4Q19
U.S. Equity

PORTFOLIO COMMENTARY

Geneva Small Cap Growth Managed Account

Market Environment

- While fourth quarter market performance was strong and broad-based, it mainly was driven by lower-quality factors.
- This low-quality bias was especially apparent when comparing the stock-level performance based on Standard & Poor's quality ratings. Overall, high-quality companies (those rated B+ or better) returned less than low-quality (those rated B or worse), and C and D rated companies were up strongly versus A+ rated companies.
- At the index level, the data was much the same; within the small-cap growth universe, the Russell 2000® Growth Index, high-beta companies and nonearners outperformed the lowest-beta stocks and those with the highest price-to-earnings ratios.

Performance Summary

For the quarter ending December 31, 2019, the Geneva Small Cap Growth Strategy underperformed its benchmark, the Russell 2000 Growth Index. Given the strength of lower-quality assets during the quarter, our strategies, while generating solid absolute returns, struggled on a relative basis.

For more information, please visit janushenderson.com/managedaccounts.

Portfolio Discussion

At the sector level, holdings in health care, consumer discretionary and materials and processing detracted. At the stock level, Vocera Communications led detractors. Vocera reported an in-line quarter, but guidance was taken down and early indications for 2020 were below expectations. The issue appears to be the elongating sales cycle; enterprise deals are good for the business but make the process longer. Market commentary indicated the largest pipeline ever and good win rates.

Blackbaud also detracted. The software company reported quarterly revenue and earnings that beat expectations and reaffirmed full-year guidance. However, margins compressed given investments in the business, and shares reacted negatively.

Supernus Pharmaceuticals detracted when it reported quarterly earnings that missed expectations, but the more significant news was the failure of the Phase III clinical trial of SPN-810, a treatment for impulsive aggression in patients with ADHD. The study revealed patients receiving SPN-810 did not show a statistically significant improvement versus those receiving the placebo.

Contributors at the sector level included our holdings in technology and financial services. At the stock level, medical solutions company Tactile Systems aided performance after reporting strong earnings results. Management raised fiscal-year guidance, and the company continued to grow. While questions arose on an implied fourth quarter deceleration (the company does not guide quarterly) management doesn’t expect the business to decelerate and is preparing for growth in its treatment for head and neck swelling and for an Air.Wear commercial launch next year.

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Fair Isaac Corp. also contributed to returns. The data analytics company reported a strong quarter that beat expectations across the board. The 2020 guidance was basically in line with consensus, but not baking in any price increases in its credit scoring segment, which should provide upside as management has already talked about their ability to continue raising pricing.

Bottomline Technologies aided returns after reporting a strong quarter, with both revenues and earnings surprising to the upside. Management provided forward quarterly guidance above estimates and reiterated fiscal-year guidance. The innovator in business payment automation technology also reported an acceleration in the number of Paymode-X deals.

	Model Strategy	
Top Contributors	Ending Weight (%)	Contribution (%)
Tactile Systems Technology Inc	2.76	1.12
Fair Isaac Corp	3.20	0.65
Bottomline Technologies DE Inc	1.79	0.51
Paycom Software Inc	1.84	0.50
Envestnet Inc	2.14	0.43

	Model Strategy	
Top Detractors	Ending Weight (%)	Contribution (%)
Vocera Communications Inc	1.05	-0.22
Blackbaud Inc	1.65	-0.21
Supernus Pharmaceuticals, Inc	0.00	-0.13
RBC Bearings Inc	2.34	-0.12
Alarm.com Holdings Inc	1.64	-0.12

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.

Manager Outlook

To say we closed out the decade on a high note from a market perspective is an understatement. We began the decade emerging from the worst bear market since the Great Depression and concluded it at all-time highs, even amidst numerous economic and political challenges. Now, the question on many investors' minds is: What will the forthcoming decade bring with respect to investment returns?

History would show that a decade that produces a double-digit annualized return does not necessarily imply that the following decade's performance will be challenged. Quite the contrary. Since the 1930s, the S&P 500® Index has experienced two decades of negative absolute returns (1930s and 2000s), and one more once you adjust for inflation (1970s). In each case, the negative-returning decade was followed by two sequential decades of nearly double-digit annualized performance. We say nearly because the 1940s generated 9.54% annualized returns, yet half of the decade was mired in World War II.

This is not a proclamation that the 2020s will be without surprises. From a risk perspective, corporate debt and nonbank debt balances continue to grow, and should a problem manifest in one of these areas, liquidity may become an issue. This risk is heightened by the immense inflows into ETFs and their substantial aggregate ownership of outstanding shares of nearly every company. Should the market face disruptions and equity investors simultaneously hit the sell button, we fear the door may not be wide enough for all investors to exit, potentially creating a liquidity-driven panic. However, given the backdrop of new trade agreements, lower corporate taxes, U.S. energy independence, strong demographics – both in terms of population growth (relative to the rest of the developed world) and consumption driven by the largest transfer of wealth in history (as children of boomers receive inheritances) – we remain constructive on the U.S. markets looking forward and optimistic that 2020 will see a continuation of this bull market.

Portfolio Management

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

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*Stock ratings are provided by Standard & Poor's and Bank of America Merrill Lynch U.S. Quantitative Strategy. Stock rankings are assigned to all U.S. equity securities, which have the required 10 years of earnings and dividend history as required by Standard & Poor's.

Past performance cannot guarantee future results. Investing involves risk, including the possible loss of principal and fluctuation of value. Returns greater than one year are annualized. Returns are expressed in U.S. dollars. Returns reflect the reinvestment of dividends and other earnings.

Discussion is based on performance gross of fees and expenses.

Information relating to portfolio holdings is based on the model strategy for the composite and may vary for accounts in the strategy due to asset size, client guidelines and other factors. The model strategy reflects the portfolio management style.

As of 12/31/19 the top ten portfolio holdings of Geneva US Small Cap Growth are: Fair Isaac Corp (3.20%), Bright Horizons Family Solutions (3.13%), Exponent Inc (2.83%), Masimo Corp (2.77%), Tactile Systems Technology Inc (2.76%), Bio-Techne Corp (2.67%), Kinsale Capital Group Inc (2.55%), RBC Bearings Inc (2.34%), Fox Factory Holding Corp (2.32%) and Omnicell Inc (2.31%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

Portfolio holdings are as of the date indicated, and are subject to change. This material should not be construed as a recommendation to buy or sell any security.

Sector weights based on Russell Global Sectors classifications.

The opinions are as of 12/31/19 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.

Geneva Small Cap Wrap Composite, benchmarked to the Russell 2000® Growth Index, contains fully discretionary equity accounts invested in approximately 50-60 small capitalization growth securities whose market capitalization ranges generally fall between $500 million to $3 billion at the time of purchase. Securities are selected using a "bottom-up" fundamental analysis of the company and supplemented by "top-down" considerations of economic conditions. This composite contains traditional SMA/wrap/bundled fee accounts, or accounts that have negotiated a bundled transaction and bundled fee with the broker, but Geneva's fee is charged separately. The composite was created September 30, 2010.

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

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