4Q19
U.S. Equity

PORTFOLIO COMMENTARY

Growth and Income Managed Account

Market Environment

- The S&P 500® Index generated strong gains over the quarter. The health care and information technology sectors led the index higher, while utilities and real estate lagged.
- The relatively strong U.S. economy, benign interest rate environment and late-period progress in U.S.-China trade relations provided a positive backdrop for U.S. equities.
- Continued strength in employment and wage growth supported consumer confidence and spending.
- Companies generally reported healthy earnings growth, although those with exposure to industrial production continued to experience weakness.
- The Federal Reserve (Fed) remained accommodative, cutting its benchmark federal funds rate for the third time this year, but signaled plans for a pause to allow the cuts to work through the economy before taking further action.

Performance Summary

The Portfolio underperformed its benchmark, the S&P 500 Index, for the quarter ending December 31, 2019. Given the risk-on sentiment and the outperformance of high-growth stocks during the period, the Portfolio's tilt toward dividend-paying, relatively less-volatile equities was out of favor.

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

Portfolio Discussion

Underperformance was evident in the information technology sector, where our underweight to high-growth names weighed on relative results. Similarly, stock selection in financials detracted, given our bias toward what we believe are less market-sensitive positions. Our exposure to industrials further hindered performance, with a position in Boeing proving to be the largest absolute detractor in the portfolio.

The Federal Aviation Administration has been diligent in the process of reinstating the 737 MAX aircraft, and the lengthy approval process has resulted in concerns over potential negative cash flow for the aerospace company. We continue to hold the position, as growth in air traffic is supportive of a growing global airline fleet and the extensive backlog of orders for the 737 MAX remains intact. Further, we believe Boeing's defense business is well positioned within the industry.

McDonald's also detracted. An unexpected CEO change caused uncertainty among shareholders and pressured the stock. While the company reported quarterly sales and earnings results that were in line with expectations, operating leverage disappointed. We maintained our position, believing the company's continued investment into its business, including its digital customer experience, will ultimately be accretive to long-term earnings. McDonald's has also done an admirable job of growing sales overseas, and we like that it is relatively less affected by geopolitical concerns compared to other multinational companies.

Janus Henderson
INVESTORS

While the aforementioned holdings detracted, we were pleased with the performance of other positions. Our underweights to the poor-performing utilities and real estate sectors benefited relative results, as did our stock selection in consumer staples. Apple led absolute contributors. Optimism around the rollout of 5G and the company's 2020 product lineup supported the stock price. Apple's higher-margin accessory business, which includes the Apple Watch and AirPods, continues to experience strong growth. Its services business, including TV+, Apple Music and cloud services, has helped create a recurring revenue stream that makes the company less dependent on the phone replacement cycle.

Microsoft was another top contributor. The company reported a solid third quarter as demand for its Software as a Service (SaaS) products, including the Azure cloud platform and subscription-based Office 365, remained healthy. Microsoft also won a sizable government contract for Azure during the period. Microsoft's consistent revenue growth is commendable for a company of its size, and we admire the consistency with which it returns capital to shareholders.

Top Contributors	Representative Account Ending Weight (%)	Representative Account Contribution (%)
Apple Inc	4.09	1.05
Microsoft Corp	5.85	0.76
JPMorgan Chase & Co	3.64	0.63
UnitedHealth Group Inc	2.22	0.61
Altria Group Inc	1.97	0.42

Top Detractors	Representative Account Ending Weight (%)	Representative Account Contribution (%)
Boeing Co	2.46	-0.43
McDonald's Corp	2.87	-0.25
Hasbro Inc	1.16	-0.15
CME Group Inc	2.79	-0.12
Travelers Cos Inc	1.35	-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

U.S. equity markets have remained resilient despite the backdrop of fading global economic growth, seesawing trade tensions and uncertainties surrounding the 2020 U.S. presidential election. Solid corporate results and the return of money to shareholders continue to buoy the market, and the consumer remains on relatively strong footing, with increasing wage growth and a healthy labor market supporting consumer confidence and spending. In our view, the outlook for accommodative interest rates and slower but constructive earnings growth coupled with consumer strength make many equity valuations defendable, with potential for upside.

Still, the macroeconomic situation points to short-term bumps along the road in 2020, and we fully expect U.S.-China trade tensions and the presidential election to generate volatility, with the market responding positively or negatively depending on the tenor of the latest news. While there appears to have been progress made on the trade front, until there is definitive resolution, the negotiations will overhang markets and threaten to disrupt supply chains, and we remain mindful of our exposure to those companies in the crossfire.

We prefer to focus on powerful secular themes that we believe will remain in place for an extended period of time, including the shift to cloud services and greater adoption of SaaS solutions, as well as growth in global travel and leisure activity. We believe companies investing in digital capabilities to enhance interactions with customers are particularly well positioned for success. We seek to invest in companies that stand to benefit from these trends and those that exhibit quality earnings growth and generate excess free cash flow to reinvest in their businesses and return value to shareholders. We believe these firms can perform well through a variety of market cycles and economic conditions.

Portfolio Management

Jeremiah Buckley, CFA

Marc Pinto, CFA

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

Janus Henderson INVESTORS

Past performance is no guarantee of future results.

Discussion is based on performance gross of fees and expenses.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

As of 12/31/19 the top ten portfolio holdings of the Representative Account are: Microsoft Corp (5.86%), Apple Inc (4.10%), JPMorgan Chase & Co (3.64%), Merck & Co Inc (3.22%), Accenture PLC (3.18%), Texas Instruments Inc (2.98%), McDonald's Corp (2.87%), CME Group Inc (2.79%), Boeing Co (2.46%) and UnitedHealth Group Inc (2.22%). 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.

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.

Investing involves risk, including the possible loss of principal and fluctuation of value.

Growth and Income Managed Account Composite, benchmarked to the S&P 500 Index, includes portfolios that invest primarily in larger, well-established companies selected for their long term growth as well as current income potential. A typical portfolio will contain 60 to 80 mostly dividend-paying equity securities. Prior to October 1, 2018, returns for the composite are for the Growth and Income Composite, which consisted of separately managed institutional accounts, proprietary mutual funds as well as sub-advised pooled funds. The composite was created in October 2018.

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

Janus Henderson provides investment advisory services in the U.S. through Janus Capital Management LLC, together with its participating affiliates.