PMV Month In Review

October 2017

Macro

October's historical volatility a distant memory

Economic data remains largely positive with a solid October jobs report driving unemployment to a 17-year low at 4.1% and third quarter GDP estimates exceeding expectations at 3.0%. The U.S. equity markets continued their unabated march higher in October with virtually all major U.S. indices advancing, including the Russell 3000 Index up over 2%. Within market cap and style boxes, last month was more of the same, with large caps outpacing small caps and growth widening its lead over value.

While October has historically been the most volatile month of the year, last month was anything but, continuing an anemic pattern. Historically, low volatility has been a root cause for many of the trends we have seen in this market (e.g.. passive flows, growth vs. value, momentum). The Chicago Board Options Exchange Volatility Index (VIX) does not even tell the whole story, as the data shown below through October 30, 2017 from Credit Suisse note suggests. We are truly living in historic times, and while we do not know when certain factors will normalize (valuations, volatility), we stand ready to take advantage and protect capital when they do.

	# of Trading Days	
Year	**>1%**	**>2%**
2009	117	55
2010	76	22
2011	96	35
2012	50	6
2013	38	4
2014	38	6
2015	72	10
2016	48	9
2017	8	0
Long-Term Avg	**67**	**18**

Source: Standard & Poor's, CBOE, Haver Analytics®, Credit Suisse
Note: Long-term average is 1976-2016

Earnings

Start to Q3 earnings generally solid

While the Mid Cap PMV portfolio was relatively flat vs. the Russell Mid Cap Value Index in October, we were encouraged to see EPS season off to a stronger note vs. Q2. Of note, Northern Trust, Citizen's Financial, BorgWarner, and Snap-On all beat expectations. In addition, despite posting generally weak Q3 results, Axalta shares rose last month on news of a potential merger with Akzo Nobel. Unfortunately, encouraging earnings were offset by a few factors, including: weak performance in Health Care (e.g., Universal Health Services) due to uncertainty about ACA and lack of PMV participation as higher beta stocks within Tech and Industrials rallied.

(continued from page 1)

Portfolio

Finding pockets of opportunity in otherwise frothy market

In our view portfolio transactions remain largely muted in a frothy market. However, we did purchase a new position in J.M. Smucker (SJM) last month. The stock was at a 52-week low amid a tough landscape for consumer staples, especially branded food companies where increased competition from private label and changing consumer habits are pressuring profits. However, we believe that Smucker is well-positioned given their mix of leading brands (75% are #1 or #2) within still-growing categories like pet food, coffee, and healthy snacks. Pet food and coffee together now represent 2/3 of total company EBITDA. We also believe that margins will stabilize in the coming periods due to lower coffee costs and better coverage of marketing spend with the ramp of several new product launches.

In other portfolio news, we trimmed Aramark (ARMK) following the announcement of two large acquisitions with a combined sticker price of $2.3 billion. Even though we believe these deals make strategic sense (one in uniform rentals and the other in food & hospitality procurement), the multiple paid north of 12x EBITDA seems a bit aggressive to us based on our PMV work. So, with the stock up on the news, we took some profits and are analyzing these deals for future impact.

To reach a representative for your region, please contact:

U.S. West Region (AK, AR, AZ, CA, CO, HI, IA, ID, IL, KS, LA, MI(UP), MN, MO, MT, ND, NE, NM, NV, OK, OR, SD, TX, UT, WA, WI, WY):

Joel Dykman (608) 609-4141 jdykman@reinhart-partnersinc.com

U.S. Southeast Region (AL, DC, FL, GA, KY, MD, MS, NC, PR, SC, TN, VA, WV):

Christopher Rhyne (336) 817-8206 crhyne@reinhart-partnersinc.com

U.S. Northeast Region (CT, DE, IL, IN, MA, ME, MI, NH, NJ, NY, OH, PA, RI, VT)

Christopher Hodges (443) 326-1875 chodges@reinhart-partnersinc.com

Director, Institutional Client Services (MI):

Rick Plawecki (248)-330-6363 rplawecki@reinhart-partnersinc.com

Russell 3000 Index: an unmanaged equity index which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. An investment cannot be made directly to an index.

Russell Midcap Value Index: an unmanaged equity index that measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. An investment cannot be made directly to an index.

Chicago Board Options Exchange Volatility Index (VIX): an unmanaged index calculated from options on the S&P 500 Index and is supposed to reflect the market expectation of the index's annualized 30-day volatility. The volatility measured by the VIX reflects both the possibility of upside movements as well as the possibility of downside movements. An investment cannot be made directly to an index.

1500 W. Market Street, Suite 100
Mequon, WI 53092
262-241-2020
www.reinhart-partnersinc.com