

PORTFOLIO COMMENTARY

US Research Core Equity

Market Environment

- U.S. stocks ended the third quarter with small gains.
- After a solid start to the quarter, equities declined in August on uncertainty around the future path of global economic growth and escalating U.S.-China trade tension.
- These concerns, combined with uncertainty around the future path of global growth, increased investors' preference for traditionally more defensive asset classes.
- Against this backdrop, central bankers across the globe eased monetary policy, with U.S. policymakers reducing interest rates twice during the quarter for a total reduction of 50 basis points.
- In the final weeks of the quarter, stocks recovered and investors began to favor value stocks over growth stocks.

Performance Summary

The Portfolio underperformed its benchmark, the Russell 1000® Index. While we aim to outperform over shorter periods, our goal is to provide consistent outperformance long term by focusing on what we consider our strength: picking stocks and avoiding macroeconomic risks. Stocks are selected by our six global sector teams, which employ a bottom-up, fundamental approach to identify what we consider the best global opportunities.

Our stock selections in the consumer and health care sectors detracted from relative results. Conversely, relative performance was buoyed by our selections within the industrials and technology sectors.



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

Portfolio Discussion

Key detractors within the consumer sector included Amazon.com. The online retailer reported weaker-than-expected growth in Amazon Web Services (AWS), its cloud computing segment, and fell short of second-quarter earnings estimates. Further pressuring the stock was antitrust scrutiny. Despite these setbacks, our conviction in Amazon.com remains high. As cloud computing continues to grow, we expect AWS to become a more meaningful driver of Amazon.com's overall business.

Notable detractors also included Netflix, a provider of online streaming television and movie content. Netflix reported a decline in U.S. subscribers during the second quarter and missed international subscriber growth estimates, sparking concern that it may be losing momentum and that streaming services planned by Disney and Apple may create further headwinds to subscriber growth. Although the competitive landscape continues to evolve, over the long term we believe Netflix will be a key beneficiary of a trend in which traditional and satellite TV viewers are increasingly shifting to streaming TV.

Technology was an area of relative strength in the portfolio. Contributors in this group included Alphabet. Although the parent company of Google is one of several big tech

firms facing regulatory scrutiny, strong second-quarter revenue driven by growth in its core advertising business eclipsed news of the Justice Department's antitrust reviews of Google. Our research indicates that the likelihood Alphabet will be forced to break up is small. In fact, recent developments add to our conviction in the company. These include Alphabet's approval of a \$25 billion stock repurchase plan and the introduction of new advertising formats aimed at improving the user experience. In our view, Alphabet's valuation remains attractive relative to other large-cap companies that are not growing nearly as fast as Alphabet.

Other strong performers within technology included our semiconductor stocks, which benefited from improving dynamics within the semiconductor industry. Contributors in this space included Texas Instruments, a supplier of chips used in automobiles. Despite the U.S.-China trade war, recent data shows stabilization in global auto production, particularly in China. Further supporting stock gains for the company was its recent announcement that it will reward investors with a 17% dividend hike.

Top Contributors	Representative Account	
	Ending Weight (%)	Contribution (%)
Alphabet Inc	3.47	0.40
Texas Instruments Inc	2.32	0.28
Sherwin-Williams Co	1.39	0.24
Apple Inc	1.94	0.23
Microsoft Corp	5.60	0.22

Top Detractors	Representative Account	
	Ending Weight (%)	Contribution (%)
Netflix Inc	1.19	-0.42
Amazon.com Inc	3.48	-0.31
Altria Group Inc	1.80	-0.26
EOG Resources Inc	0.82	-0.21
Gartner Inc	1.40	-0.18

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

A number of economic indicators suggest the global economy is entering a period of slower growth. As such, we believe investors should brace for continued market volatility as external shocks such as Brexit, the 2020 presidential campaign and the U.S.-China trade war could become additional headwinds. Likewise, positive surprises could also lead to sharp market swings. In September, for example, as trade tensions seemed to ease, investors quickly bought up stocks of cyclical companies (firms whose revenues tend to be tied to the economic cycle), which previously had been beaten down.

Rather than chase market whims, we'd prefer to look for what we call defensive-growth companies. These are firms whose business models are benefiting from secular growth drivers – say, from the electrification of global payments or the shift to the cloud – and therefore tend to be less dependent on economic expansion for growth. We are also focused on finding companies with strong balance sheets, capable management teams and competitive advantages that make it possible to defend or increase market share. The stocks may not always outperform. But as the outlook for global growth remains uncertain, we'd rather focus on firms that have the potential for consistent growth regardless of the economic backdrop.

Portfolio Management

Team Managed

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.

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: Microsoft Corp (5.62%), Amazon.com Inc (3.48%), Alphabet Inc (3.47%), JPMorgan Chase & Co (2.80%), Mastercard Inc (2.41%), Texas Instruments Inc (2.32%), Adobe Inc (2.27%), Visa Inc (2.25%), Merck & Co Inc (2.01%) and Constellation Brands Inc (1.95%). 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.

US Research Core Equity Composite, benchmarked to the Russell 1000® Index, includes portfolios that invest in high conviction investment ideas selected by the Janus Henderson research team, based on rigorous fundamental research. A typical portfolio holds 70 to 110 equity securities of primarily large and mid-size companies and maintains sector weightings, based upon how Janus Henderson aligns sector research teams, that closely follow the Russell 1000 Index. Effective January 1, 2009 the composite definition was expanded to also include proprietary mutual funds. The composite was created in August 2004.

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