3Q19
U.S. Equity

PORTFOLIO COMMENTARY

Perkins US All Cap Value

Market Environment

- U.S. indices posted modest positive returns during the quarter, but the path to get there was circuitous. The increase in volatility stemmed mainly from ongoing U.S.-China trade tensions, central bank monetary policy decisions, yield curve inversion implications, geopolitical unrest and U.S. political uncertainty.
- Given the lower rate environment and global growth concerns, the more defensive and interest-rate-sensitive sectors including utilities, consumer staples and real estate led the market. Conversely, the energy sector was pressured by concerns about global demand while increased focus on the U.S. presidential election caused weakness in health care.
- Some of the extreme positioning and valuation disconnects in the market were evident with the rotation from growth to value in the latter part of the quarter, and highlight what we believe to be the potential for value to outperform going forward.

Performance Summary

The Portfolio outperformed the Russell 3000® Value Index for the quarter ending September 30, 2019, with stock selection and sector positioning the main drivers of outperformance. Positive selection was most prominent in industrials, materials, communication services and financials. Underweighting energy, the worst-performing sector for the quarter, and overweighting market-leading Real Estate Investment Trusts (REITs) was additive to relative performance. We generally expected the portfolio to outperform in down or more volatile markets, and therefore we are pleased with the way the portfolio performed during the more recent choppy market environment.

For detailed performance information, please visit perkinsinvestmentmanagement.com.

Portfolio Discussion

During this volatile period in the U.S., defensive sectors such as utilities, consumer staples and real estate were the best performers. In utilities, while our stocks outperformed, our underweight hurt. We were overweight REITs, favoring names in niche markets such as self-storage, which we believe will benefit from a lower rate environment. We also like the low-capital intensity and earnings resilience of these business models throughout a market cycle. Within consumer staples, we were overweight on average, and started a new position in a frozen-potato products company that we believe trades at a reasonable valuation given their earnings consistency.

We were pleased with overall performance; however, certain positioning did detract. Both stock selection and our overweight in the health care sector weighed on relative performance. Positions in Pfizer and Johnson & Johnson were among the top detractors. Stock selection in information technology and our zero weight to the consumer discretionary sector further detracted from relative results.

Perkins
—JANUS HENDERSON—

While much has been made of the long-awaited shift from growth to value, the market is sending mixed signals as it counterbalances weaker economic data against a backdrop of central banks' willingness to cut rates. The Portfolio continues to be overweight financials in both banks and insurance given what we believe are attractive valuations and we added to the sector in the quarter.

Energy and discretionary are much more challenged from a quality standpoint. We have discussed the lack of discipline in the energy space in the past, and the fact that capital markets have been willing to fund overly aggressive exploration and production projects. This has left the balance sheets of many energy companies in the "do-not-invest" category for us. We remain underweight the sector, but continue to look for high-quality opportunities.

In consumer discretionary, the impact of Internet retail and the response of entrenched players have made much of this sector challenging from a quality perspective, as well. Competitive moats, once wide, have dried up as Internet-only retailers have flooded the marketplace and consumers demand free next-day shipping. We have continued to avoid this area given we believe these companies will continue to see relentless pressure on both the top and bottom lines as the competitive environment evolves.

The Portfolio currently is overweight traditionally defensive health care stocks as well as financials that appear cheap on a relative and absolute basis. In more cyclical sectors, we are overweight what we like to call "industrials staples" and "technology staples," or companies that provide goods or services that typically will not see meaningful demand deceleration in an economic downturn. We also are overweight real estate as we have found companies with resilient rent-collecting revenue streams that, we believe, also should benefit if rates remain low. On the other hand, we are underweight the more risky consumer discretionary sector, with the more speculative energy stocks, as well as the materials and utilities sectors.

Top Contributors	Representative Account Ending Weight (%)	Representative Account Contribution (%)
NewMarket Corp	1.57	0.34
Chubb Ltd	3.32	0.31
Alphabet Inc	2.63	0.30
Equity LifeStyle Properties Inc	1.98	0.22
Generac Holdings Inc	1.29	0.22

Top Detractors	Representative Account Ending Weight (%)	Representative Account Contribution (%)
Pfizer Inc	1.97	-0.38
Cadence BanCorp	1.94	-0.26
Schlumberger Ltd	1.40	-0.19
Thermon Group Holdings Inc	1.32	-0.15
Johnson & Johnson	2.21	-0.15

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.

Manager Outlook

From our point of view, there still is considerable downside risk in growth stocks. We believe our portfolio is positioned to avoid those companies trading at lofty valuations that do not have some sort of defensive characteristic. When the market finally corrects, we anticipate that investors will question why so many stocks trade at dizzying multiples.

We believe volatility will likely continue for many of the reasons we outlined earlier. At Perkins, we continue to focus on companies that are temporarily out of favor but have solid balance sheets and generate healthy free cash flow. While there remains a measure of uncertainty in the broader market, we believe we have constructed a portfolio that is different than the index and that should perform well in a variety of different economic and political scenarios.

Portfolio Management

Alec Perkins

Ted Thome, CFA

For more information, please visit **perkinsinvestmentmanagement.com.**

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 9/30/19 the top ten portfolio holdings of the Representative Account are: Laboratory Corp of America Holdings (4.78%), Chubb Ltd (3.31%), Lamar Advertising Co (3.18%), Berkshire Hathaway Inc (3.03%), PepsiCo Inc (2.96%), Equity Commonwealth (2.82%), Alphabet Inc (2.63%), Merck & Co Inc (2.57%), Wells Fargo & Co (2.53%) and UniFirst Corp/MA (2.44%). 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 9/30/19 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 All Cap Value Composite, benchmarked to the Russell 3000® Value Index, includes portfolios that are broadly diversified and seek to identify quality US companies trading at discounted prices with favorable risk reward potential. A typical portfolio will contain 60 to 90 securities and will invest no less than 10% of assets in each market cap category (small, mid and large) and no more than 50% in small cap stocks. The composite was created in January 2010.

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