4Q18 Portfolio Commentary

Janus Henderson INVESTORS

Forty Fund

Doug Rao
Portfolio Manager

Nick Schommer, CFA
Portfolio Manager

Investment Environment

Equity markets were volatile and ended the period with sharp losses. 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 technology sectors were among the worst performers in the index during the quarter.

Performance Discussion

The Fund outperformed its primary benchmark, the Russell 1000® Growth Index, but underperformed its secondary benchmark, the S&P 500® Index, during the quarter. As part of our investment strategy, we seek companies that 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. Some of our top contributors to performance this quarter represent good examples of the types of competitive advantages we look for in our holdings.

American Tower REIT was our largest contributor. REITs and other defensive stocks generally performed better than the broader market during the quarter, but strong operating performance has also played a role in the stock's appreciation. Going forward, we like the growth opportunity in front of American Tower. The company owns and operates wireless and broadcast communications towers, and demand for its critical infrastructure should only grow as the population uses ever more data. Further, companies such as American Tower enjoy local monopolies of the land and towers they own, which should give them a high degree of pricing power as data demand grows.

Starbucks was another top contributor. Better-than-expected fourth quarter earnings and an analyst day that investors viewed positively were both catalysts for the stock. We continue to like the company and believe its global brand and network of stores are a competitive advantage as it sells a habitual product to consumers around the world.

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 outperformed its primary benchmark.
- We've used recent volatility as a buying opportunity, and selectively added to position sizes of several secular growth companies.

Merck was another stock that made meaningful contributions to Fund performance. During the period, the pharmaceutical giant reported positive earnings and revenue growth, driven in part by sales of Keytruda, a cancer-fighting immunotherapy. We believe Keytruda still has significant growth potential: In late summer, both the FDA and European Medicines Agency approved a combination treatment of Keytruda and chemotherapy to address non-small cell lung cancer. Late-stage clinical trials showed that this combination significantly improved overall survival for patients, reducing the risk of death by more than 50% compared to chemotherapy alone. In addition, Merck continues to research other indications for the drug and recently reported positive phase 3 trial results for Keytruda, in combination with chemotherapy, for the treatment of kidney cancer.

While pleased with the results of those contributors during the quarter, we still held stocks that produced disappointing results. Amazon was our largest detractor on an absolute basis. The stock was down after the company released earnings guidance below consensus estimates. International growth for the company has also slowed in recent months, but our general view on the stock hasn't changed. The company's scale and distribution advantage have entrenched it as the dominant e-commerce platform, which should allow it to continue gaining consumer wallet share as shopping gravitates to online and mobile purchases. Meanwhile, Amazon Web Services is revolutionizing the way companies utilize IT services, using its scale to offer a disruptive pricing model to businesses seeking IT functions in the cloud.

Nvidia was also a large detractor. The stock declined after the company reported earnings below consensus expectations. We continue to like the Nvidia's long-term outlook, however. The company is a leading supplier of graphics processing units (GPUs), which are at the forefront of accelerated computing, artificial intelligence and autonomous driving. We like the company's growth potential as these secular themes push forward.

Mastercard also detracted. Concerns about the global economy weighed on the stock, as the company has exposure to European consumers. However, we believe the long-term secular tailwinds and competitive advantages underpinning our investment thesis on the company remain intact. Our long-term view is that there are network effects supporting established payments businesses such as Mastercard, and that the company is poised to benefit as consumers and businesses switch 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.

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

Outlook

While global economic growth is slowing, 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. This is particularly true for stocks tied to many secular growth trends, which sold off more sharply as some investors holding these stocks were forced to sell positions to deleverage portfolios. We've used that volatility as a buying opportunity, and selectively added to position sizes of several secular growth companies.

In prior commentaries, we've mentioned some of the secular trends represented in our portfolio: 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. While many of these themes are well known, they are still nascent in their development, and should continue to push forward regardless of the economic backdrop. We remain focused on our companies' long-term growth potential as these themes progress.

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

Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
American Tower Corp	3.30	0.28	Amazon.com, Inc.	5.23	-1.55
Starbucks Corporation	2.09	0.22	NVIDIA Corp	1.57	-1.17
Merck & Co., Inc.	2.15	0.14	Mastercard Incorporated	5.74	-0.95
Abbott Laboratories	1.12	0.05	Apple Inc.	1.43	-0.92
Intercontinental Exchange Inc	3.51	0.03	Alphabet Inc.	7.22	-0.80

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

American Tower REIT: American Tower owns wireless communications and broadcast towers in the U.S. and internationally. The company leases antenna sites on multitenant towers to communications service providers for mobile voice and data communications. We expect mobile traffic growth and the rollout of 5G services to boost wireless network spending, which, in turn, should spur demand for tower tenancy, as well as additional towers. We also like that a large percentage of American Tower's revenue is generated internationally, where rapid growth in low-priced Android smartphones should drive significant mobile data and therefore tower demand.

Starbucks: The coffee retailer is a global brand, selling a habitual product, and we believe the company has a sustainable margin profile. Given these characteristics, we believe the stock trades at an attractive multiple relative to the market. Going forward, we like the potential for Starbucks to grow earnings per share and return cash to shareholders.

Merck & Co.: The pharmaceutical company is benefiting from the rapid sales growth of Keytruda, a leading checkpoint inhibitor for the treatment of certain cancers, including melanoma and non-small cell lung cancer. We believe Merck is well positioned to expand Keytruda for other indications in the near future. We also like the management team, which has executed clinical trials well.

Abbott Labs: The health care company's products include established pharmaceutical, nutritional, diagnostic and vascular products. We feel the market is underestimating the company's established pharmaceutical portfolio, which has low threats from generics and generally operates in markets with few competitors. More broadly, we think all four of the company's divisions will benefit from a heightened focus on return on investment, with specific goals and detailed forecasting.

Intercontinental Exchange: Operating a network of regulated exchanges and clearinghouses for financial and commodity markets, the company delivers data, technology and risk-management services to markets through its portfolio of exchanges including the New York Stock Exchange (NYSE), ICE Futures, Liffe and Euronext. Along with strong competitive advantages and an ability to generate cash flows beyond what it is needed for organic growth, Intercontinental Exchange (ICE) should benefit from regulatory, capital and market pressures toward centralized clearing and trading. We also believe the company will see increased trading volumes as the result of more volatile interest rates as compared with recent years and increased activity by investors and corporations. Additionally, we appreciate the company's strong and entrepreneurial CEO.

Top Detractors

Amazon: The online retailer offers a wide range of products, including books, music, computers, electronics, home and garden, and numerous other items. Amazon offers personalized shopping services, web-based credit card payment and direct shipping to customers. We believe the company's competitive advantages of a low overhead cost structure, allowing an aggressive pricing structure, and faster shipping will cause consumers to shift an increasing amount of their general merchandise spending toward it. Given that a large portion of retail sales are still sold offline, we believe Amazon has significant opportunities ahead, particularly as they expand into new business lines and geographies.

Nvidia Corp.: Nvidia is the leader in graphics processing units (GPUs). GPUs have historically been PC and gaming centric, but we like their growth potential as GPUs are increasingly used in emerging applications that require high levels of parallel processing such as data center acceleration and autonomous driving.

Mastercard: The global card payment network connects consumers, financial institutions, merchants, governments and businesses, enabling them to use electronic forms of payment instead of cash and checks. We like Mastercard for its high return on invested capital business and growth potential as well as its strong balance sheet and quality management team. A majority of its revenues are generated outside the U.S., where many markets have a lower penetration of cards/electronic payments and are experiencing significantly faster electronic purchase volume growth.

Apple: We have some exposure to Apple, but are underweight the stock relative to our index because we're less optimistic about its long-term earnings potential after the iPhone 8 and iPhone X product cycle.

Alphabet: We believe the Internet search engine leader, which was formerly known as Google, is well positioned with a resilient core search business and optionality around YouTube, Waymo, cloud computing and hardware. The company is also benefiting from the secular shift toward mobile, video, programmatic and cross-device advertising.

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

Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus Henderson at 800.668.0434 or download the file from janushenderson.com/info. Read it carefully before you invest or send money.

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 12/31/18 the top five portfolio holdings of Janus Henderson Forty Fund are: Alphabet Inc. (7.21%), Microsoft Corporation (6.37%), Mastercard Incorporated (5.74%), Amazon.com, Inc. (5.23%) and salesforce.com Inc (4.93%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 12/31/18 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.

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.

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

C-1218-21867 04-15-19

188-42-16700 01/19