

## Managers of this outperforming tech fund say we're still in 'early innings' for cloud and IoT

By Philip van Doorn

*Brad Slingerlend and Denny Fish of the Janus Henderson Global Technology Fund talk about favorite stocks*

The Janus Henderson Global Technology Fund's recent performance -- up 10% this month through Friday -- might give investors pause. But even as they acknowledge that stock valuations have risen considerably, Brad Slingerlend and Denny Fish, the fund's co-managers, see a world of opportunity for further gains.

Before getting to comments made by Slingerlend and Fish during an interview, let's look at how well the fund, which has \$2.4 billion in assets, has been performing and how much valuations for its top holdings have risen.

Here are total returns (with dividends reinvested) for the Janus Henderson Global Technology Fund's Class I shares against the benchmark index and the fund's Morningstar category:

	Total return - 2018 through Jan. 26	Total return - 1 year	Average return - 3 years	Average return - 5 years	Average return - 10 years
Janus Henderson Global Technology Fund - Class I	10.1%	48.9%	23.8%	22.2%	14.8%
MSCI All Country World Information Technology Index	8.5%	43.6%	21.1%	21.8%	12.8%
Morningstar Technology category	9.0%	39.6%	20.0%	20.3%	13.0%

Sources: Morningstar, FactSet

The quoted returns are after expenses. Class I shares have a \$1 million minimum for institutional investors who invest directly with Janus, but for individuals, the minimum for nonretirement accounts is \$2,500 and the minimum for retirement accounts is \$500.

Overall, the fund was about 75% invested in U.S. stocks as of Dec. 31, with large-cap companies (valued at \$10 billion or more) making up 77% of the fund.

It's less top-heavy than its benchmark, the MSCI All Country World Information Technology Index, which had 94% invested in large-caps at the end of 2017. The fund was 39% invested in megacaps (companies valued at over \$100 billion), while the index had a 60% concentration in megacaps.

Slingerlend said he, Fish and the analysts they work with "prefer long-duration businesses," and that the fund's average holding period of three years for a stock is "more than your typical tech fund." He

also emphasized the importance of building "ballast" into the portfolio to mitigate the volatility of the tech sector. So the "longer-duration" companies make up about half of the portfolio, with the other half "more nimble, fast-growth businesses," he said.

Here are the fund's 10 largest holdings (out of 76) as of Dec. 31, current price-to-earnings ratios compared with those from a year ago, along with returns:

Company	% of portfolio	Price/ consensus 2018 EPS ratio	Price/ consensus 2017 EPS ratio - Jan. 26, 2017	Total return - 2018 through Jan 26	Total return - 2017
Microsoft Corp.	6.2%	27.6	21.6	10%	41%
Alphabet Inc. Class C	5.8%	28.2	20.3	12%	36%
Tencent Holdings Ltd.	4.1%	43.6	31.1	16%	115%
Salesforce.com Inc.	3.9%	65.9	60.6	11%	49%
Alibaba Group Holdings Ltd. ADR	3.3%	29.6	23.8	19%	96%
Amphenol Corp. Class A	3.1%	26.8	22.8	6%	32%
Adobe Systems Inc.	2.7%	32.3	29.5	15%	70%
Facebook Inc.	2.6%	28.4	25.4	8%	53%
Samsung Electronics Ltd.	2.6%	7.0	9.4	0%	43%
Taiwan Semiconductor Manufacturing Co. ADR	2.6%	18.2	14.1	15%	41%

Sources: Janus Henderson Investors, FactSet

"It feels like the early innings of a decadelong transformation of the global economy that tech is leading," Slingerlend said. When discussing the vast increase in price-to-earnings valuations for so many major tech companies, he said "this does not feel like a 1999 scenario [before the tech bubble burst] because the fundamentals are supporting valuations."

Here are sales growth figures for the fund's 10 largest holdings:

Company	Increase in sales - most recent reported quarter from a year earlier	Increase in sales - past 12 reported months from year-earlier 12-month period
Microsoft Corp.	12%	8%
Alphabet Inc. Class C	25%	23%
Tencent Holdings Ltd.	63%	50%
Salesforce.com Inc.	25%	25%
Alibaba Group Holdings Ltd. ADR	61%	51%
Amphenol Corp. Class A	18%	12%
Adobe Systems Inc.	27%	25%
Facebook Inc.	47%	48%
Samsung Electronics Ltd.	20%	12%
Taiwan Semiconductor Manufacturing Co. ADR	13%	9%

Source: FactSet

Tech-stock investors reward sales growth more than anything else, as the performance of Amazon.com Inc. has shown over the past two decades. Investors have focused on investment in business expansion, and the sales growth that follows, over profits.

Fish said the higher valuations reflected the "continuing proliferation of cloud," as well as the so-called Internet of Things (IoT) -- the term for the relentless trend for all sorts of devices to be connected to the web -- and artificial intelligence. These mega-trends "won't be affected" by shorter-term political considerations, including the recent U.S. tax cuts, he said.

### Tech stock plays

"We like the macro tailwind, but we like to pick companies that can power through any cycle," Slingerlend said while describing the process he, Fish and their team of analysts use to select stocks. The managers listed eight companies they especially favor right now.

Fish focuses on software and database companies and stocks. But he called Microchip Technology Inc. "a good example of a company trading at a low multiple." The Arizona-based semiconductor manufacturer's shares closed at \$96.91 on Jan. 26 and traded for 16.6 times the consensus 2016 earnings estimate of \$5.82 among analysts polled by FactSet. That P/E ratio down slightly from 16.8 a year ago, even though the stock has returned 46% over the past 12 months.

Meanwhile, sales for the company's second fiscal quarter ended Sept. 30 were up 16% from a year earlier.

In addition to the low P/E multiple, Fish said Microchip Technology is "well positioned for the internet of things, with high returns on capital."

Slingerlend focuses his research on IoT and related supply-chain investments. In addition to Microchip Technology, he said he favors Xilinx Inc., which makes programmable semiconductors.

"It is important to be able to go back on a chip and program it to do something different," Slingerlend said. He added that Xilinx is "leveraged for growth in 5G technology and AI."



*Denny Fish, co-manager of the Janus Henderson Global Technology Fund* Janus Henderson Investors



*Brad Slingerlend, co-manager of the Janus Henderson Global Technology Fund* Janus Henderson Investors

Among manufacturers of equipment used to make semiconductors, Slingerlend especially likes Lam Research Corp. and ASML Holding NV.

Getting back to Fish's research into software and database plays, he called Alphabet Inc. and Alibaba Group Holding Ltd. examples of companies that have been performing very well but still appear to be attractive values.

"Going out to 2020 [estimates], they are trading at about 20 times earnings," he said. "In Google's case that assumes mid- to high-teens earnings growth, and well north of 20% for Alibaba."

"So the multiples are not out of sync," he added.

He noted while Alibaba's stock price has doubled over the past two years, "the company has doubled in size" as well.

Two software companies Fish favors are Salesforce.com Inc. and Adobe Inc., which he said play into corporate spending trends.

"Companies are investing in front office to drive revenue and customer retention. Both Salesforce and Adobe do very well with that trend," he said.

When asked about the possibility that Salesforce's revenue growth may slow because of its success in building market share for customer management software, Fish said "the sales clouds are arguably mature, but still growing in the mid-teens... so we see high-

arguably mature, but still growing in the mid-teens... so we see high-teens [compounded annual growth rates] over the next four to five years."

Adobe dominates its space for photo editing and graphics software, and is migrating from its traditional packaged software model to annual subscriptions. Fish believes the subscription model is far more valuable than the traditional revenue model and that Adobe has "lots of levers to grow its business," as it is competing "in the marketing cloud" on mobile devices.

Here are P/E multiples and sales-growth numbers for the companies Slingerland and Fish discussed:

Company	Price/ consensus 2018 EPS ratio	Price/ consensus 2017 EPS ratio - Jan. 26, 2017	Increase in sales - most recent reported quarter from a year earlier	Increase in sales - pas 12 reported months from year-earlier 12-month period
Microchip Technology Inc.	16.6	16.8	16%	34%
Xilinx Inc.	25.1	23.8	8%	7%
Lam Research Corp.	12.2	12.5	37%	50%
ASML Holding NV ADR	29.9	27.7	49%	38%
Alphabet Inc. Class C	28.2	20.3	25%	23%
Alibaba Group Holding Ltd. ADR	29.6	23.8	61%	51%
Salesforce.com Inc.	65.9	60.6	25%	25%
Adobe Systems Inc.	32.3	29.5	27%	25%

Source: FactSet

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Technology industries can be significantly affected by obsolescence of existing technology, short product cycles, falling prices and profits, competition from new market entrants, and general economic conditions. A concentrated investment in a single industry could be more volatile than the performance of less concentrated investments and the market as a whole.

As of 12/31/17, returns, including reinvestment of dividends and capital gains, for the Janus Henderson Global Technology Fund (Class I Shares), S&P 500 and MSCI All Country World Information Technology Index were: 44.88%, 21.83%, 41.77% for the 1-year, 20.66%, 15.79%, 19.06% for the 5-year and 11.91%, 8.50%, 9.90% for the 10-year periods, respectively.

**Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 800.668.0434 or visit [janushenderson.com/performance](http://janushenderson.com/performance).**

Expense ratios: Class I Shares: Gross 0.75% and Net 0.75%

High absolute short-term performance is not typical and may not be achieved in the future. Such results should not be the sole basis for evaluating material facts in making an investment decision.

Net expense ratios reflect the expense waiver, if any, contractually agreed to through 2/1/19.

As of 12/31/17, the top 10 portfolio holdings of Global Technology Fund are: Microsoft Corp. (6.24%), Alphabet Inc. (5.75%), Tencent Holdings Ltd. (4.14%), salesforce.com Inc. (3.85%), Alibaba Group Holding

(3.29%), Amphenol Corp. (3.13%), Adobe Systems Inc. (2.71%), Facebook Inc. (2.63%), Samsung Electronics Co Ltd. (2.62%) and Taiwan Semiconductor Manufacturing Co Ltd. (2.57%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

**Price-to-Earnings (P/E) Ratio** measures share price compared to earnings per share for a stock or stocks in a portfolio.

The data for the recent performance of the Global Technology Fund is as of 01/26/18.

The Global Technology Fund's AUM data is as of 01/26/18.

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

MSCI All Country World Information Technology Index<sup>SM</sup> reflects the performance of information technology stocks from developed and emerging markets.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

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