2Q19 Portfolio Commentary

Janus Henderson INVESTORS

Forty Fund

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Investment Environment

Stocks gained ground in the second quarter, but were volatile. Resilient corporate profits and better-than-expected GDP growth drove stocks higher in April. Equities lost ground in May as setbacks in U.S.-China trade negotiations raised fears that trade tensions will further dent global economic growth. Economic data also pointed to a weakening global economy during the period. Stocks then rebounded in June, driven in part by expectations of more accommodative monetary policy from central banks. Several U.S. indices hit record highs during the period.

Performance Discussion

The Fund outperformed its primary benchmark, the Russell 1000® Growth Index, and also its secondary benchmark, the S&P 500® Index, during the period. As part of our investment strategy, we run a concentrated portfolio, the bulk of which includes companies that we believe have built clear, sustainable competitive moats around their businesses, which should help them grow market share within their respective industries over time. Important competitive advantages could include a strong brand, network effects from a product or service that would be hard for a competitor to replicate, a lower cost structure than competitors in the industry, a distribution advantage or patent protection over valuable intellectual property. We think emphasizing these sustainable competitive advantages can be a meaningful driver of outperformance over longer time horizons because the market often underestimates the duration of growth for these companies. This quarter many of the companies in our portfolio continued to put up impressive results and validated our view that they are well positioned to grow in excess of the market.

Microsoft was our top contributor. The stock was up after the company announced better-than-expected quarterly earnings results and offered a bullish outlook for fiscal year 2020. We've been impressed by the revenue growth of Microsoft's commercial cloud business, which is now growing 40% annually. Those figures speak to the growth potential for Microsoft as it and Amazon continue to lead the buildout of enterprise cloud infrastructure globally. As we note in our outlook, we believe companies are still in the early innings of this shift.

Walt Disney Productions also contributed meaningfully to Fund performance. The stock was up substantially after the company presented its pivot in strategy from offering content through the traditional cable bundle to the launch of its own direct-to-consumer content offering. We like the intellectual property from its legacy film franchises and brands, and like the potential for the company to further monetize this content through its own subscription service.

Highlights

- Stocks gained ground in the second quarter, but were volatile.
- The Fund outperformed its benchmark.
- Going forward, we like how our portfolio is positioned for the current market backdrop. We believe there is less economic sensitivity in our portfolio than the broader index.

Mastercard was another top contributor. The company is beginning to demonstrate how its business model can address business-to-business payment solutions. A decision by many upstart fintech companies to use Mastercard and Visa's payments networks – instead of competing against them – has also reinforced the durability of the two global card networks' values, and helped drive the stock's appreciation. Mastercard has been a longtime holding in our portfolio, and a large contributor to Fund performance over the years. Our basic view is that Mastercard's payments network among merchants is a competitive moat that positions the business as a key beneficiary as more transactions migrate from cash and check to plastic and electronic payments. We believe Mastercard is particularly well positioned to benefit from this shift because a majority of its revenues are generated outside the U.S., where many markets have a lower penetration of card and electronic payments, and are experiencing significantly faster electronic purchase volume growth.

While we were pleased with the results of many companies in our portfolio, we still held a few stocks that detracted from performance. Alphabet, the parent company of Google, was one of our largest detractors. The stock was down after the company announced that it missed expected revenue targets in the first quarter. Concern about regulatory pressure to clean up some content on its YouTube platform also weighed on the stock. We trimmed the position and are now modestly underweight the stock relative to the benchmark. However, we continue to hold Alphabet because we believe the Internet search engine leader is a key beneficiary from the secular shift toward mobile, video, programmatic and cross-device advertising. We also believe the company has a leading edge in technologies such as artificial intelligence and autonomous driving solutions, which will play a role in driving future growth.

Allergan was another detractor. We've been disappointed by what we view as several executional missteps by management that have weighed on the stock, and sold out of the position during the period.

Intuitive Surgical also detracted from Fund performance. The stock fell after the company announced expense growth above Wall Street forecasts. In short, the company will increase expenses to focus on building out the infrastructure to support the robotic products it manufactures that perform minimally invasive surgeries. While short-term investors may have been upset with the near-term hit to earnings growth, we applaud the long-term thinking from management, and continue to like the stock. Competing surgical systems are a couple years behind Intuitive in their development. We believe that provided Intuitive an opportunity to create a strong competitive moat around its business as hospital systems adopt their technology and doctors are trained on it, creating high switching costs to adopt a different technology. We believe any infrastructure spending to support this first-mover advantage will further entrench Intuitive as a beneficiary as more surgical procedures are conducted robotically.

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

Outlook

We acknowledge there are a few macroeconomic risks on the horizon. Geopolitical uncertainty could be a source of volatility in the coming months. So, too, could political rhetoric as the U.S. election season draws near. Meanwhile, the global economy has slowed, and while the U.S. economy remains on firm footing, we acknowledge we are late in the economic cycle. Despite these issues, we believe equities are fairly valued, particularly relative to fixed income.

While aware of the macroeconomic risks, it is not our primary focus. Our unwavering, long-term investment philosophy is that the market underestimates the duration of growth for companies that have built sustainable competitive advantages around their business. Inherent in that philosophy is a constant focus on assessing the competitive advantages our companies hold. In times of economic dislocation, these companies can often improve their strength by investing to extend their competitive advantages as competitors pull back. This is something we'll keep an eye on in the coming months.

Going forward, we like how our portfolio is positioned for the current market backdrop. We believe there is less economic sensitivity in our portfolio than the broader index. Many of our holdings underpin some of the most powerful secular growth themes in today's economy: the shift from traditional brick and mortar shopping to online spending, the switch of enterprise software from on-premises to the cloud, a proliferation of connected devices in the home and business, the shift in autos from the combustible engine to electronic vehicles and a growing global middle class, to name a few. We've mentioned these themes in prior quarters and while they are well known, they are still early in their development. We remain confident in our companies' ability to grow earnings as these themes progress, even in an environment of slow economic growth.

Top Contributors and Detractors for the Quarter Ended 6/30/19

Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
Microsoft Corp	7.55	0.98	Alphabet Inc	4.24	-0.52
Walt Disney Co	4.43	0.85	Allergan PLC	0.00	-0.41
Mastercard Inc	6.69	0.78	Intuitive Surgical Inc	2.95	-0.20
Harris Corp	2.99	0.47	salesforce.com Inc	3.99	-0.19
Intercontinental Exchange Inc	3.34	0.41	Humana Inc	0.00	-0.16

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.

For more information, please visit **janushenderson.com.**

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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 Class I Shares.

As of 6/30/19 the top five portfolio holdings of Janus Henderson Forty Fund are: Microsoft Corp (7.55%), Mastercard Inc (6.69%), Amazon.com Inc (4.69%), Walt Disney Co (4.43%) and Alphabet Inc (4.24%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 6/30/19 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 market risk and it is possible to lose money by investing. Investment return and value will fluctuate in response to issuer, political, market and economic developments, which can affect a single issuer, issuers within an industry, economic sector or geographic region, or the market as a whole.

Growth stocks are subject to increased risk of loss and price volatility and may not realize their perceived growth potential.

The fund is classified as "nondiversified", meaning it has the ability to take larger positions in a smaller number of issuers than a "diversified" fund. Nondiversified funds may experience greater price volatility.

Russell 1000® Growth Index reflects the performance of U.S. large-cap equities with higher price-to-book ratios and higher forecasted growth values.

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.

Janus Henderson Distributors

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