

US Small Company Growth

Market Environment

- Stocks were volatile in the third quarter against a backdrop of slowing global economic growth and heightened trade tensions. Most indices ended the quarter lower, with small-cap stocks underperforming the broader market.
- While the U.S. economy appeared resilient relative to international markets, the Federal Reserve acknowledged signs of slowing with two interest rate cuts.
- Investors sharply punished companies for even slightly negative earnings news or guidance, adding to market volatility.
- Late in the quarter, investors rotated away from the higher-valuation secular growth stocks that outperformed earlier in the year while they sought value among more cyclical stocks.

Performance Summary

While the Portfolio had a negative return, it outperformed its benchmark, the Russell 2000® Growth Index, for the quarter ending September 30, 2019. Stock selection in health care was a key driver of relative outperformance.



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

Portfolio Discussion

In health care, we continue to focus on innovative companies meeting unmet medical needs, and our stock selection and underweight allocation to the sector contributed to relative results. Medical device maker Insulet, a top Portfolio contributor, develops tubeless insulin pumps that provide a more convenient way to deliver insulin, improving the management of diabetes. The company has benefited from a strong innovation pipeline and a favorable regulatory environment, as the FDA has aggressively approved new diabetes-management tools. In our view, Insulet's products represent a paradigm shift in the treatment of diabetes that may improve people's lives while reducing costs for the health care system.

While we continue to see positive trends for many of our health care investments, we recognize short-term issues may at times overshadow their long-term potential. This was especially the case in the third quarter, when investors seemed quick to punish any company with less-than-perfect earnings news. ICU Medical is a company we continue to like in the health care market. It is a leading supplier of IV delivery products, including infusion pumps, consumable bags and tubing, and IV solution. While it benefits from strong competitive positioning and profit margins in these first two segments, recent competitive pressures have hurt pricing in its solution business. This dampened the company's earnings performance, and the stock declined and detracted from Portfolio performance for the quarter. In our view, this is a short-term issue, and we held onto the stock given our confidence in the company's long-term growth prospects.

US Small Company Growth (quarter ended 9/30/19)

In the consumer discretionary sector, we benefited from an investment in amusement park company Cedar Fair, another top contributor for the quarter. Amusement parks have benefited from younger consumers' preferences for spending money on experiences, and unlike retailers they are insulated from e-commerce competition. Cedar Fair's stock declined earlier in the year after bad weather hurt its operating results, but the stock rebounded strongly in the third quarter, aided by operational enhancements and improved labor management. The company is also drawing more recurring revenues from seasonal pass sales, and its disciplined capital allocation has helped it deliver an attractive dividend yield.

Lovesac was a notable detractor in the consumer discretionary sector. The omni-channel retailer sells modular furniture both online and through high-volume, mall-based showrooms and pop-up stores. Until recently, the company has outsourced most of its manufacturing to China, and concerns over the impact of higher tariffs on its business led investors to sell the stock. We believe this was an overreaction, as the company has been rapidly diversifying its manufacturing footprint away from China, a move we believe will reduce costs and long-term risks. For this reason, we maintained an investment in the stock.

Top Contributors	Representative Account	
	Ending Weight (%)	Contribution (%)
Insulet Corp	1.56	0.44
Cedar Fair LP	1.54	0.29
Cimpress NV	0.82	0.24
Visteon Corp	0.75	0.21
LivePerson Inc	0.97	0.20

Top Detractors	Representative Account	
	Ending Weight (%)	Contribution (%)
Waitr Holdings Inc	0.00	-0.37
ICU Medical Inc	0.62	-0.34
Catalent Inc	2.28	-0.30
Euronet Worldwide Inc	2.12	-0.29
Lovesac Co	0.45	-0.28

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 the U.S. economy appears resilient relative to the rest of the world, recent data has pointed to some slowing in the industrials sector. It is also too early to tell whether the late third-quarter rotation away from high-valuation secular growth stocks will persist over the coming quarter. Given numerous uncertainties for the market, we continue to favor a balanced, long-term approach that combines investments in open-ended secular growth opportunities, with carefully selected cyclical companies. Our focus above all remains on identifying exceptional companies with high or improving returns on invested capital, strong free cash flow, experienced management teams and healthy competitive positioning. At the same time, we remain disciplined in managing position sizes and monitoring valuations. In our view, this long-term, disciplined approach is the best way to deliver strong risk-adjusted returns in varying economic backdrops.

Portfolio Management



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For more information, please visit janushenderson.com.

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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 9/30/19 the top ten portfolio holdings of the Representative Account are: Nice Ltd (ADR) (2.66%), ServiceMaster Global Holdings Inc (2.29%), Catalent Inc (2.27%), Euronet Worldwide Inc (2.12%), LPL Financial Holdings Inc (2.11%), HEICO Corp (1.92%), Blackbaud Inc (1.89%), j2 Global Inc (1.83%), STERIS PLC (1.83%) and SS&C Technologies Holdings Inc (1.82%). 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 9/30/19 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.

Small Company Growth Composite, benchmarked to the Russell 2000® Growth Index, includes portfolios that invest primarily in small-sized companies selected for their growth potential. Small sized companies are generally those who have market capitalizations less than \$6 billion. A typical portfolio invests in 80 to 120 equity securities. Effective January 1, 2005 the composite definition was changed to include only proprietary mutual funds and exclude sub-advised pooled funds. Effective January 1, 2009 the composite definition was expanded to also include sub-advised pooled funds and separately managed institutional accounts. The composite was created in January 2003.

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