



Small Cap Value Equity

Market Commentary

After posting robust, steady gains in the first three quarters of 2017, U.S. equities delivered another quarter of positive returns – the ninth consecutive one for the market as measured by the S&P 500 Index. Investors responded enthusiastically as the prospect of tax reform materialized, increasing the likelihood of continued earnings growth fueled by a lower corporate tax rate.

The major Russell U.S. equity indices ended Q4 and 2017 in positive territory as large cap stocks outperformed small cap stocks, reversing a trend that dominated in 2016. The Russell 2000® Value Index (RUJ) returned 2.05% for the quarter, closing the year up 7.84%.

Portfolio Performance & Developments

For the fourth quarter of 2017, Cooke & Bieler's Small Cap Value Strategy posted strong returns in both relative and absolute terms. Sector allocation was positive: the strategy's underweight in bond-proxy sectors (Real Estate, Telecommunication Services, and Utilities) was additive as were the overweights in Consumer Discretionary and Industrials. Similarly, stock selection contributed to outperformance for the quarter, driven by Financials, Health Care, and Materials. These strong selection results were partially offset by weak results in Consumer Discretionary

For the full year, the C&B Small Cap Value Strategy performed well in both relative and absolute terms. Sector allocation was strongly positive for the year, driven by overweight in Industrials and underweight in Energy and Real Estate. Likewise, stock selection contributed strongly to outperformance for the year, driven by strong selection in Information Technology, Financials, and Industrials.

Market Outlook

Expectations and valuations arguably are high, leaving little room for disappointments and unforeseen bumps in the road. At the same time, traction in the economy appears solid and the benefits of tax reform should allow fundamentals to improve. Given this backdrop, dispersion among stocks and sectors is likely to increase, creating opportunities for active managers. As always, our work at Cooke & Bieler is focused on adding value through our bottom-up stock selection process, underpinned by our meticulous identification, rigorous research and analysis, and continuous monitoring of the business fundamentals which drive value over time.

Sources: Bank of America Merrill Lynch; Bloomberg; FactSet; Reuters; 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. Past performance is no guarantee of future results.

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