

PORTFOLIO COMMENTARY

Perkins US Large Cap Value

Market Environment

- In our view, this has been one of the most challenging market environments in the past decade. Market sentiment has been a roller coaster – dependent on the latest tweet, trade rumor, central bank action or economic data point.
- We have seen an increasing number of challenges related to the equity market: a deceleration of earnings growth, the flattening/inversion of the yield curve, softer macroeconomic data (i.e., ISM manufacturing contraction, railcar loadings), negative interest rates around the globe and uncertainty around the looming presidential election in the U.S.
- In general, balance sheets remain stretched, something of which we are cognizant when reviewing new opportunities.
- As risks increase, we plan to continue focusing our research on individual equities whose stock prices already reflect some of the potential difficulties.

Performance Summary

The Portfolio outperformed the Russell 1000® Value Index for the quarter ending September 30, 2019, aided by strong stock selection in the industrials, financials and consumer staples sectors. Our industrial performance was led by two companies that have proposed merging. In financials, insurance holdings Chubb and Hartford performed well as pricing has continued to improve and the U.S. impact from Hurricane Dorian was muted. Procter & Gamble led the staples sector following a solid earnings report.



For detailed performance information, please visit perkinsinvestmentmanagement.com.

Portfolio Discussion

Our overweight in insurance, strong stock selection within industrials, consumer staples and utilities, in addition to a relative overweighting in REITs, were the major drivers of relative outperformance.

While much has been made of the long-awaited shift from growth to value, the market is getting mixed signals as it counterbalances weaker economic data against a backdrop of central banks willing and able to do anything, albeit with a depleted supply of monetary policy tools. Much of what is on offer in the value bin are financials, energy and consumer discretionary stocks. The Portfolio has been overweight financials, in both banks and insurance, for some time. We see attractive valuations for banks that are capital rich and operating in a benign credit environment. However, what can be unnerving are the machinations of the yield curve. For a bank's core activity of borrowing short and lending long to work, the yield curve needs to be upward sloping. In its current form, the curve has become flat or even inverted.

Energy and consumer discretionary are much more challenged for us from a quality standpoint. We have discussed *ad nauseam* the lack of discipline in the energy space and the fact that capital markets have been more than willing to "supply the juice" to

fund overly aggressive exploration and production projects. This has placed the balance sheets of many energy companies into a “no-go zone” for us. Despite management commentary indicating a change in behavior, we have seen few signs of this happening. The consumer discretionary sector is being impacted by long-term structural changes. Competitive moats once wide have dried up as Internet-only retailers have flooded the marketplace and consumers demand free next-day shipping. We have avoided this area given these companies will continue to see relentless pressure on both the top and bottom lines as the competitive environment evolves.

As expected during a volatile period the “defensive” groups (utilities, REITs and staples) were among the best performers. We continue to be slightly overweight in REITs, slightly underweight in utilities, and have trimmed exposure in staples where we remain underweight. Our stock selection in energy and communication services detracted from overall performance, with Cimarex Energy and Fox Corp among the Portfolio's largest absolute detractors.

Top Contributors	Representative Account	
	Ending Weight (%)	Contribution (%)
Equity Residential	2.20	0.39
Evergy Inc	3.25	0.34
Entergy Corp	2.51	0.33
Chubb Ltd	3.38	0.33
Procter & Gamble Co	2.09	0.28

Top Detractors	Representative Account	
	Ending Weight (%)	Contribution (%)
Cimarex Energy Co	0.00	-0.41
Fox Corp	1.96	-0.30
Pfizer Inc	2.35	-0.22
Royal Dutch Shell PLC (ADR)	2.11	-0.20
M&T Bank Corp	2.36	-0.17

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

With our continued hope that we will see a shift from growth to value, we understand that we may lag in a sudden shift to value if the shift is driven by low-quality offerings in energy and consumer discretionary. More concerning to us is the downside risk in growth stocks – software, for example, where valuations are sky-high and multiple compression is real – should earnings growth decelerate. If it does, we anticipate that investors will question why those stocks trade at dizzying multiples. We have positioned our portfolios so as not to be exposed to that risk.

The Portfolio remains overweight in the financials and technology sectors and in REITs within the real estate sector. Conversely, the relative underweights are in communication services, consumer discretionary, energy, health care, industrials, materials, staples and utilities. In our view, volatility will likely continue for many of the reasons outlined. At Perkins, we have continued to focus on companies that are temporarily out of favor but that have solid balance sheets and generate healthy free cash flow. Our emphasis on higher-quality companies was showcased during the volatile August period, during which we posted strong relative performance. While there remains a measure of uncertainty in the broader market, we have constructed a portfolio that is different than the index and that we believe should perform well in a variety of different economic and political scenarios.

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

Portfolio Management



Kevin Preloger

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: Chubb Ltd (3.37%), Berkshire Hathaway Inc (3.28%), Evergy Inc (3.25%), US Bancorp (3.23%), Hartford Financial Services Group Inc (3.02%), Oracle Corp (2.67%), Chevron Corp (2.66%), Entergy Corp (2.51%), Citigroup Inc (2.48%) and Laboratory Corp of America Holdings (2.45%). 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 Large Cap Value Composite, benchmarked to the Russell 1000® Value Index, includes portfolios that 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.

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