4Q18 Portfolio Commentary

Janus Henderson INVESTORS

Contrarian Fund

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Investment Environment

Equity markets were volatile and ended the period with some major indices near correction territory. Fears of slowing global economic growth, rising trade tensions between the U.S. and China, continued increases in the fed funds rate and the potential for a disorderly "Brexit" all played a role in driving stocks lower. The energy and consumer discretionary sectors were among the worst performers in the index during the quarter.

Performance Discussion

The Fund underperformed its benchmark, the S&P 500® Index. A de-risking environment was a headwind for relative performance. In such environments the market tends to favor defensive stocks and those with more certainty around near-term earnings, which don't fit the typical investment criteria for a contrarian portfolio. The portfolio's small-cap bias also hurt relative performance in a risk-off environment.

At the individual stock level, Allergan was our largest detractor. The pharmaceutical company walked back expectations it would divest two units, which disappointed investors and created less confidence in the company's management team. News that the company would have to pull its textured breast implants off European markets also weighed on the stock, despite being a very small product niche for the company. Despite these headwinds, we continue to see upside for the stock. In our view, the current stock price considerably undervalues Allergan's medical aesthetics franchise, which includes Botox and Juvéderm. We believe the duration of growth for those franchises will exceed current market expectations. We also believe that with credibility of management low, a change in management or simply better execution by the company could be a catalyst for better stock performance.

Two financial stocks, Citigroup and Pacific Western (PacWest), were also large detractors. Bank stocks sold off broadly due to concerns about the global economy, but we believe fundamentals are largely intact. For Citigroup, we believe the market is overlooking several positive tailwinds including deregulation and rising interest rates, which will allow it to return substantial cash to shareholders in the next few years. We also don't think the market has given Citigroup enough credit for its corporate services business, a unique network that allows businesses to move money around the world.

Meanwhile, we don't think the market appreciates PacWest's strength relative to other regional banks. A low number of physical bank branches gives PacWest a cost structure advantage

Highlights

- Fears of slowing global economic growth, rising trade tensions between the U.S. and China, and continued increases in the fed funds rate drove stocks lower in the fourth quarter.
- The Fund underperformed its benchmark during the quarter.
- While global economic growth is slowing, we believe U.S. consumer strength will continue to support the domestic economy in early 2019.

relative to other regional banks, which has historically led to top-quartile profitability among regional banks, and given it the potential to return significant capital to shareholders.

While the stocks mentioned above weighed on performance during the quarter, we were pleased by the results of other companies in our portfolio. Ball Corp., a metal packaging company, was one of our largest contributors this quarter. An analyst day that highlighted the sustainability of aluminum cans and secular demand for such environmentally friendly packaging helped lift the stock. After a couple quarters of strong stock performance, we also believe the market is simply gaining appreciation for how industry consolidation is improving Ball's competitive dynamics. Ball acquired a large competitor in the beverage packaging industry in 2016, which led to an optimized manufacturing footprint and should lead to more rational pricing. We continue to believe the combined company will de-lever quickly, transferring more value to equity holders.

NRG Energy was another top contributor. A rotation into defensive sectors such as utilities benefited NRG during the quarter. Strong quarterly earnings and guidance for 2019 also drove the stock higher. The stock has been up for the past two quarters as the market has come to appreciate the company's balance sheet strength and cash flow generation as it sells assets and sheds businesses that were less profitable. We continue to like the utility company's potential as it de-levers and buys back stock.

Tractor Supply Company also contributed meaningfully to performance. Stronger earnings and strong quarterly same-store sales results lifted the stock during the quarter. Our thesis on the company has been that it is better positioned than most retailers to withstand e-commerce disruption; most of its goods are large and costlier to ship and the company also has a more rural customer base and much of its tender remains in the form of cash. We believed the stock would be up as the market came to realize these qualities. We've generally seen this thesis play out, and sold the position as the stock neared our price target.

For detailed performance information, please visit janushenderson.com/performance.

Outlook

Global economic growth is slowing, but we believe U.S. consumer strength will continue to support the domestic economy in early 2019. For U.S. workers, wage growth remains strong. Lower-wage earners have particularly benefited from a tight labor market, and are experiencing their best income growth in at least a decade. Meanwhile, the benefits of tax reform won't hit most consumers' pockets until they receive tax refunds in 2019.

While we believe U.S. consumer spending will continue to support the domestic economy, we are not naïve to risks. Rising interest rates are beginning to affect cyclical segments of the economy and heightened trade tensions present another headwind for growth. But after a market sell-off this quarter, valuations already reflect many of these concerns.

In our view, the recent sell-off has left valuations more attractive than at any point in at least a few years. We've used this as an opportunity to add positions in two broad areas: secular growth companies and inexpensive cyclical stocks.

Stocks tied to secular growth trends corrected sharply in the fourth quarter downturn, as some investors holding these stocks were forced to sell positions to de-leverage portfolios. This has created an unusual buying opportunity. For perspective, we find stocks tied to powerful secular growth themes such as the digitization of the global economy, trading at only 9x earnings before interest, taxes, depreciation and amortization (EBITDA).

At the margins, we also added to positions of cyclical companies where industry dynamics are creating greater pricing power, and consequently more earnings stability, than the market perceives. While such stocks may get punished in a risk-off environment, we will continue to use volatility as a buying opportunity, and focus on the long-term opportunities in front of these companies.

Top Contributors and Detractors for the Quarter Ended 12/31/18

Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
Ball Corp	3.17	0.53	Allergan PLC	4.64	-1.45
NRG Energy Inc	3.57	0.26	Citigroup Inc.	4.60	-1.41
Dell Technologies Inc Class V	0.00	0.12	PacWest Bancorp	3.15	-1.02
Collegium Pharmaceutical Inc	0.92	0.11	Summit Materials Inc	2.66	-0.88
Tractor Supply Co	0.00	0.07	Constellium NV	1.50	-0.82

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 recent publicly available disclosure period, contact 800.668.0434 or visit janushenderson.com/info.

Top Contributors

Ball Corp.: We believe the metal packaging company is benefiting from consolidation in the beverage packaging industry. Ball acquired a large competitor in that industry, which should lead to improved competitive dynamics and more rational pricing. We expect the newly combined company to delever quickly, transferring value to equity holders. We also believe demand for sustainable packaging solutions is a tailwind for Ball Corp., as its aluminum products are infinitely recyclable.

NRG Energy: NRG Energy owns and operates a diverse portfolio of power-generating facilities, primarily in the U.S. We think the wholesale energy provider should benefit as its business mix shifts from power generation to retail distribution. We also believe management's plan to cut costs and divest some businesses should help the company significantly grow free cash flow.

Dell Technologies: Dell Technologies was the tracking stock for Dell's interest in VMWare. We bought the stock with the belief its discount to economic value would close and that the management team would use the stock as a vehicle to bring Dell public this year. We exited the position upon completion of the initial public offering.

Collegium Pharmaceutical: Collegium is a specialty pharmaceutical company focused on responsible pain management. We like the potential of some of its abuse-deterrent pain medications, which we believe will take market share from OxyContin.

Tractor Supply Company: We think this operator of rural tractor and farm supply stores can add meaningfully to its square footage in the coming years, while growing same-store sales comps. As it grows, Tractor Supply should continue to gain economies of scale, especially over local farm cooperatives and feed stores, which should allow the company to increase revenues and expand margins. We sold the stock this period as it approached our valuation target.

Top Detractors

Allergan: We like the multi-specialty health care company's dominant market positions in medical aesthetics and ophthalmology, and like that many of its products have a high cash pay component, making them less subject to government reimbursement.

Citigroup: The global diversified financial services holding company's businesses provide consumers, corporations, governments and institutions with a broad range of financial products and services. We like the company's position as one of the few banks with a true global presence in financial centers, which makes it well positioned to facilitate the movement of cash around the world. We also feel the bank has a stronger capital position than the market realizes, and expect the bank to use that capital constructively in a less stringent regulatory environment.

PacWest Bancorp: We like the company's commercial focus as the industry goes through its digital transformation. Additionally, the company's cost structure and funding advantage enable it to generate top-quartile returns.

Summit Materials: The construction materials company sells aggregates, cement, ready-mix concrete, and asphalt paving mix in the U.S. and western Canada. We believe the company operates within a favorable industry structure, where a limited number of competitors in most geographies give it significant pricing power.

Constellium Holdco BV: Constellium is a downstream aluminum producer whose products are used in the packaging, aerospace and automotive markets. We expect growing demand for its products as the "lightweighting" of vehicles helps fuel efficiency and is also important for electric vehicles.

Discussion is based on the performance of Class I Shares.

As of 12/31/18 the top ten portfolio holdings of Janus Henderson Contrarian Fund are: Abbott Laboratories (6.32%), Alphabet Inc. (6.07%), TD Ameritrade Holding Corp (5.53%), Allergan PLC (4.56%), Vivendi SA (4.54%), Citigroup Inc. (4.52%), Ultimate Software Group Inc (4.49%), Intercontinental Exchange Inc (3.59%), NRG Energy Inc (3.50%) and Ball Corp (3.11%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

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.

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

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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