LARGE CAP VALUE COMPOSITE

Perkins
—JANUS HENDERSON—

UNCOMMON VALUE℠

PORTFOLIO COMMENTARY | 4Q18

PERFORMANCE REVIEW

The Portfolio underperformed the Russell 1000® Value Index for the quarter. The equity market sold off sharply with the index posting its worst quarter since 2011. The sell-off was driven by a number of issues including: 1) the strength of the economy, 2) the Federal Reserve (Fed) hiking rates too quickly in an uncertain environment, 3) trade war fears, 4) earnings releases that didn't meet the market's high expectations and 5) credit deteriorating (high-yield spreads widening). Additionally, oil prices plummeted 38% during the period despite OPEC supply cuts leaving one wondering about demand and, thus, the health of the global economy.

For the quarter, the Portfolio's stock selection in energy was one of the largest detractors to relative returns. This was driven by Noble Energy, which underperformed largely due to concerns the November referendum vote in Colorado would severely hamper the oil and gas industry, and poor performance from energy stocks given the decline in oil prices during the quarter. The consumer discretionary sector was also weak, due in part to our position in auto-related stocks, which declined on slowing auto sales globally and trade tariff headlines.

Relative sector contributors included the financials sector, driven by performance in some of our insurance holdings, where we have an overweight position relative to the benchmark. Our holdings in industrials were also strong contributors, as the Portfolio's positions are more domestically focused and thus somewhat insulated to trade disputes. Additionally, our holdings in real estate aided relative performance as our stocks were down less than those in the benchmark.

We have been selective, but disciplined buyers on weakness this quarter, adding to some of our existing holdings and making swaps into those companies with better visibility and more favorable reward-to-risk ratios. Strong balance sheets have always been a focus for us and are becoming increasingly important to the market as credit conditions have weakened of late.

For detailed performance information, please visit
www.perkinsinvestmentmanagement.com

OUTLOOK AND POSITIONING

We have mentioned in recent commentaries our cautious approach to the market and concern that the market was completely ignoring any bad news or signs of potential problems while steadily climbing to new highs. In the quarter, bad news was no longer ignored and the relief rallies from good news were sold aggressively. Increased volatility in the market may be with us for a while longer and will likely unnerve some investors, but this is exactly the time adhering to the investment process is paramount. Our investment team is evaluating the recent market decline by reviewing the weakest areas within the market for potential new opportunities. As a general matter, it seems that concerns about the duration of the economic cycle are spreading, and each particular sector has its own dynamics to consider. For example, semiconductors and semiconductor equipment have been down substantially in the last few months. After several years of higher share prices fueled by surging demand and soaring profits, many investors believed these were no longer cyclical companies, but we are now seeing falling prices for memory chips, declining orders for equipment and weakening end

Portfolio Manager:
Kevin Preloger

EXECUTIVE SUMMARY

- Holdings in energy and consumer discretionary detracted from relative returns, while stock selection in financials and industrials aided performance.
- The Portfolio remains underweight the information technology and consumer discretionary sectors and overweight in financials and consumer staples.
- We have been selective buyers on market weakness, but we believe patience is key given high volatility and economic uncertainty.

demand. It turns out they are cyclical after all. Following a several year run of multiple expansion, the stocks are now experiencing contracting multiples and declining earnings, which makes getting comfortable with the downside risks in these stocks more challenging. Thus we have been patiently waiting for more favorable reward-to-risk ratios in this group.

Other areas seeing big declines include several materials and automobile and automotive components companies that have recently warned on earnings due to a combination of rising input costs, falling demand and trade war developments. Banks are also under pressure on weak loan growth and higher funding costs amid a flattening yield curve. Aggregating across the market's laggards, the stock market consensus appears to be grappling with the idea that we've passed the peak of the current expansion and benign investing environment. While the market has viewed recent developments in the economic landscape and the yield curve negatively as it relates to banks, we continue to believe they are one of the cheapest areas in the market and, given solid capital positions, many banks have been active with share buybacks recently, and we have been adding to our positions.

In our opinion, as trading conditions have become more volatile and investors fearful, the likelihood of identifying bargain stock prices grows. Pain on the other side of the trade is the first, but not the only, criteria. Second, the company should have a durable competitive advantage, such that, over time and through market cycles, it will be able to earn more than its fair share of profits. Third, the balance sheet should be well capitalized and liquid to enable the company to endure a much more difficult operating environment should that scenario lie ahead. Finally, a stock's price should be low enough relative to a company's earnings power and net asset value to offer a margin of safety and attractive return potential over the long term. Investors are in the process of resetting their expectations for corporate earnings estimates and total return expectations. While this can be a challenging investing environment, owning high-quality companies with strong balance sheets should ultimately prove to be profitable in the long run.

In addition to orienting our research effort around identifying stock bargains, we are mindful of correlations across the various cyclical exposures in our portfolios, as well as the aggregate weights we have in those areas. Given that we don't know whether the economy is at the beginning of a major downturn or not, we are making our buys slowly and cautiously, particularly in the more cyclical areas of the market. At some point, this market sell-off will end and there will be attractive opportunities for those who have successfully navigated the volatility. Adhering to your process is critical to be in a position to take advantage of these opportunities. In the shorter term, investing on fundamentals has proved much more challenging given the impact of headwinds from algorithms, liquidity issues and trade tweets. Patience may prove the most important investing attribute of all.

Thank you for your continued co-investment with us in the Large Cap Value Portfolio.

REPRESENTATIVE ACCOUNT TOP CONTRIBUTORS AND DETRACTORS FOR THE QUARTER ENDED 12/31/18

Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
The Procter & Gamble Company	3.76	0.32	Conagra Brands, Inc.	1.71	-0.86
Merck & Co., Inc.	2.20	0.23	Noble Energy, Inc.	1.11	-0.78
Evergy, Inc.	3.37	0.12	Schlumberger Limited	1.18	-0.77
Twenty-First Century Fox, Inc.	2.09	0.10	Laboratory Corp of America Holdings	2.47	-0.75
RenaissanceRe Holdings Ltd.	1.71	0.01	Occidental Petroleum Corporation	2.44	-0.66

The holdings identified in this table, in compliance with Janus Henderson policy, do not represent all of the securities purchased, held or sold during the period. To obtain a list showing every holding as a percentage of the portfolio at the end of the most recent publicly available disclosure period visit perkinsinvestmentmanagement.com.

TOP CONTRIBUTORS

The Procter & Gamble Company: Procter & Gamble (P&G) is a global leader in consumer goods with 23 brands that each has more than $1 billion annual revenue, including Pampers, Tide, Pantene, Gillette, Crest and Braun. P&G was the Portfolio's leading contributor as the company reported a solid quarter with organic sales that were the best since 2014, driven by premium innovation in its Beauty division. In addition, P&G announced a new organizational structure that will give more end-to-end responsibility to brand managers. The volatility of the fourth quarter also benefited P&G shares as investors sought safe havens such as those with stable businesses and healthy balance sheets. We continue to hold the stock and believe that investors may benefit from continued execution and the fact that an activist investor is still involved on the board of directors.

Merck & Co., Inc.: Merck outperformed in the quarter after reporting better-than-expected earnings driven in part by strength in sales of Keytruda, a leading immuno-oncology drug. Furthermore, Merck and other large pharmaceutical companies benefited from less potential drug pricing pressure, and a general rotation into the health care sector as investors seek more defensive positions. We trimmed some of our holdings on strength, but still maintain a position in the portfolio.

Evergy, Inc.: Evergy is an electric utility with core operations in Kansas and Missouri. The shares outperformed during the quarter as they reported better-than-expected earnings for the third quarter, increased the dividend and remain on track to repurchase a significant portion of its shares over the next two years. Additionally, utilities were the best-performing group within the benchmark given the turmoil in the broader stock market. In our opinion, the company continues to manage their merger integration well and long-term earnings growth is above the industry average. We continue to hold a sizable position in the stock.

TOP DETRACTORS

Conagra Brands, Inc.: Conagra is a leading manufacturer and marketer of frozen foods, and is best known for its brands Marie Callender's, Banquet, Hunt's, Slim Jim and Healthy Choice. During the quarter, the company closed on its acquisition of Pinnacle Foods. Near the end of the quarter, Conagra guided earnings estimates lower due in part to poor execution at Pinnacle prior to the deal closing. The shares traded significantly lower on the news of poor execution at Pinnacle, but we think the sell-off in the stock more than discounts the weak trends. The company also increased the guidance for cost savings from the deal, and management's track record for delivering efficiencies is quite strong. We have added to our position given the sell-off and good market share trends in its core frozen food categories.

Noble Energy, Inc.: Noble Energy is an oil and gas exploration company with core operations in Colorado and Texas, as well as key international assets offshore Israel and West Africa. The stock was weak during the quarter on: 1) concerns about the November referendum vote in Colorado that had it passed (it did not) would severely hamper the oil and gas industry; and 2) poor performance from energy stocks given the decline in oil prices in the quarter and worries over what the outlook for 2019 would be given the weak commodity price environment. Although we maintain a position in Noble and continue to like the long-term position of the company after their Israeli project comes on line, we reduced our exposure to the name given the near-term risks associated with the outlook for 2019.

Schlumberger Limited: Schlumberger, an oil field services company with market-leading solutions and technology in the most prolific oil and gas basins across the globe, was one of our leading detractors during the period. Shares of the global juggernaut hurt performance as weak global crude oil prices weighed on the sentiment for all oil field services companies and the entire energy sector as the market was concerned that lower crude oil prices would lead to a decrease in 2019 capital spending. Additionally, the company reported modestly better-than-expected earnings, but lowered its FY 2018 guidance and FY 2019 outlook during the period due to weaker-than-expected customer activity and a more competitive pricing environment in the U.S. We trimmed some of our holdings in the quarter, but maintain a position as we continue to view Schlumberger as a best-in-class oil services operator.

Past performance is no guarantee of future results.

Discussion is based on performance gross of fees.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

As of 12/31/18 the top ten portfolio holdings of the Representative Account are: Oracle Corp (3.96%), Procter & Gamble Co (3.75%), Johnson & Johnson (3.71%), Equity Residential (3.57%), US Bancorp (3.48%), Chubb Ltd (3.38%), Crown Holdings Inc (3.37%), Evergy, Inc. (3.37%), Wells Fargo & Co (2.59%) and Unilever PLC (ADR) (2.53%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

Portfolio holdings are as of the date indicated, and are subject to change. This material should not be construed as a recommendation to buy or sell any security.

The opinions are as of 12/31/18 and are subject to change without notice. Janus Henderson may have a business relationship with certain entities discussed. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

Investing involves risk, including the possible loss of principal and fluctuation of value.

Perkins Large Cap Value portfolios, benchmarked to the Russell 1000® Value Index, are broadly diversified and seek to identify quality large sized US companies trading at discounted prices with favorable risk reward potential. The strategy emphasizes common stocks of companies with market capitalizations above $10 billion. A typical portfolio will contain 40 to 60 securities. Prior to 2017, portfolios held between 60 and 140 securities. The composite was created in July 2008 and may include proprietary mutual funds, subadvised pooled funds, and separately managed institutional accounts. Prior to January 1, 2009, the composite included separately managed institutional accounts and sub-advised pooled funds. In December 2009 Janus Capital Group acquired the Large Cap Value (LCV) strategy of PWMCO, LLC. Accounts included in the PWMCO LLC LCV strategy are managed in a substantially similar fashion to the Perkins Large Cap Value Composite; as such Composite performance has been restated back to October 1, 2006, the inception of the PWMCO LLC LCV strategy.

Janus Henderson provides investment advisory services in the U.S. through Janus Capital Management LLC, together with its participating affiliates.

Perkins Investment Management LLC is a subsidiary of Janus Henderson Group plc and serves as the sub-adviser on certain products.

C-1218-21472 04-30-19

388-42-22455 01/19