# European Focus Fund

December 31, 2018

## Quarterly update and outlook

### Overview

European equities, as measured by the MSCI Europe Index[SM], fell over the quarter.

### Fund performance

The Fund underperformed the MSCI Europe Index over the period.

Much of the discussion regarding market volatility in the fourth quarter was dominated by high profile, momentum-type stocks selling-off. The Fund was negatively affected by the harsh treatment, in our view, of so-called ‘risk’ assets – such as contrarian ideas or energy – as global macroeconomic fears picked up.

The significant collapse in the oil price resulted in Kosmos, Cairn and TransGlobe being among the Fund’s largest detractors. With the oil price weaponized by politicians, the direction of the oil price looks more difficult than ever to predict. Consequently, this plays little part in our thinking with regard to these companies. We believe each has fundamental attractions, whether that is Kosmos’ high-quality assets off West Africa or the potential resolution of Cairn’s dispute with Indian tax authorities that could release cash equivalents to the company’s current market capitalization. For these reasons, we continue to own the shares. While the oil price may be volatile, the investment theses behind the positions remain unchanged.

Renault also detracted from performance. Like other Renault shareholders, the allegations of financial impropriety leveled against Renault CEO Carlos Ghosn in Japan, relating to his role as Chairman of Nissan, took us by surprise. The subsequent fall in the share price was frustrating as we continue to view the company as undervalued. We remain owners of Renault, but have reduced our position size and are monitoring events closely.

The Fund’s most significant positive contributor was BT Group. The share price benefited from the appointment of a new CEO over the period as well as raised guidance from the company. The rally provided us with the opportunity to exit the stock in favor of new ideas.

One such new idea that has come into the Fund in the fourth quarter, and ended the quarter as a positive contributor, is Kering. Kering owns a number of strong luxury brands, most notably Gucci which has generated exceptional performance in recent years. The overall group has consistently expanded margins and grown returns on capital in recent years and we believe they are attractively positioned for the long term.

### Outlook

2018 was a frustrating and disappointing year from a performance perspective. While stylistically the market environment has been challenging for the Fund in recent years, ultimately stock selection and portfolio construction have not been good enough. We are endeavoring to improve returns for our clients and we believe the addition of Lars Dollmann as co-manager, and the work we have done on portfolio construction, puts us on strong footing as we move into 2019.

The year began with much optimism, but in the end it was undoubtedly a transition year for financial markets, away from the unusually benign investing conditions of the preceding years, to a more difficult and complicated environment. The most significant change investors were forced to confront was the ending of quantitative easing (QE). Given that this was an unparalleled experiment, we don’t really know how its ending will affect financial markets. Our view is still that it marks a regime change in financial markets, ushering in a more challenging environment of lower returns and higher volatility than enjoyed during the QE era. To some extent, we would see the market turbulence witnessed in 2018 as reflecting investors’ adjustment to this new world.

2019 begins with investors feeling gloomier; something we believe is well priced in to European equities. With investor expectations quite low, we believe there is greater potential for stocks to surprise on the upside and that there are opportunities out there for the stock picker.

In our opinion, what is likely to challenge markets in 2019 is an uncertain policy and political backdrop. The days of QE-becalmed financial markets appear to be over – volatility is back and we all have to adjust. We believe the heightened nervousness has generated a number of fresh investment candidates. We still maintain that the central philosophy of our Fund, focused stock-picking, provides the best recipe to navigate and extract gains for our clients. We are intent on improving our record and if this is allied with a weaker U.S. dollar, we are confident that 2019 could be a successful year.



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# European Focus Fund

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| Top 5 sectors | | % of Fund |
|---|---|---|
| 1. | Industrials | 16.0% |
| 2. | Health Care | 14.2% |
| 3. | Energy | 13.7% |
| 4. | Consumer Discretionary | 13.5% |
| 5. | Communications Services | 13.2% |

| Top 10 holdings | | % of Fund | | | % of Fund |
|---|---|---|---|---|---|
| 1. | Sanofi | 4.9% | 6. | Cairn Energy PLC | 3.9% |
| 2. | Kering SA | 4.9% | 7. | Rolls-Royce Holdings plc | 3.6% |
| 3. | Schibsted ASA | 4.8% | 8. | Intesa Sanpaolo S.p.A. | 3.6% |
| 4. | Kosmos Energy Ltd. | 4.3% | 9. | Air Liquide SA | 3.5% |
| 5. | Bayer AG | 4.0% | 10. | Rheinmetall AG | 3.4% |

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

| Top Contributors | Ending Weight (%) | Contribution (%) | Top Detractors | Ending Weight (%) | Contribution (%) |
|---|---|---|---|---|---|
| BT Group plc | 0.00 | 0.21 | Kosmos Energy Ltd. | 4.26 | -2.68 |
| Kering SA | 4.93 | 0.18 | Renault SA | 2.08 | -1.37 |
| Air Liquide SA | 3.54 | 0.07 | Cairn Energy PLC | 3.93 | -1.35 |
| Africa Energy Corp. | 0.28 | 0.02 | British American Tobacco | 3.33 | -1.08 |
| Savannah Petroleum Plc | 0.00 | 0.00 | TransGlobe Energy Corporation | 2.87 | -1.07 |

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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Janus Henderson INVESTORS

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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.

The opinions are as of 12/31/18 and are subject to change at any time due to changes in market or economic conditions. 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.

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**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 Europe Index**SM reflects the equity market performance of developed markets in Europe.

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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