

US SMID Cap Growth

Market Environment

- Stocks were volatile in the third quarter against a backdrop of slowing global economic growth and heightened trade tensions.
- The U.S. economy appeared resilient despite signs of slowing in the manufacturing sector. The Federal Reserve acknowledged economic risks with two interest rate cuts.
- Late in the quarter, investors rotated away from higher-valuation secular growth stocks that had outperformed earlier in the year while they sought value among more cyclical stocks.

Performance Summary

Although performance was negative, the Portfolio outperformed its primary benchmark, the Russell 2500™ Growth Index, as well as its secondary benchmark, the Russell 2000® Growth Index, for the quarter ending September 30, 2019. Stock selection across a number of sectors helped support relative outperformance.



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

Portfolio Discussion

Stock selection in industrials supported relative outperformance, as a number of our holdings benefited from the late-quarter market rotation back into more cyclical names. Saia was a top contributor in the quarter due to strong earnings that resulted from a return to tonnage growth coupled with better pricing, which led to margin improvement. We like the long-term prospects for this LTL (Less Than Truckload) trucking company due to good competitive dynamics within the LTL space. We also believe that as Saia's recent expansions into new territories mature, margins will improve due to better capacity utilization. Additionally, Saia has an opportunity to improve pricing and customer mix by focusing on higher-margin accounts that value its service-oriented logistics and trucking capabilities.

The Portfolio remains overweight information technology. While we have a bias toward Software as a Service (SaaS) companies due to their subscription business models, we have also found recurring revenue business models with strong competitive moats outside of this sub-sector. One such company was Entegris, a top contributor during the quarter. Entegris sells wafer transportation equipment, chemicals, filters and other specialized consumables to the electronics industry. Entegris benefits from growing volumes, as well as increasing complexity of semiconductor chips. The company reported strong financial results, which helped drive the stock price higher.

We continue to look for innovation in health care, especially in companies with established products and visible earnings streams, as well as those that provide services to support improved treatment delivery. 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 were quick to punish any company's 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 solutions, 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.

Sarepta Therapeutics was another detractor. The stock declined after the U.S. Food and Drug (FDA) withheld approval for one of its Duchenne muscular dystrophy treatments due to concerns about infections and toxicity risks. The company plans to meet with the FDA in hopes of finding a way forward for this ribonucleic acid (RNA) approach. Importantly, Sarepta has a multi-platform approach with various technologies, including RNA, gene therapy and gene editing, which can address rare diseases. We decided to sell the position but continue to monitor its progress closely.

Top Contributors	Representative Account	
	Ending Weight (%)	Contribution (%)
Saia Inc	1.19	0.34
Teledyne Technologies Inc	1.85	0.27
Cimpress NV	0.88	0.26
Entegris Inc	1.27	0.26
Visteon Corp	0.68	0.19

Top Detractors	Representative Account	
	Ending Weight (%)	Contribution (%)
ICU Medical Inc	0.72	-0.40
Catalent Inc	2.42	-0.32
Euronet Worldwide Inc	2.18	-0.30
Sarepta Therapeutics Inc	0.00	-0.29
LendingTree Inc	0.68	-0.21

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



Jonathan D. Coleman, CFA



Scott Stutzman, CFA

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: Catalent Inc (2.43%), ServiceMaster Global Holdings Inc (2.28%), Broadridge Financial Solutions Inc (2.24%), Blackbaud Inc (2.18%), Euronet Worldwide Inc (2.18%), LPL Financial Holdings Inc (2.12%), Crown Holdings Inc (2.12%), SS&C Technologies Holdings Inc (1.91%), Teledyne Technologies Inc (1.85%) and Carlisle Cos Inc (1.71%). 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-Mid Cap Growth Composite, benchmarked to the Russell 2500™ Growth Index and secondarily to the Russell 2000® Growth Index, includes portfolios that invest primarily in small-sized and medium-sized companies selected for their growth potential. Small- and medium-sized companies have market capitalizations less than \$10 billion. 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 March 2005.

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