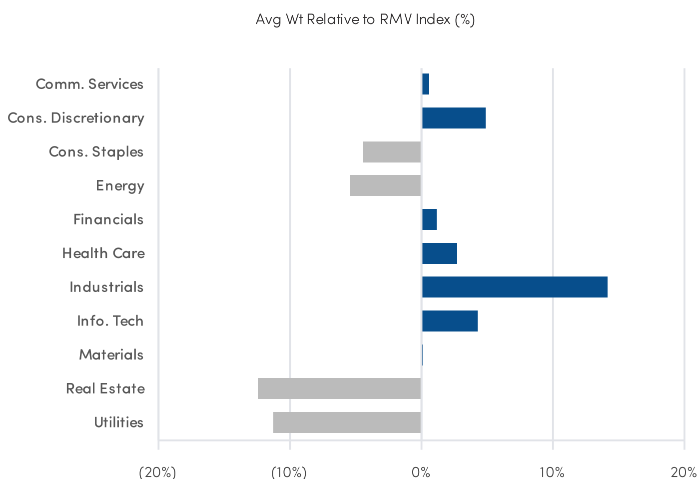
Largest Detractors

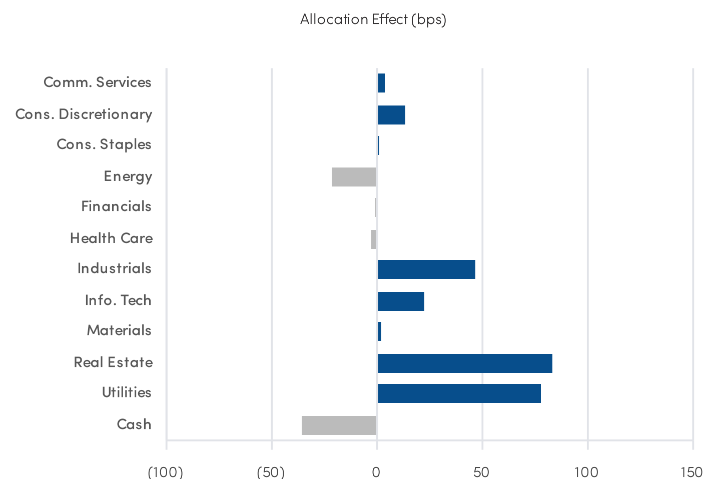
Gildan Activewear (GIL), the largest basic apparel manufacturer, was the largest detractor. GIL lowered full year guidance due to an industrywide pullback in corporate end-user demand for printwear products, despite strong innerwear sales and margin expansion potential.

American Eagle Outfitters (AEO), a retailer of denim and other fashions through their American Eagle and Aerie brands, was the second-largest detractor. AEO underperformed due to disappointing holiday sales guidance and a rise in inventories. Momentum in their core denim franchise and Aerie innerwear concept remains strong, and the market continues to undervalue the company's strong brands, experienced management team, and conservative balance sheet.

Hexcel (HXL), a global leader in designing and manufacturing advanced composites, was the third-largest detractor. Uncertainty surrounding the timing of Boeing 737MAX's return to service led to a broad selloff of exposed aerospace suppliers, including HXL. This disruption should prove manageable for HXL, and the company's enviable competitive positioning and a continued increase in composite content on products in growing end markets should lead to sustainable free cash flow growth.

Sector Positioning





Source: FactSet
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More than all of the quarter's outperformance was explained by sector allocation effect, which was positive in eight of 11 economic sectors. The portfolio's underweight in Real Estate and Utilities had the largest positive effect as these perceived safe havens lagged the RMV, posting the only negative sector returns in the benchmark. The portfolio's overweight to Industrials, Information Technology, and Consumer Discretionary sectors was also additive. The portfolio's underweight to Energy was a modest headwind as was its overweight to Health Care. Over the full year, sector allocation effect was positive in nine out of 11 sectors, with an overweight to Industrials and underweight to Energy delivering the strongest results.

Initiations

Integra LifeSciences (IART) is an acquisitive global medical technology company whose successful core tissue regeneration technology has leadership positions in neurosurgery, advanced wound care, and orthopedic hardware markets. IART has a demonstrated track record of intelligent and well-integrated acquisitions and divestitures, most recently acquiring and integrating Codman Neurosurgery to become the #1 global neurosurgery player. Going forward, solid organic growth with a nice mix of stable and high growth end markets, improving gross margins, and some operating leverage should lead to strong operating cash flow at the same time capex and one-time Codman investments normalize lower.

Eliminations

Mednax (MD) was eliminated due to concerns that its fundamentals will be secularly challenged.

Applied Materials (AMAT) reached its price target and was eliminated.

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Outlook

Looking forward, we are cautiously optimistic. Fundamentals remain strong in the portfolio, but valuations have risen to more demanding levels. Our pro-cyclical tilt benefitted performance in 2019 as recession fears moderated, but could be less of a tailwind going forward. Nonetheless, we remain confident in the portfolio's positioning and our ability to identify reasonably priced stocks of high quality businesses that will add value over the long term. All things considered, the market likely will be more volatile in the new year, creating opportunities for investors like us. We remain committed to ensuring portfolio turnover as necessary, with the knowledge that timely eliminations are as important as initiations to strengthen the portfolio.

Sources: APX, Bloomberg, FactSet, Forbes, S&P Global, The Wall Street Journal

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 12/31/19. 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.

Additional Cooke & Bieler Mid Cap Value Performance Disclosures