

# PORTFOLIO COMMENTARY

## Perkins US Small Cap Value

### Market Environment

This has been one of the most challenging market environments we've witnessed 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 macro-economic 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 remained stretched, and approximately 30% of the companies within our benchmark continue to be unprofitable – both negatives at this point in the economic cycle.

As risks continue to build, we continue to focus our research on individual equities whose stock prices already reflect some of the potential difficulties.

### Performance Summary

The portfolio outperformed the Russell 2000® Value Index for the quarter ending September 30, 2019. Relative outperformance was driven by strong stock selection, particularly in financials, materials and industrials.



For detailed performance information, please visit [perkinsinvestmentmanagement.com](http://perkinsinvestmentmanagement.com).

### Portfolio Discussion

Volatility in the markets historically provides us with the opportunity to establish positions in new investment ideas and add to existing positions at attractive prices. This quarter's volatility did just that as we established new positions within the technology, consumer discretionary, real estate and materials groups.

Overweight sectors remain consumer staples, industrials, materials and financials. We believe our bank holdings are pricing in more economic risk than other cyclical areas, and as such we remain slightly overweight banks, despite the known headwinds. Within our industrials, we believe we own a collection of high-quality companies that are, as a whole, less cyclical than the benchmark. However, we have trimmed our weight within the group on less attractive reward/risk ratios.

Our underweights remain consistent with past quarters, including communication services, energy, health care, technology, utilities and consumer discretionary. While we continue to see some opportunities and have recently increased our weight in the consumer discretionary sector, we remain focused on companies with strong balance sheets that generate free cash flow and are not in direct competition with online retailers.

We remain underweight technology as we believe there is earnings risk that is not reflected at current prices. As we added new technology names to the portfolio, we also exited several others due to valuation. We remain underweight health care as many of the companies do not meet our investment criteria (e.g., biotech) or have lofty

valuations. Additionally, despite continued underperformance for the energy sector, we remain underweight due to a lack of quality names within the group.

Stock selection was the dominant driver of outperformance in the quarter, particularly in financials with our top insurance holdings including Hanover outperforming as pricing improved and the U.S. impact from Hurricane Dorian was muted. Our overweight position within insurance also proved beneficial. In materials, NewMarket gained after posting margin expansion due to lower input costs. Our more defensively oriented

industrials such as Generac and UniFirst also performed. Underweights in both energy and health care further aided returns.

While we were pleased with overall performance, some positioning did detract. Underweights in information technology and utilities held back relative results given the sectors' relatively strong performance. Stock selection in health care also detracted, largely due to a position in Phibro Animal Health, which weighed on absolute returns.

Top Contributors	Representative Account	
	Ending Weight (%)	Contribution (%)
Cedar Fair LP	2.69	0.60
NewMarket Corp	1.75	0.32
Generac Holdings Inc	1.82	0.23
Sun Communities Inc	0.76	0.20
Ingles Markets Inc	0.58	0.18

Top Detractors	Representative Account	
	Ending Weight (%)	Contribution (%)
Phibro Animal Health Corp	0.76	-0.30
Apergy Corp	1.37	-0.28
Cadence BanCorp	2.17	-0.27
Mammoth Energy Services Inc	0.01	-0.21
Delek US Holdings Inc	1.60	-0.16

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](http://perkinsinvestmentmanagement.com).

## Manager Outlook

While absolute valuations for small-cap companies are not cheap, the relative valuation between small-cap and large-cap companies is increasingly attractive. As such we have been both beginning new positions and adding to existing names at the smaller end of the market cap range. During the quarter, we initiated six new positions with market caps below \$2.5 billion.

In our view, volatility will likely continue for many of the reasons we outlined earlier – concerns aren't going away anytime soon. With markets still near all-time highs, it's important to be in a position to protect gains if the market hits a difficult period. Regarding the benchmark, we believe the recent rebalance of the index added risk as volatility, leverage and the percentage of money losers within the index all increased. Thus, it remains as important as ever to look different than our benchmark. At Perkins, we continue to focus on companies that are temporarily out of favor, but have solid balance sheets and generate 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 economic and market scenarios.

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

## Portfolio Management



Justin Tugman, CFA



Craig Kempler, CFA

For more information, please visit [perkinsinvestmentmanagement.com](http://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: UniFirst Corp/MA (3.27%), Hanover Insurance Group Inc (2.89%), Cedar Fair LP (2.70%), Nomad Foods Ltd (2.37%), Equity Commonwealth (2.36%), Atlantic Union Bankshares Corp (2.20%), Cadence BanCorp (2.17%), STAG Industrial Inc (2.17%), Argo Group International Holdings Ltd (2.11%) and Black Hills Corp (2.10%). 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 Small Cap Value Composite, benchmarked to the Russell 2000® Value Index, includes portfolios that seek to identify quality small-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, is less than the 12-month average of the maximum market capitalization for companies included in the Russell 2000 Value Index. Prior to 2003, the composite was known as the Berger Small Cap Value Equity Composite. Prior to 2003, the composite included both institutional accounts and mutual funds. In 2003 and 2004 the composite included 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 June 1998.

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