

US Mid Cap Growth

Market Environment

- Stocks rose strongly in the fourth quarter as positive earnings and economic news and easing trade tensions boosted investor confidence.
- In October, the Federal Reserve announced its third rate cut of the year. Policymakers then signaled a pause in additional cuts given signs of resilience in the U.S. economy.
- As economic concerns abated, investors sought opportunities in more growth-oriented areas of the market, and growth stocks outperformed the broader market.

Performance Summary

The Portfolio delivered a positive return but underperformed its benchmark, the Russell Midcap® Growth Index, for the quarter ending December 31, 2019. Stock selection in consumer discretionary and information technology detracted from relative performance. Underweights in communication services and consumer staples aided relative performance.



For detailed performance information, please contact a Janus Henderson Institutional team representative.

Portfolio Discussion

Company-specific issues weighed on stock performance for several of the Portfolio's consumer discretionary holdings, notably ServiceMaster Global. The company's financial results were hurt after its Terminix pest eradication business faced higher-than-expected claims related to a termite infestation in Alabama. We believe this isolated incident will likely prove less costly than the market anticipates, and the company has adjusted its policies to manage such risks going forward. We held onto the stock as we continue to like the company's stable earnings growth profile.

Gildan Activewear, another detractor, manufactures and distributes basic wear such as T-shirts used for screen printing. The stock declined after the company reported disappointing third quarter results, which it attributed to weaker-than-expected demand in its screen-printing end market. In our view, this was likely a temporary slowdown as customers adjusted their inventory levels. We held onto the stock, as we remain optimistic on Gildan's potential to improve margins in its vertically integrated business.

Biotechnology company Sage Therapeutics was a leading detractor in health care. The company has been testing one of its drugs as a treatment for major depressive disorder. While the drug performed well in early-stage clinical trials, phase 3 trial results released in December proved disappointing, calling into question the drug's potential approval. In our view, the company has the potential to run additional trials on this drug, which may provide more positive results, and we maintained our position.

In the information technology sector, our valuation discipline led to relative underweights in high-valuation, high-growth market niches, such as Internet and Software as a Service (SaaS) stocks. While this positioning worked to our advantage

in the third quarter, it hurt our relative performance in the fourth quarter as investors once again favored high-growth, higher-risk companies, some of which have yet to report a profit. We remain committed to our disciplined approach, which we believe is the best way to deliver strong long-term returns to our investors.

Where we do own SaaS stocks, we have focused on profitable companies benefiting from resilient subscription-based revenues within well-defended industry verticals. These included long-term holding SS&C Technologies, which provides cloud-based SaaS solutions to the financial services industry. The stock was a strong performer for the Portfolio in

the fourth quarter after the third quarter earnings report showed accelerating organic growth and increased guidance.

Several of our semiconductor and semiconductor equipment holdings were also strong contributors as easing trade tensions alleviated uncertainty in the semiconductor supply chain. Semiconductor equipment maker Lam Research reported a positive outlook supported by its strong market position and improving demand for memory chips. ON Semiconductor, a supplier of power management components, is benefiting from strong secular growth tailwinds, including the rollout of 5G communications and the development of electric vehicles.

Top Contributors	Representative Account	
	Ending Weight (%)	Contribution (%)
ON Semiconductor Corp	1.78	0.40
Lam Research Corp	1.69	0.38
SS&C Technologies Holdings Inc	2.07	0.37
Global Payments Inc	2.21	0.32
Microchip Technology Inc	2.34	0.29

Top Detractors	Representative Account	
	Ending Weight (%)	Contribution (%)
ServiceMaster Global Holdings Inc	0.92	-0.41
Gildan Activewear Inc	0.84	-0.18
Sage Therapeutics Inc	0.14	-0.14
Verisk Analytics Inc	1.51	-0.09
Wayfair Inc	0.29	-0.07

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 recently available disclosure period contact a Janus Henderson institutional team representative.

Manager Outlook

While 2019 was a strong year for market performance, we would caution that such returns are not the norm and, as we look ahead to 2020, we remain cognizant of risks posed by global economic uncertainty, ongoing trade negotiations and the resulting reconfiguration of global supplier relationships. As we enter an election cycle, we also acknowledge that populist rhetoric from both sides of the political spectrum may create uncertainty for certain economic sectors, such as health care.

Additionally, we continue to see excessive valuations in certain high-growth stocks and sectors of the market. Our valuation discipline had led us to reduce holdings and move to underweights in such sectors, even in cases where we like the management teams and business models. We are not, on the other hand, turning our attention to value stocks, where technological change is increasingly disrupting established profit pools. We continue to pursue a middle way as we seek growth companies with sustainable competitive advantages, strong earnings growth potential and experienced, forward-looking management teams. And while we will not sacrifice these criteria in pursuit of attractive valuations, we also will not pay an excessive price for growth. In our current view, this middle way represents the most prudent strategy for providing our investors with positive long-term performance.

Portfolio Management



Brian Demain, CFA



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For more information, please visit janushenderson.com.

Janus Henderson
INVESTORS

Past performance is no guarantee of future results.

Discussion is based on performance gross of fees.

Closed to certain new investors.

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 12/31/19 the top ten portfolio holdings of the Representative Account are: Microchip Technology Inc (2.35%), Global Payments Inc (2.21%), Aon PLC (2.16%), Constellation Software Inc/Canada (2.10%), Nice Ltd (ADR) (2.09%), SS&C Technologies Holdings Inc (2.07%), Boston Scientific Corp (2.04%), TE Connectivity Ltd (1.92%), Cooper Cos Inc (1.92%) and PerkinElmer Inc (1.87%). 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 a recommendation to buy or sell any security.

The opinions are as of 12/31/19 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.

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the

portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

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

US Mid Cap Growth Composite, benchmarked to the Russell Midcap[®] Growth Index, includes portfolios that invest in a diversified portfolio of mid-sized companies selected for their potential for predictable and sustainable growth. 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 Growth Index. 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 \$5 million for composite participation was used prior to January 1, 2006. The composite was created in January 1995.

Russell Midcap[®] Growth Index reflects the performance of U.S. mid-cap equities with higher price-to-book ratios and higher forecasted growth values.

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