



Small Cap Value Equity

Market Commentary

Investors shrugged off ongoing drama on the political stage both here and abroad along with continued Fed tightening to deliver a quiet second quarter for equities. The quarter was also a profitable one for equity investors, with gains across most major indices. The Cooke & Bieler Small Cap Value strategy generated strong outperformance relative to the Russell 2000® Value Index (RUJ).

Portfolio Performance & Developments

Fundamental company performance and investor preferences aligned constructively for the Cooke & Bieler Small Cap Value portfolio during the quarter. The market's continued preference for quality businesses drove much of the outperformance. Measures of ROE and ROIC displayed a linear pattern as companies with higher fundamental return profiles saw their stock prices perform better in the quarter. Non-earners fared particularly poorly.

Both stock selection and sector allocation decisions contributed to the portfolio's favorable relative results. Stock selection overall was especially strong, accounting for roughly two-thirds of the portfolio's outperformance during the quarter, highlighted by several Financials picks. Among other sectors, Energy companies suffered along with the price of oil, and the strategy's Energy underweight generated significant value. A meaningful overweight in Consumer Discretionary and Industrials was also additive. Within the Consumer Discretionary sector, a heterogeneous group, we continue to find businesses with strong brands and well-entrenched competitive positions and the portfolio remains significantly overweight. In the Industrials arena, generally improving fundamentals and increasingly favorable investor sentiment have driven stocks higher across much of the sector over the past year. We selectively trimmed several positions during the quarter in response to greater valuation risk. Still, we continue to see very good return potential among the portfolio's diverse group of Industrials holdings, which collectively comprise nearly one-quarter of the total portfolio.

Market Outlook

Looking ahead, the market's recent tranquility is unlikely to persist. With valuations at high levels relative to historical averages, the economic expansion in its seventh year, tightening monetary policy and perhaps more than the usual domestic and international political uncertainty, there seems ample scope for increased volatility. However, we believe the Cooke & Bieler Small Cap Value portfolio is well positioned for a more turbulent backdrop, with its focus on businesses with strong cash flow generation, conservative balance sheets and reasonable valuations.

We believe our long-term, fundamental perspective in an increasingly short-term oriented world is a major advantage and source of value creation. And so, despite the portfolio's fine quarter, we believe it is better to focus on the longer term: we are more pleased with the portfolio's outperformance over the cycle than we are with the strong year-to-date results. We also acknowledge our clients' role in their success: our ability to implement our philosophy depends on their willingness to take the long-term view, as well.

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

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