

Quarterly update and outlook

Overview

Global emerging market equities fell in the quarter. The markets of Brazil, Indonesia and Hungary were among the strongest while Pakistan, Colombia and Mexico were the weakest.

Fund performance

The Fund outperformed the MSCI Emerging Markets IndexSM.

Brazilian company Duratex contributed positively to relative performance over the quarter. Duratex manufactures and sells reconstituted wood panels and laminated floors through its wood products division, and bathroom fixtures and fittings through its Deca arm. The company's two controlling shareholder groups are owned by the Setubal, Villela and Seibel families who have focused on maintaining a conservative balance sheet so that the business may be able to ride out any economically induced storms. This conservatism allowed them to allocate capital and make acquisitions at attractive prices through the economic downturn in 2014 and 2015.

Banco Bradesco, a Brazilian private sector bank, also contributed. During the previous economic boom in Brazil, state-owned lenders participated in a lending glut which has left them with asset quality issues. Bradesco was more disciplined and we believe it now has the opportunity to take market share from state-owned competitors with relatively greater room for balance sheet expansion.

Uni-President Enterprises, a Taiwanese conglomerate with strong positions in the food, beverage and convenience store sectors, detracted from relative performance. Through their subsidiary Uni-President China, the company has expanded into mainland China, adapting to changing consumption trends by transitioning toward more premium offerings. Uni-President is a family-managed business and has a solid, long-term track record of delivery for shareholders.

Fomento Economico Mexicano (FEMSA), a Mexican multinational retail and beverage company, also detracted from relative performance. The business has evolved over the last decade from being a Mexican-focused brewer and Coca-Cola bottling franchise to now being dominated by OXXO, a convenience store chain. OXXO is one of the best run, in our view, and fastest growing retail franchises across the emerging markets.

Outlook

There has been no noticeable change in our investment outlook over the past quarter. We still view the valuations and growth expectations for many good-quality Asian companies as being too high. We do have to recognize, though, that there has been some tempering of expectations; however, a recent investment trip to India highlighted that – for absolute return-minded investors – opportunities in high-quality businesses in this market are hindered by starting valuations. There are some signs around the edges that the investment environment might become more challenging and provide an opportunity for long-term investors such as us. It is important to recognize that our aim is not to predict such events, but rather be in a position to be prepared to take advantage of any dislocation if it should occur.

Outside of Asia, particularly in Africa, valuations look more reasonable, as long as one is prepared to take a long-term view. As headwinds abate, many good-quality African businesses should return to growth and current valuations don't appear to reflect this. We have a slightly less sanguine view with regard to the opportunity in Brazilian equities following the rally in the local market after the election. Valuations appear fair, particularly given the inevitable social challenges that will accompany the new president's liberal economic agenda.

Finally, it is worth noting that as liquidity continues to be removed from the global financial system, there are some signs of sanity returning to the allocation of capital. We noted toward the end of last year, following a trip to China, the masses of rental bikes scattered everywhere, literally in large piles at the side of the road. This was a result of a number of companies competing against one another to be part of the "sharing economy." Recent news reports indicate cash flow problems and insufficient return on capital are forcing the founder of one of China's remaining bike-sharing platforms to consider bankruptcy. We believe that if such a shake-out occurs in these and other related areas that have put growth ahead of returns, it will remind investors of the value of those businesses who have allocated capital and managed their balance sheets sensibly.

Emerging Markets Fund

December 31, 2018

Top 5 Sectors			Top 10 holdings					
1.	Consumer Staples	40.1%	1.	Uni-President Enterprises	4.7%	6.	Heineken Holding N.V.	3.0%
2.	Financials	13.6%	2.	Tiger Brands Limited	4.4%	7.	Unilever PLC	2.9%
3.	Materials	10.9%	3.	Newcrest Mining Limited	3.7%	8.	LG Corp.	2.8%
4.	Information Technology	9.1%	4.	Fomento Economico Mexicano	3.4%	9.	Cia Cervecerias Unidas	2.7%
5.	Consumer Discretionary	6.6%	5.	Tata Consultancy Services	3.2%	10.	Cipla Limited	2.6%

Top Contributors and Detractors for the Quarter Ended 9/30/18					
Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
Duratex S.A.	1.59	0.73	Uni-President Enterprises	4.67	-0.64
Banco Bradesco S.A.	0.94	0.43	ASUSTeK Computer Inc.	1.58	-0.53
Newcrest Mining Limited	3.65	0.28	Uni-President China	2.20	-0.48
Pepkor Holdings Ltd.	1.20	0.23	Fomento Economico Mexicano	3.38	-0.45
Housing Development Finance	1.67	0.21	Cairn Energy PLC	0.73	-0.44

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.

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Past performance is no guarantee of future results. Call 800.668.0434 or visit janushenderson.com/performance for current month-end performance.

Discussion is based on the performance of the Fund's Class I Shares.

Holdings are subject to change without notice.

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Performance may be affected by risks that include those associated with non-diversification, portfolio turnover, short sales, potential conflicts of interest, foreign and emerging markets, initial public offerings (IPOs), high-yield and high-risk securities, undervalued, overlooked and smaller capitalization companies, real estate related securities including Real Estate Investment Trusts (REITs), derivatives, and commodity-linked investments. Each product has different risks. Please see the prospectus for more information about risks, holdings and other details.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

MSCI Emerging Markets IndexSM reflects the equity market performance of emerging markets.

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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