

# PORTFOLIO COMMENTARY

## Perkins US Large Cap Value

### Market Environment

- Equities, and other markets for that matter, have a virus, too, as they do not seem to be functioning normally. Trading halts, wild intraday stock price swings and liquidity issues across all sectors – even those with strong fundamental businesses – show that the market did not behave normally during the quarter.
- We have communicated for some time that equity valuations were stretched, and the selling over the past month left few sectors unscathed. Investors became complacent as the market reached new highs, and little attention was given to emerging risks. These risks included various faltering industrial data readings and soft earnings results, yet the market continued its move higher.
- Prior pullbacks in the last two decades, such as the bursting of the tech bubble and the Global Financial Crisis, were caused by factors that market participants saw as possible risks. In this most recent episode, the cause of the market sell-off was not on anyone's radar as a possible risk until it was too late.

### Performance Summary

The Portfolio performed in line with its benchmark, the Russell 1000® Value Index, for the quarter ended March 31, 2020. At the start of the quarter, the Portfolio performed in line with the index, lagged the index slightly in February and then outperformed for the bulk of the sell-off in March. Abnormal weakness in the normally defensive utilities sector presented some challenges for us near quarter end.



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

### Portfolio Discussion

Stock selection in financials, utilities and materials detracted from relative performance, as did the Portfolio's underweight to consumer staples. In financials, we were overweight banks, which hurt relative returns given the sharp decline in interest rates and heightened concerns about potential credit issues. We also were overweight insurance, whose stocks were especially weak due to what we believe is the mistaken belief that business interruption claims will be triggered, leading to massive payouts for the industry. Given that pandemics often are excluded from insurance contracts and business closings were not caused by the usual perils – fire, theft or weather events – we believe the excessive weakness in these stocks was unwarranted. Utilities stocks came under pressure as investors thought that commercial demand for power would be weak with large swaths of the economy shut down, but they did not account for increased residential power demand given stay-at-home orders in place in many states.

Top sector contributors to relative performance were information technology, real estate and health care, largely due to stock selection.

We added several new names to the Portfolio in health care, industrials, consumer staples and technology. We also added to smaller positions on significant price weakness and reduced or eliminated other names that held up better to help fund the

additional purchases. As the market provided opportunities to add to positions that we believe are solid multiyear holdings, we sought to take advantage.

In addition to trades within our existing holdings, the market's extreme volatility presented us with many new buying opportunities on our "wish list" that became more attractive

from a valuation and reward-to-risk perspective. Key to our process is calculating reward-to-risk ratios for individual stocks, and we had built a broad inventory of potential investable ideas while waiting for more appealing valuations. Many of these ideas became portfolio holdings during the quarter. New holdings came from a broad array of industries, including health care and semiconductors.

Top Contributors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
Citrix Systems Inc	2.32	1.06
Gilead Sciences Inc	2.09	0.58
Public Storage	2.65	0.49
Oracle Corp	2.51	0.43
Unilever PLC (ADR)	1.77	0.34

Top Detractors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
Discover Financial Services	1.42	-0.51
Citizens Financial Group Inc	1.68	-0.47
Marathon Pete Corp	1.30	-0.47
US Bancorp	2.80	-0.37
W. R. Grace & Co.	1.47	-0.37

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).

Relative contribution reflects how the portfolio's holdings impacted return relative to the benchmark. Cash and securities not held in the portfolio are not shown.

## Manager Outlook

Despite the recent improvement in corporate bond valuations (due in large part to bond buying by the Federal Reserve), this is not the time to be bottom fishing in balance sheets – something we have always had as one of our primary rules at Perkins. We cannot say when things will return to "normal," but our sense is that this downturn will be worse and more impactful for longer than many expect, due in large part to higher unemployment and the near certainty of a pullback in consumer spending. It is important to own "survivors" in this market, and, in our view, that means owning solid balance sheets.

Additionally, we must understand that the world has changed in many ways. For financials, we are likely in a lower-for-longer rate environment and credit costs will go higher, but bank capital is at healthy levels. In energy, Saudi Arabia is waging war by flooding the market with unwanted oil and pushing prices lower. There will be impacts on consumer behavior due to lower and changing spending habits. Businesses face the likelihood of changes that include more remote work, an increased focus on improving balance sheets and modifications to supply chains. While we have adjusted our portfolio to reflect many of these possible changes (reducing the energy weighting while increasing exposure to companies we deem "survivors"), we anticipate there will be more opportunities ahead for us given volatility is likely to remain elevated for the foreseeable future.

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

## Portfolio Management



**Kevin Preloger**

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 3/31/20 the top ten portfolio holdings of the Representative Account are: Johnson & Johnson (4.12%), Berkshire Hathaway Inc (3.77%), Pfizer Inc (3.48%), Evergy Inc (3.12%), Public Storage (3.06%), Unilever PLC (ADR) (2.99%), Oracle Corp (2.93%), US Bancorp (2.51%), PPL Corp (2.42%) and Entergy Corp (2.25%). 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 recommendation to buy or sell any security.

The opinions are as of 3/31/20 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.

For equity portfolios, relative contribution compares the performance of a security in the portfolio to the benchmark's total return, factoring in the difference in weight of that security in the benchmark. Returns are calculated using daily returns and previous day ending weights rolled up by ticker, gross of advisory fees, may exclude certain derivatives and will differ from actual performance.

**Investing involves risk, including the possible loss of principal and fluctuation of value.**

Perkins US 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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