



Small Cap Value Equity

Market Commentary

The start to 2016 was the worst ever recorded for the broad equity market, with fear of an imminent economic recession pressuring markets worldwide during the first six weeks. By February 11th, the Russell 2000® Value Index (RUJ) had entered correction territory and oil prices had declined by 29%. And then, of course, sentiment turned. Foreign exchange headwinds moderated and oil prices seemingly found a bottom. The RUJ rebounded over 16% before quarter end, and oil roared back up 46%. Both finished in positive territory and the wild quarter ended up generating a placid 1.7% point to point RUJ return.

Portfolio Performance & Developments

The Cooke & Bieler Small Cap Value portfolio modestly outperformed the Index in the quarter, with better relative performance during the downdraft than during the recovery. Sector weights were a slight drag on performance due to the portfolio's underweight in Utilities and REITs (within Financials), where investors continued seeking yield. And while the impact of stock selection decisions for the full three-month period was positive – led by Consumer Discretionary, Health Care, and Energy holdings – results should have been better. In particular, two fundamental disappointments negatively impacted performance during the quarter. Importantly, our dissatisfaction is not with quarterly stock performance, but with fundamental business results. Many of our best investments have periods of underperformance – in fact, this quarter's top contributor was a significant detractor last year – so we believe strongly in the virtue of patience. However, we are also keenly aware of the need to reevaluate our expectations in light of new information. We decided to sell one of these holdings and we started to do that at the end of the quarter. This is in contrast to a number of our other laggards, where we took the opportunity to add to portfolio positions.

Market Outlook

Long-term outperformance is never achieved in a straight line, and we believe the best way to evaluate the portfolio's performance is over a period of years, not quarters – the same way we evaluate the performance of the companies we own. Taking this longer view, we believe the portfolio is well positioned, owing to a collection of reasonably valued, financially strong, well-positioned companies that can dependably grow earnings and cash flows, and we are confident it will compound value at an above average rate.

Sources: FactSet; Bloomberg; Russell Investments; The Financial Times

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