

## Venture Fund

### Investment Environment

Equity markets were volatile and ended the period with some major indices in or near correction territory. Fears of slowing global economic growth, rising trade tensions between the U.S. and China, and continued increases in the fed funds rate all played a role in driving stocks lower. The energy and materials sectors were among the worst performers in the index during the quarter.

### Performance Discussion

The Fund outperformed its primary benchmark, the Russell 2000<sup>®</sup> Growth Index, and underperformed its secondary benchmark, the Russell 2000<sup>®</sup> Index. Strong stock selection in the consumer discretionary sector was a large driver within the sector. Two consumer discretionary holdings, K12 and Landcadia, were among the Fund's largest contributors to absolute performance.

K12 provides education curriculum for charter schools and home schooled parents. Our thesis has been that the company could improve profitability as it takes steps to increase retention rates within its charter schools. That thesis is starting to play out and improving net enrollment metrics helped drive the stock this quarter.

Landcadia acquired Waitr, a platform for online ordering and delivery from local restaurants, and changed its name to Waitr during the quarter. The stock was up soon after the acquisition. We continue to like the stock. By focusing its platform on rural areas in the Southeast, we believe Waitr has carved out a niche market for its services where other food delivery companies don't typically operate. We expect the company to grow earnings as more consumers become familiar with its services and networking effects of signing up more restaurants and consumers take hold.

Euronet Worldwide also contributed. The stock was up after the company confirmed that Visa will allow dynamic currency conversions on international ATM transactions beginning in April, a move that will allow ATM operators such as Euronet an opportunity to offer conversion services to all international ATM transactions on Visa-branded cards around the world. The company estimates the change could boost 2019 earnings by as much as 10%. We continue to like the recurring revenue streams associated with Euronet's ATM business, and like that it has a market leading position in Europe.

While we outperformed the market on a relative basis, in a sharp down market we also held stocks that detracted from absolute performance. Belden CDT was our largest detractor. Industrial stocks such as Belden sold off broadly in the quarter due to concerns about slowing economic growth. Belden's stock dipped further after an announcement the Securities and

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### Highlights

- Equity markets were volatile and ended the period with some major indices in or near correction territory.
- The Fund outperformed its primary benchmark during the quarter.
- Heading into the quarter, we believed small-cap stocks were due for a correction, but also believe the recent sell-off was overdone.



Jonathan D. Coleman, CFA  
Portfolio Manager

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# 4Q18 Portfolio Commentary

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Exchange Commission (SEC) was investigating the company over how it recognized revenue in one business unit. The company had already announced the accounting issue, and we believe the stock price reaction to the news about the SEC investigation was overdone. We continue to hold the stock, and believe connector and component suppliers such as Belden serve attractive end markets that are growing content in a number of industrial products.

Catalent was another detractor. Stock of the outsourced pharmaceutical manufacturer was down in part because it experienced a shortage of some of the materials required to make its soft-gel tablets. This caused at least one drug company to shift more production to non-gel forms of their drug. While disappointing, we view this as a transitory issue, and continue to hold the stock. We believe Catalent represents a less-risky way to invest in the innovation taking place in the biotechnology and pharmaceutical industries. Catalent benefits from overall industry innovation due to

increasing volumes and more advanced dosage forms, but due to significant diversification, the company is not overly impacted if a clinical trial for a particular drug fails. We also like that its earnings streams are relatively insulated once a drug gains FDA approval: biotech and pharmaceutical companies don't often change manufacturing partners because it requires bringing the drug back through the FDA approval process.

Blackbaud also detracted during the quarter. The stock was down after the company lowered earnings guidance for the next year, but we continue to like the company's longer-term growth potential. Blackbaud provides technology solutions designed to improve fundraising efforts for nonprofit companies. Fundraising is the lifeblood of the nonprofit industry, but many nonprofits have been slow to integrate technology into their fundraising process, creating a potentially large addressable market for Blackbaud in the coming years.

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

## Outlook

For several quarters we have warned that the market was overlooking risks on the horizon, and that small-cap valuations looked excessive against a backdrop of rising interest rates and potentially slowing global growth. Given those views, we expected a correction at some point. However, we believe the sharp reversal in stocks this quarter was overdone.

As the quarter was coming to a close, stocks were on pace for their worst December since the Great Depression. Quarterly returns also represented some of the steepest fourth quarter losses ever experienced, nearing the loss levels experienced in the years of the Great Depression, the year Pearl Harbor was bombed and the Arab Oil Embargo of 1973. The market and macroeconomic backdrop doesn't look nearly as bad as it did during any of those events.

While trade tensions between the U.S. and China are unpredictable, and are indeed a real threat to global growth, many stocks are already pricing in a recession. We believe that outcome is far from certain. The U.S. and China could still resolve trade issues. Further, a bottom-up view from the companies we speak with also suggests a more stable economy than the recent downturn implies. We recently attended a large annual investor conference for small-cap companies, and the outlook from executives was broadly positive.

In earnings calls and follow-up meetings with industrial companies, management teams continue to report strong demand in most end markets. This includes end markets such as plastics, which are generally a good leading indicator for the industrial economy. Similarly, other leading

economic indicators such as the architectural billings index have shown resilience in the face of broad-based fears of a slowdown.

We generally focus our efforts on finding undervalued growth stocks, not on macroeconomic predictions, but given what we hear from U.S. companies, we believe mild or slow economic growth is a reasonable expectation going forward. And after the recent sell-off, we're finding an increasing number of attractively valued stocks that could do well in a slow-growth economy.

We believe the market has taken an undiscerning view among small-cap industrial stocks, selling nearly everything in the sector due to economic fears. Within the sector, we find opportunity in companies with strong aftermarket businesses or other recurring revenue business models that make their earnings streams more durable than current stock prices suggest. We are also finding attractively valued industrial companies in which management teams have deployed technology to improve margins or used historically low rates to improve their debt profile.

Outside the industrial sector, we find stock-specific opportunities in which an overly pessimistic market views even positive events through a negative lens. For example, we've seen small-cap biotech stocks retreat after the announcement of a positive clinical outcome or FDA approval of a drug. In those cases the stock has traded down because the market was taking a narrow, near-term focus on the company needing to raise capital to commercialize its drug, rather than a positive long-term view on what an innovative therapy might mean for the company's earnings streams.

We're happy to take a longer-term view with these stocks, and believe near-term fears will provide long-term opportunities.

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

Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
K12 Inc	0.89	0.20	Belden Inc	1.07	-0.59
Landcadia Holdings	0.00	0.12	Catalent Inc	1.78	-0.59
Lovesac Co	0.72	0.09	Blackbaud Inc	1.25	-0.53
Euronet Worldwide Inc	1.85	0.05	Ligand Pharmaceuticals Inc	0.65	-0.52
Instructure Inc	0.69	0.03	WEX Inc	1.12	-0.47

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).

### Top Contributors

**K12:** K12 is a technology-based education company providing curriculum, software systems and educational services designed to facilitate individualized learning for home school and charter school students. We like the strategy the company is taking to improve retention rates for its programs, which would have a strong impact on the company's profitability.

**Landcadia Holdings:** The special-purpose acquisition company acquired Waitr during the quarter, and subsequently changed its name to the acquired company. Waitr is an app-based restaurant platform that connects restaurants and guests. We believe Waitr is carving out a niche market in rural areas, where other online menu platforms don't compete, and see a long runway for growth as Waitr becomes familiar with more customers and improves the take rate it receives from local restaurants using the platform.

**Lovesac Company:** Lovesac is a direct-to-consumer specialty furniture brand with a limited number of retail showrooms supporting its e-commerce delivery model. We like the low-cost model of growing the brand without a heavy, expensive brick-and-mortar presence. We also like the company's incredibly efficient ordering system, and believe its sectional couches are a unique product that encourage consumers to buy more Lovesac furniture over time.

**Euronet Worldwide:** Euronet offers transaction processing and distribution solutions to financial institutions, retailers, service providers and individual consumers. We like the company for its distinct growth platforms in money transfer, prepaid and mobile, along with its recurring revenues and growth opportunities. We believe Euronet also has an attractive ATM outsourcing business with market-leading positions in Europe.

**Instructure:** Instructure owns and operates a cloud-based learning management platform for academic institutions and companies that helps students, teachers and employees achieve their educational goals. We believe its learning management software enjoys a favorable competitive position in the higher education arena, and that its software also has potential to gain market share and disrupt incumbents in the corporate learning environment. We also like the recurring revenue streams associated with the business model.

### Top Detractors

**Belden:** The supplier of cables, connectors and networking equipment serves industrial, broadcast and enterprise information technology end markets. We believe management will continue to focus its product portfolio toward its higher-quality connector and networking products, and away from its legacy cable products, which have less pricing power. We also expect management will create value through acquisitions to improve its product portfolio and will drive productivity improvements to boost margins and returns on invested capital. Finally, we appreciate that Belden serves large and growing markets and should benefit longer term from the Internet of Things (IoT), or the increasing connectivity of electronic devices.

**Catalent:** The company provides manufacturing and development services for global pharmaceuticals, biotech and consumer health companies. Its core differentiator is its expertise – and intellectual property – around dosage forms. The company is the worldwide leader in the production of soft-gel tablets. We like that the company enjoys significant barriers to entry and is typically named in its customers' regulatory filings. These relationships are approved by regulators and any cessation would require additional regulatory scrutiny, thus creating a level of stickiness to its customer base. We also like that over half of the company's revenue is tied to long-term contracts.

**Blackbaud:** Blackbaud provides software solutions to the nonprofit industry. We believe the software company has long-duration growth potential as it penetrates the not-for-profit market, which has long been underserved. We also believe the company's Software as a Service business creates attractive recurring revenues.

**Ligand Pharmaceuticals:** Ligand Pharmaceuticals is a biopharmaceutical company that develops and acquires technologies that help pharmaceutical companies discover and develop medicines, and also creates technologies that make drugs more soluble. We believe companies such as Ligand represent a good way to invest in biotech innovation; unlike a small-cap biotech company that is dependent on a few clinical drugs under development, Ligand benefits as multiple innovative treatments proliferate and use its technology.

**WEX Inc.:** WEX provides payment processing and information management services to vehicle fleets. We believe that WEX has earned its leading market share position through differentiated back-end reporting, bill pay consolidation features and complex analytics. In

## Top Detractors (continued)

addition, we estimate that it would take significant effort for competitors to achieve similar transaction fees. We also like the company's strong customer retention, international expansion and potential for growth into other verticals.

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

Discussion is based on the performance of Class I Shares.

Closed to certain new investors.

As of 12/31/18 the top ten portfolio holdings of Janus Henderson Venture Fund are: Nice Ltd (ADR) (2.40%), HEICO Corp (2.23%), SS&C Technologies Holdings Inc (2.19%), STERIS PLC (2.06%), LPL Financial Holdings Inc (1.87%), Euronet Worldwide Inc (1.85%), ServiceMaster Global Holdings Inc (1.80%), Catalent Inc (1.78%), j2 Global Inc (1.55%) and Broadridge Financial Solutions Inc (1.53%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

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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.**

**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.**

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

**Russell 2000® Index** reflects the performance of U.S. small-cap equities.

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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