MID CAP VALUE COMPOSITE

Perkins
—JANUS HENDERSON—

UNCOMMON VALUE℠

PORTFOLIO COMMENTARY | 4Q18

PERFORMANCE REVIEW

The strategy outperformed the Russell Midcap® 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 deteriorated as high-yield spreads widened. 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. Within the benchmark, the energy sector was the hardest hit and our underweight and stock selection were additive to relative returns. Despite outperforming this quarter, our underweight in utilities and stock selection in consumer discretionary, primarily exposure to autos and lack thereof to department stores, weighed negatively on relative performance. Utilities was the best-performing sector in the benchmark by a wide margin and while we like the stability and defensive characteristics, valuations are rich, thus our underweight position which detracted from relative performance. In consumer discretionary, slowing auto sales globally and trade tariff headlines weighed on our auto-related stocks.

Financials were also under pressure as the yield curve flattened and banks reported weak loan growth and higher funding costs. While our bank stocks outperformed the benchmark, our overweight detracted from relative performance. Overall, our financial holdings held up better, driven by performance in some of our insurance holdings. Real estate securities also aided relative to performance as our stocks were down less than those in the benchmark. Finally, our underweight in technology aided relative performance during the period.

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.

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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

Portfolio Manager:
Kevin Preloger

Portfolio Manager:
Justin Tugman, CFA

EXECUTIVE SUMMARY

- Outperformed the benchmark in a period where our underweight to utilities and real estate was a significant drag on performance.
- Underweights to energy and consumer discretionary were additive, as was our selection in financials.
- We have been selective buyers on market weakness, but we believe patience is key given high volatility and economic uncertainty.

falling prices for memory chips, declining orders for equipment and weakening end demand. It turns out they are cyclical after all. Following a several year run of multiple expansion, these 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 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, the 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 Mid 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 (%)
Lamb Weston Holdings, Inc.	1.44	0.16	Noble Energy, Inc.	1.07	-0.86
Evergy, Inc.	3.76	0.13	Cimarex Energy Co.	2.23	-0.79
NewMarket Corporation	2.94	0.06	Conagra Brands, Inc.	1.59	-0.74
Equity LifeStyle Properties, Inc.	4.60	0.05	Laboratory Corp of America Holdings	2.40	-0.71
Equity Commonwealth	3.14	0.04	BWX Technologies, Inc.	1.44	-0.71

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

Lamb Weston Holdings, Inc.: Lamb Weston is a maker of frozen potato products including French fries, which are more than 50% of revenue, as well as mashed potatoes, potato chips and onion rings. It is the dominant player in the U.S. with roughly 42% market share and is number two globally with close to 23% market share. The company continues to execute well, as demand for its products allows the company to increase pricing, and is adding capacity to meet growing demand. The company delivered solid sales and earnings growth in the most recently reported quarter. As the company has continued to experience both revenue and earnings gains far superior to its food industry, its multiple has expanded as well. While we continue to hold a position in Lamb Weston we have reduced our holding given the strength in the stock and the subsequent multiple expansion.

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 by approximately 3% and remain on track to repurchase 60 million 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. While we continue to hold a sizable position in the stock, we did trim on strength.

NewMarket Corporation: NewMarket is a specialty chemical company that manufactures additives for the lubricant and fuel markets that helps maximize performance for those products in engines. After suffering through rising raw material prices the last few years, the recent decline in oil prices was viewed as a positive by the market. This helped the stock outperform the broader market as their gross margins declines are likely ending and potentially reversing. Additionally, the company announced an increase in its stock buyback program. We continue to like the company and its strategic position, and added to our position given the attractive reward-to-risk ratio of the stock despite its recent outperformance.

TOP DETRACTORS

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 38% decline in oil prices in the quarter and worries over what the outlook for 2019 would be given the weak oil 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 some of the near-term risks associated with the outlook for 2019.

Cimarex Energy Co.: Cimarex Energy is an oil and gas exploration and production company with core assets in Texas and Oklahoma. The shares traded lower during the period as the company announced a small acquisition of Resolute Energy Corporation as well as the plunge in oil prices. While there remains uncertainty with the outlook in 2019 for Cimarex as well as the entire oil and gas industry, we added to our position in the name given the attractive reward-to-risk ratio and strong balance sheet of the company.

Conagra Brands, Inc.: Conagra Brands is a leading manufacturer and marketer of frozen foods, and is best known for its food brands Marie Callender's, Banquet, Hunt's, Slim Jim and Healthy Choice. During the quarter the company closed on its large acquisition of Pinnacle Foods. Near the end of the quarter, Conagra guided earnings estimates lower due in large part to poor execution at Pinnacle prior to the deal closing, which had led to reduced shelf space at grocers for its key brands such as Duncan Hines, Wishbone and Birds Eye. The shares traded significantly lower on the news of poor execution at Pinnacle, but we think the sell-off 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 valuation and good market share trends in its core frozen food categories.

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: Equity LifeStyle Properties Inc (4.59%), Evergy, Inc. (3.75%), RenaissanceRe Holdings Ltd (3.37%), Torchmark Corp (3.14%), Equity Commonwealth (3.14%), Crown Holdings Inc (3.07%), NewMarket Corp (2.94%), Lamar Advertising Co (2.88%), First Horizon National Corp (2.73%) and Graphic Packaging Holding Co (2.71%). 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 Mid Cap Value portfolios, benchmarked to the Russell Midcap® Value Index, are broadly diversified and seek to identify quality mid-sized US companies trading at discounted prices with favorable risk/reward potential. Portfolios invest primarily in US companies whose market capitalization, at time of initial purchase, fall within the 12-month average of the capitalization range of the Russell Midcap Value Index. Prior to 2003, the composite was known as the Berger Mid Cap Value Equity Composite. Prior to 2003 the composite included both institutional accounts and mutual funds. In 2003 and 2004 the composite include only separately managed institutional accounts. Effective January 1, 2005 the composite definition was changed to include sub-advised pooled funds as well as separately managed institutional accounts. Effective January 1, 2009 the composite definition was expanded to also include proprietary mutual funds. A minimum asset size requirement of $1 million for composite participation was used prior to January 1, 2006. The composite was created in December 1998.

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

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