1Q20
U.S. Equity

PORTFOLIO COMMENTARY

# Perkins US Mid 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 on a variety of measures. 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 while 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 outperformed its benchmark, the Russell Midcap® Value Index, for the quarter ended March 31, 2020. Early in the quarter the Portfolio lagged as the overall market continued higher, led by recent winners. Since the market peak in late February, the Portfolio's relative outperformance was driven by stock selection as our more defensively oriented holdings held up better than the benchmark. Relative outperformance continued as the sell-off became more pronounced in March and investors favored companies with better balance sheets and more defensive business models.

**For detailed performance information, please visit perkinsinvestmentmanagement.com.**

## Portfolio Discussion

Driven by strong stock selection, the real estate, information technology and industrials sectors were the largest contributors to relative performance, with our stocks down meaningfully less than the benchmark. Our overweight in technology and underweights in both consumer discretionary and energy were also additive. Within financials, our overweight to banks dragged on relative performance given the sharp decline in interest rates and heightened concerns about potential credit issues. Utilities, consumer staples and health care were top-performing sectors for the index, and our underweights in these sectors also detracted from relative returns.

During this extremely volatile period, we added several new names to the portfolio in health care, information technology, utilities and consumer discretionary. 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. These adjustments primarily have been within industrials, financials (both banks and insurance) and real estate investment trusts. As the market provided opportunities to

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add to positions that we believe are solid multiyear holdings, we sought to take advantage.

In addition to trades within our existing holdings, the 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 agriculture, health care, utilities and semiconductors.

| Top Contributors | Representative Account Average Weight (%) | Representative Account Relative Contribution (%) |
|---|---|---|
| Citrix Systems Inc | 2.27 | 1.11 |
| Equity Commonwealth | 2.29 | 0.55 |
| Public Storage | 2.12 | 0.50 |
| Alliant Energy Corp | 2.52 | 0.41 |
| Equity LifeStyle Properties Inc | 3.11 | 0.40 |

| Top Detractors | Representative Account Average Weight (%) | Representative Account Relative Contribution (%) |
|---|---|---|
| Apergy Corp | 0.95 | -0.81 |
| Cedar Fair L.P. | 2.03 | -0.81 |
| Citizens Financial Group Inc | 2.11 | -0.43 |
| W. R. Grace & Co. | 2.06 | -0.38 |
| Cimarex Energy Co | 0.68 | -0.33 |

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.

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 Mid Cap Value 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 3/31/20 the top ten portfolio holdings of the Representative Account are: Equity LifeStyle Properties Inc (3.39%), BWX Technologies Inc (3.01%), Globe Life Inc (3.02%), Evergy Inc (2.87%), Alliant Energy Corp (2.79%), Equity Commonwealth (2.74%), RenaissanceRe Holdings Ltd (2.72%), NewMarket Corp (2.66%), Public Storage (2.58%) and Laboratory Corp of America Holdings (2.47%). 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 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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