

## Small Cap Value Fund

### Market Environment

This has been one of the most challenging market environments we've witnessed in the past decade. Market sentiment has been a roller coaster – dependent on the latest tweet, trade rumor, central bank action or economic data point.

We have seen an increasing number of challenges related to the equity market: a deceleration of earnings growth, the flattening/inversion of the yield curve, softer macro-economic data (i.e., ISM manufacturing contraction, railcar loadings), negative interest rates around the globe and the looming election in the U.S.

In general, balance sheets remained stretched, and approximately 30% of the companies within our benchmark continue to be unprofitable – both negatives at this point in the economic cycle.

As risks continue to build, we continue to focus our research on individual equities whose stock prices already reflect some of the potential difficulties.

### Performance Summary

The portfolio outperformed the Russell 2000® Value Index for the quarter ending September 30, 2019. Relative outperformance was driven by strong stock selection, particularly in financials, materials and industrials.



For detailed performance information, please visit [janushenderson.com/performance](http://janushenderson.com/performance).

### Portfolio Discussion

Volatility in the markets historically provides us with the opportunity to establish positions in new investment ideas and add to existing positions at attractive prices. This quarter's volatility did just that as we established new positions within the technology, consumer discretionary, real estate and materials groups.

Overweight sectors remain consumer staples, industrials, materials and financials. We believe our bank holdings are pricing in more economic risk than other cyclical areas, and as such we remain slightly overweight banks, despite the known headwinds. Within our industrials, we believe we own a collection of high-quality companies that are, as a whole, less cyclical than the benchmark. However, we have trimmed our weight within the group on less attractive reward/risk ratios.

Our underweights remain consistent with past quarters, including communication services, energy, health care, technology, utilities and consumer discretionary. While we continue to see some opportunities and have recently increased our weight in the consumer discretionary sector, we remain focused on companies with strong balance sheets that generate free cash flow and are not in direct competition with online retailers.

We remain underweight technology as we believe there is earnings risk that is not reflected at current prices. As we added new technology names to the portfolio, we also exited several others due to valuation. We remain underweight health care as many of the companies do not meet our investment criteria (e.g., biotech) or have lofty

## Small Cap Value Fund (quarter ended 9/30/19)

valuations. Additionally, despite continued underperformance for the energy sector, we remain underweight due to a lack of quality names within the group.

Stock selection was the dominant driver of outperformance in the quarter, particularly in financials with our top insurance holdings including Hanover outperforming as pricing improved and the U.S. impact from Hurricane Dorian was muted. Our overweight position within insurance also proved beneficial. In materials, NewMarket gained after posting margin expansion due to lower input costs. Our more defensively oriented

industrials such as Generac and UniFirst also performed. Underweights in both energy and health care further aided returns.

While we were pleased with overall performance, some positioning did detract. Underweights in information technology and utilities held back relative results given the sectors' relatively strong performance. Stock selection in health care also detracted, largely due to a position in Phibro Animal Health, which weighed on absolute returns.

Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
Cedar Fair LP	2.69	0.60	Phibro Animal Health Corp	0.76	-0.30
NewMarket Corp	1.75	0.32	Apergy Corp	1.37	-0.28
Generac Holdings Inc	1.82	0.23	Cadence BanCorp	2.17	-0.27
Sun Communities Inc	0.76	0.20	Mammoth Energy Services Inc	0.01	-0.21
Ingles Markets Inc	0.58	0.18	Delek US Holdings Inc	1.60	-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](http://janushenderson.com/info).

### Manager Outlook

While absolute valuations for small-cap companies are not cheap, the relative valuation between small-cap and large-cap companies is increasingly attractive. As such we have been both beginning new positions and adding to existing names at the smaller end of the market cap range. During the quarter, we initiated six new positions with market caps below \$2.5 billion.

In our view, volatility will likely continue for many of the reasons we outlined earlier – concerns aren't going away anytime soon. With markets still near all-time highs, it's important to be in a position to protect gains if the market hits a difficult period. Regarding the benchmark, we believe the recent rebalance of the index added risk as volatility, leverage and the percentage of money losers within the index all increased. Thus, it remains as important as ever to look different than our benchmark. At Perkins, we continue to focus on companies that are temporarily out of favor, but have solid balance sheets and generate free cash flow. Our emphasis on higher-quality companies was showcased during the volatile August period, where we posted strong relative performance. While there remains a measure of uncertainty in the broader market, we have constructed a portfolio that is different than the index and that we believe should perform in a variety of economic and market scenarios.

Thank you for your co-investment in the Small Cap Value Strategy/Fund.

### Portfolio Management

Sub-advised by Perkins®  
Investment Management LLC



Justin Tugman, CFA



Craig Kempler, CFA

For more information, please visit [janushenderson.com](http://janushenderson.com).

**Janus Henderson**  
INVESTORS

**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](http://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](http://janushenderson.com/performance) for current month-end performance.

Discussion is based on the performance of Class I Shares.

As of 9/30/19 the top ten portfolio holdings of Janus Henderson Small Cap Value Fund are: UniFirst Corp/MA (3.27%), Hanover Insurance Group Inc (2.89%), Cedar Fair LP (2.70%), Nomad Foods Ltd (2.37%), Equity Commonwealth (2.36%), Atlantic Union Bankshares Corp (2.20%), Cadence BanCorp (2.17%), STAG Industrial Inc (2.17%), Argo Group International Holdings Ltd (2.11%) and Black Hills Corp (2.10%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 9/30/19 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.**

**Smaller capitalization securities may be less stable and more susceptible to adverse developments, and may be more volatile and less liquid than larger capitalization securities.**

**Value stocks can continue to be undervalued by the market for long periods of time and may not appreciate to the extent expected.**

**Concentrated investments in a single sector, industry or region will be more susceptible to factors affecting that group and may be more volatile than less concentrated investments or the market as a whole.**

**Russell 2000® Value Index** reflects the performance of U.S. small-cap equities with lower price-to-book ratios and lower forecasted growth values.

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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