4Q18 Portfolio Commentary

Janus Henderson INVESTORS

# Global Value Fund

## Performance Review

For the quarter, the Janus Henderson Global Value Fund outperformed its primary benchmark, the MSCI World Index℠, and its secondary benchmark, the MSCI All Country World Index℠. During the fourth quarter, economically sensitive sectors have been increasingly under pressure owing to escalating political tension and decelerating economic indicators in most parts of the world. Particularly noteworthy, this pressure has spread to U.S. financial markets, which had generally spent most of the year significantly outperforming global peers. As a result, our defensive strategy had stronger relative performance, as we would anticipate in a period of elevated market stress. In fact, the Fund's outperformance during the quarter was significant enough that it achieved a better return than both of its benchmarks for the full year. Despite the recent market weakness, we are generally skeptical that this recent sell-off has generated significant bargain opportunities.

Our holdings in consumer staples and technology aided relative performance. From a geographic perspective, our holdings in the U.S. and Switzerland contributed to results. Our holdings in industrials as well as our underweight and holdings in real estate hurt results. Our holdings in Mexico and Ireland detracted. Our cash weighting was a relative contributor in the period.

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

## Outlook and Positioning

Global equity markets unraveled in the fourth quarter with the first notable weakness sustained in U.S. equity markets in some time, and our defensive positioning allowed for meaningful outperformance. Investors appear increasingly anxious about a multitude of economic risks, including weak global growth (especially out of China and Europe), simmering global trade tensions and tariff fears, rising interest rates in the U.S. and the sustainability of FAANG (Facebook, Apple, Amazon, Netflix and Google) business models and share price performance. While the U.S. still outperformed most major global equity markets for the full year, uncertainty is clearly elevated and sentiment more muted. While many investors advocate strategies such as "buy the dips," we remain highly cautious as we examine each of these risk factors in turn.

As far as global growth, economic indicators are deteriorating with slower manufacturing data out of Europe, Japan and, perhaps most importantly, China. In the case of the latter, investors are understandably assessing the ability of the Chinese state to sustain growth as its debt-laden

### Highlights

- Financial markets across the globe appear increasingly nervous about future economic growth and are discounting less-bullish scenarios.
- Trade tensions appear to be impacting global economic performance.
- Downside risks for stocks remain significant, in our view.


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Portfolio Manager



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Portfolio Manager

stimulus measures show increasingly marginal impacts. The situation in Europe also instills little confidence given widespread political turmoil: Brexit chaos, Italian budget conflict, political fragmentation in Germany and angry protests in France.

Perhaps more troubling and difficult to quantify are the impacts of trade tensions, especially between the world's two largest economies: China and the U.S. While negotiations between them are ongoing, rhetoric is increasingly bellicose. The prospect of meaningful disengagement between the parties is a credible threat, and it represents an obvious headwind to the global economy.

Amid this backdrop, the Federal Reserve (Fed) has raised interest rates for five consecutive quarters, indicating far less accommodative policy. Notably, rising rates will have a cooling effect on the economy as borrowing costs for corporations and individuals rise and discount rates for asset prices increase. In startling breaks with protocol, President Trump has actively criticized Fed Chairman Jerome Powell, inviting concern (which we share) about the independence of the Fed and smooth functioning of the U.S. financial system. While we generally embrace a normalizing of interest rates, we feel that further hikes should only be made with great caution given the risks.

Lastly, it seems warranted to comment on the performance of the U.S. tech sector, which has been a huge driver of returns in 2017 and 2018, and accounts for increasingly large portions of global benchmarks. We question the extent to which investors may be lured into a false sense of security by investing in expensive technology stocks that remain both sensitive to economic cycles, but also face significant regulatory and other business model risk over factors such as privacy and how customer data is used.

Despite an expanded opportunity set as the market has sold off, we remain deeply cautious about altering our portfolio positioning and would anticipate any meaningful pivots to be gradual. Nevertheless, we are carefully examining out-of-favor areas such as financials, technology and automotive, as well as our typical "off the beaten path" securities. Our emphasis on mitigating downside risks, quality balance sheets and enduring competitive advantages remain as critical as ever.

One new position was established in the quarter: a U.S.-listed Indian IT outsourcer. We exited our holdings in Kitagawa Industries, Rogers Communications and SECOM. We continue to hold a portion of the portfolio in cash (though the level has declined), as we seek to exercise sell discipline with stocks that reach our price targets and amid a dearth of what we believe to be bargain securities in the market.

Thank you for your investment and continued confidence in Perkins Investment Management.

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

| Top Contributors | Ending Weight (%) | Contribution (%) | Top Detractors | Ending Weight (%) | Contribution (%) |
|---|---|---|---|---|---|
| Kitagawa Industries | 0.00 | 0.62 | Alphabet Inc. | 4.04 | -0.58 |
| The Procter & Gamble Company | 3.88 | 0.36 | Oracle Corporation | 4.15 | -0.52 |
| The Coca-Cola Company | 3.25 | 0.10 | Wells Fargo & Company | 3.97 | -0.45 |
| Kangwon Land, Inc. | 0.76 | 0.09 | BAE Systems plc | 1.20 | -0.37 |
| Exelon Corporation | 1.80 | 0.06 | Yahoo Japan Corporation | 0.91 | -0.34 |

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

**Kitagawa Industries:** Kitagawa Industries is a Japan-based supplier of a variety of components for the electronic industry. In November, the company agreed to be acquired in a cash deal at a 162% premium. Management, which controls the company via their large equity ownership, was able to extract a solid valuation for their operations in the transaction. We subsequently exited our holding.

**The Procter & Gamble Company:** Procter & Gamble is a global leader in consumer goods with 23 brands that each has more than $1 billion annual revenue, including Pampers, Tide, Pantene, Gillette, Crest and Braun. The company reported a solid quarter with organic sales up 4%, the best since 2014, driven by premium innovation in the Beauty division, and announced a new organization structure that will give more end-to-end responsibility to brand managers. Note the continued

### Top Detractors

**Alphabet Inc.:** Alphabet is the dominant Internet search provider and has used its large search share across geographies to have a dominant position in digital advertising. The company is a primary beneficiary of the secular shift to online advertising as consumers spend more time on digital platforms than traditional ones such as TV and print. The company remains focused on innovation across its businesses, which helps sustain consistent high growth. Alphabet has a deep moat that is protected by the first mover advantage, technology innovations, patents and mindshare with advertising partners. The stock came under pressure following a slight revenue miss last quarter and negative sentiment toward FAANG stocks due to growth and regulation concerns. We continue to hold our position.

## Top Contributors (continued)

involvement of Nelson Peltz, an activist and board member since early 2018, who owns approximately 1.5% of outstanding shares. There could be upside if the company can reinvigorate its innovation efforts and break from its insular culture. We continue to hold the stock and believe that investors may benefit from Peltz being on the board of directors.

**The Coca-Cola Company:** The Coca-Cola Company has the number one global market share for carbonated soft drinks, led by strong brands Coke and Diet Coke. It also sells Powerade, Dasani water, Minute Maid orange juice and Fanta. Coca-Cola reported strong earnings in the September quarter based on organic sales up 6%, being better than expected due to strength in Europe and Latin America, while the U.S. lagged. Importantly, volumes were positive as innovation in smaller container sizes and line extensions took hold. The company also reiterated guidance and took a price increase to help offset higher transportation costs. Coca-Cola continues to look to invest in other beverage companies in order to boost volumes through their extensive global distribution network. We continue to hold our position.

## Top Detractors (continued)

**Oracle Corporation:** Oracle is a global technology company that specializes in database, middleware and application software. The company also provides cloud computing services via the Oracle Cloud. The stock was under pressure during the quarter due to a broad-based sell-off in technology stocks despite quarterly revenue and earnings per share beating consensus expectations. We continue to hold our position given the stock's attractive valuation.

**Wells Fargo & Company:** Wells Fargo underperformed in the fourth quarter due to a broad-based sell-off in large-cap banks and the failure to resolve regulatory and compliance issues that would have lifted the asset cap enforced by the Fed. In addition to macroeconomic concerns around interest rates and a flat/inverted yield curve, Wells Fargo's past regulatory issues are limiting balance sheet growth. However, Wells Fargo management remains committed to long-term guidance.

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

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**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 ten portfolio holdings of Janus Henderson Global Value Fund are: Pfizer Inc (4.53%), Johnson & Johnson (4.41%), Oracle Corporation (4.15%), Alphabet Inc (4.04%), Wells Fargo & Company (3.97%), The Procter & Gamble Company (3.88%), The Coca-Cola Company (3.26%), PepsiCo Inc (2.83%), Sanofi (2.52%) and RenaissanceRe Holdings Ltd. (2.33%). 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.**

**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.**

**Holding a meaningful portion of assets in cash or cash equivalents may negatively affect performance.**

**MSCI World Index℠** reflects the equity market performance of global developed markets.

**MSCI All Country World Index℠** reflects the equity market performance of global developed and 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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