3Q19
U.S. Equity

PORTFOLIO COMMENTARY

Perkins US Mid 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 the looming election in the U.S.
- In general, balance sheets remain stretched, something we are cognitive of when reviewing new opportunities.
- As risks continue to build, our research remains focused on individual equities whose stock prices already reflect some of the potential difficulties.

Performance Summary

The Portfolio outperformed the Russell Midcap® Value Index for the quarter ending September 30, 2019. Relative outperformance was driven by strong stock selection, particularly in consumer discretionary, industrials and financials.

For detailed performance information, please visit perkinsinvestmentmanagement.com.

Portfolio Discussion

Stock selection was the driver of the quarter's outperformance. In the consumer discretionary sector, Cedar Fair had strong gains after announcing an acquisition and posting a solid earnings report. We nominally reduced our position in the amusement park company on strength. In financials, our insurance holdings, including Axis, Hartford and RenaissanceRe, performed well as pricing continued to improve and the U.S. impact from Hurricane Dorian was muted. Our more defensively oriented industrials also contributed on a relative basis. Additionally, our overweight within insurance and underweights in both energy and health care aided returns.

It is notable that during a volatile period the "defensive" groups (utilities, REITs and staples) were the best performers. We continue to be slightly overweight REITs, but did trim exposure in both utilities and staples. Our real estate holdings lagged behind those of the index. Stock selection in communication services also underperformed, with Fox Corp. among the Portfolio's largest absolute detractors. Energy was the worst-performing index sector for the quarter on rising concerns that supply is outstripping demand. While our underweight aided returns, positions in Cimarex and Apergy detracted from Portfolio performance for the period.

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 willing and able to do anything amid 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

Perkins
—JANUS HENDERSON—

both banks and insurance, for some time given what we believe are attractive valuations for banks that are capital rich with benign credit losses. 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, not its current pancake form, 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. In consumer discretionary, the impact of Internet retail and the response of entrenched players have made much of this sector un-investable. 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 our belief that these companies will continue to see relentless pressure on both the top and bottom lines as the competitive environment evolves.

	Representative Account	
Top Contributors	Ending Weight (%)	Contribution (%)
Cedar Fair LP	2.63	0.54
NewMarket Corp	2.06	0.40
Evergy Inc	3.49	0.38
Equity LifeStyle Properties Inc	3.21	0.31
Axis Capital Holdings Ltd	2.82	0.30

	Representative Account	
Top Detractors	Ending Weight (%)	Contribution (%)
Cimarex Energy Co	1.41	-0.43
WR Grace & Co	2.23	-0.26
Fox Corp	1.94	-0.26
Apergy Corp	1.02	-0.22
M&T Bank Corp	2.37	-0.21

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 that backdrop, and 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 would be the downside risk in growth stocks – software as an example, where valuations are sky high and multiple compression is real – should earnings growth decelerate. When it does, we anticipate that investors will question why those stocks trade at dizzying multiples. Fortunately our portfolios are not exposed to that risk. The Portfolio is overweight financials, industrials, materials, technology and real estate, with underweights in consumer discretionary, communication services, staples, energy, health care 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 have solid balance sheets and generate healthy free cash flow. Our emphasis on higher-quality companies was showcased during the volatile August period, where 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 in a variety of different economic and political scenarios.

Thank you for your co-investment in the Mid Cap Value Strategy/Portfolio.

Portfolio Management

Kevin Preloger

Justin Tugman, 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: Evergy Inc (3.50%), Equity LifeStyle Properties Inc (3.22%), Globe Life Inc (3.02%), RenaissanceRe Holdings Ltd (2.98%), Axis Capital Holdings Ltd (2.82%), Hartford Financial Services Group Inc (2.73%), Cedar Fair LP (2.63%), Laboratory Corp of America Holdings (2.60%), Alliant Energy Corp (2.53%) and Lamar Advertising Co (2.52%). 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 Mid Cap Value Composite, benchmarked to the Russell Midcap® Value Index, includes portfolios that are broadly diversified and seek to identify quality mid-sized 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.

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