



As the books close on the first half of 2021, Argent’s Mid Cap strategy is up 16.4% (*net of fees*) year-to-date, outperforming the Russell Midcap® Index return of 16.3%. While we are extremely happy with our performance for the first half of the year, we are most proud of our outperformance versus the Russell Midcap over longer periods of time. The strategy has outperformed the Russell Midcap on a trailing one-year, three-year, five-year and since inception basis (*net of fees*).

Moving into the second quarter of the year, Argent continued to position the Mid Cap portfolio to benefit from an anticipated wave of consumer spending. Consumer spending has been buoyed by the Federal stimulus, strong employment and wage gains, and record consumer net worth from booming stock and real estate markets. Retailers see these factors as a tailwind. In fact, The National Retail Federation is forecasting that retail sales could grow between 6.5% and 8.2% this year.

With that in mind, we added L Brands, Inc. a women’s fashion, personal care and beauty retailer to the Argent Mid Cap portfolio in April 2021. The company operates under the well-known Victoria’s Secret, Pink and Bath & Body Works brands and sells through specialty retailers as well as through its websites and other channels. L Brands operates via more than 2,600 specialty stores across the U.S., Canada and China. Additionally, the company’s brands are marketed in over 700 franchised locations worldwide. Besides the potential tailwind of increased consumer spending, we added L Brands because of the company’s profitability and continuation of a turnaround strategy that we believe will unlock additional shareholder value in the future.

Between 2015 and 2018, sales began to falter at Victoria’s Secret. Then, in March of 2019, an activist shareholder called the company “outdated” and said it “failed to align with women’s evolving attitudes toward beauty and diversity.” As a result, Victoria’s Secret and Pink began a turnaround effort. The company now aims to “inspire women around the world with products and experiences that champion and uplift them.” It also hired new brand ambassadors that are activists and entrepreneurial women and six out of the seven board of directors will be women, including the chairman. The last twelve months have shown significant progress in the turnaround effort. In the second half of 2020, the brand started to recover, boosted by online sales. Online sales were up 44% and same-store sales increased 80% in the first quarter of 2021 versus the first quarter of 2019 (using 2020 metrics would skew the results due to COVID).

It’s a different story for L Brands’ other flagship brand, Bath & Body Works. Bath & Body offers exclusive fragrances for the home and body and has been doing well. The company plans to open 49 new locations in the U.S. and one in Canada as the company continues to experience consistent sales and income growth. The company achieved an increase of 123% in digital sales growth and 47% in same-store sales in the first quarter of 2021 versus the first quarter of 2019.

With success of two brands within reach, it may seem surprising that in March the company announced plans to split into two separate companies, Victoria’s Secret & Co. and Bath & Body Works. L Brands is adamant that the separation is a huge step for both companies, creating two industry-leading, highly focused retailers. Each company will have its own distinct strategic focus on specific operational and growth priorities. Ideally, the new companies will be better able to refine their businesses and pursue growth opportunities with dedicated teams. The split will also give investors the ability to value each business independently, thus unlocking additional value for shareholders. After the split, the Argent Mid Cap strategy will continue to own stock in both companies. At that time, however, we will closely evaluate each company. Currently, we anticipate owning both stocks for the foreseeable future.

We have four very successful equity strategies– Large Cap U.S., Small Cap U.S., Dividend Select and Mid Cap U.S. In addition, if you like our market letters, we hope you will pass them on to friends.

Sincerely,



Kirk McDonald, CFA – Portfolio Manager & Senior Research Analyst – Quantitative

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