Growth and Income SMA

Investment Environment

Despite intra-quarter volatility, stocks ultimately gained ground with several U.S. indices hitting record highs in the second quarter. Resilient corporate profits and better-than-expected GDP growth drove stocks higher in April. Equities wavered in May as economic data pointed to a weakening global economy. Setbacks in U.S.-China trade negotiations also raised fears that trade tensions will further dent global economic growth. Stocks then rebounded in June, driven in part by expectations of more accommodative monetary policy from central banks, including a potential rate cut by the Federal Reserve (Fed). The S&P 500® Index returned 4.3%, with financials and materials leading the index higher. Health care lagged. Energy was the only sector to generate negative returns.

Performance Discussion

The Portfolio underperformed its S&P 500 Index benchmark. We seek to provide our clients with both growth of capital and quarterly income. As part of that investment mandate, we focus much of our research efforts on identifying large, well-established companies with predictable and sustainable earnings growth and high or rising dividends. We believe investing in companies that pay out a large portion of their free cash flow in dividends and have the ability to grow their dividends over time will drive better risk-adjusted performance over the long term.

Stock selection in consumer staples, industrials and health care weighed on relative performance. Altria Group was the largest individual detractor. The stock fell as cigarette volumes continue to weaken and lower-risk tobacco products gain in popularity. While Altria has worked to build out its portfolio of e-cigarettes, investors continue to question the return potential of its large investment in Juul, particularly given broad concerns over the use of these products by teenagers and related regulatory scrutiny. We maintain our position, believing that the company’s cash flows should grow moderately as it gains momentum in the non-cigarette business, but we have placed it under review given the mounting challenges.

Pharmaceutical company Eli Lilly was another detractor. Lackluster results of a clinical trial involving the company’s diabetic drug Trulicity challenged the stock during the quarter. Political rhetoric around pharmaceutical drug prices and Democratic candidate proposals of health care for all also pressured the stock – and the broader sector. While we believe the long-term outlook for Trulicity remains promising, we reduced our position during the period given the uncertain political and regulatory landscape.

Highlights

- Equities wavered during the period, but ultimately finished higher.
- The Portfolio underperformed its benchmark.
- Slowing economic growth and an array of geopolitical concerns are reasons for caution, but our outlook for equities is positive overall, supported in part by potential monetary easing in the U.S.
2Q19 Portfolio Commentary

Industrials conglomerate 3M also detracted. The company has a high level of exposure to China relative to peers, which has weighed on its revenue growth given China’s economic slowdown and the persistence of trade tensions. We exited the position during the quarter.

While disappointed with the performance of the aforementioned stocks, others performed well. Our security selection in the communication services and financials sectors was especially supportive of relative results. Microsoft led absolute contributors. The company’s Azure cloud platform and subscription-based Office 365 suite continue to grow, and the demand outlook for these products remains robust. Microsoft’s consistent revenue growth is commendable for a company of its size and we admire the consistency in which it returns capital to shareholders.

CME Group was another notable contributor. The operator of financial exchanges benefited from higher trading volumes in May and June, which helped the stock to recover after selling off in the first quarter. We have a high opinion of the company’s stable business model, and we believe CME should continue to benefit from both broadening its client base outside the U.S. and offering widely traded products.

The Walt Disney Company also contributed. The stock responded favorably in anticipation of Disney+, Disney’s direct-to-consumer app and streaming service, which is poised to launch with stronger content at a more attractive price point than investors were anticipating. Disney also continues to benefit from reinvestment into its parks, both in and outside the U.S., and Disney Studios is predicted to have a strong year given this year’s movie lineup. We appreciate the company’s solid core business and, looking ahead, expect Disney+ to present a sizable revenue opportunity.

Outlook

Myriad geopolitical and economic uncertainties continue to trouble investors – from slowing global growth to trade tensions, U.S.-Iran relations and the upcoming U.S. presidential campaign season. Political rhetoric around U.S. technology companies, drug pricing and health care for all are already creating challenges. While all of these have the potential to generate bouts of market volatility, our outlook for equities remains positive overall. U.S. economic growth is relatively healthy and company growth, while slowing, is still constructive. More accommodative policy from the Fed will also serve as a tailwind for stocks. We believe there is a high probability the Fed will announce one interest rate cut this year, although second quarter earnings will provide more clarity into the underlying health of the economy. We are optimistic for a resolution to U.S.-China trade disputes, which would also be a boon to equities, but even an agreement to get the Boeing 737 Max airliner back in the air could be positive for the global economy and help to ease some concerns around geopolitical tensions.

Amid this shifting landscape, we are focused on companies that generate high levels of free cash flow that will support them through periods of volatility in both the economy and the equity market. We are particularly focused on companies that are disruptors in their sectors and/or benefiting from attractive secular tailwinds such as the migration to cloud technology, the rise of Software as a Service and electronic payments, and the uptick in global consumer travel. As we have in recent months, we will continue to leverage market volatility to add what we believe are attractively valued, higher-growth-oriented positions to the margin while reducing positions where we have less conviction in future growth.
Representative Account Top Contributors and Detractors for the Quarter Ended 6/30/19

<table>
<thead>
<tr>
<th>Top Contributors</th>
<th>Ending Weight (%)</th>
<th>Contribution (%)</th>
<th>Top Detractors</th>
<th>Ending Weight (%)</th>
<th>Contribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft Corp</td>
<td>5.52</td>
<td>0.71</td>
<td>Altria Group Inc</td>
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<tr>
<td>CME Group Inc</td>
<td>3.15</td>
<td>0.51</td>
<td>Eli Lilly &amp; Co</td>
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<td>-0.38</td>
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<td>TE Connectivity Ltd</td>
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<td>3M Co</td>
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<tr>
<td>Walt Disney Co</td>
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<td>Intel Corp</td>
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<td>-0.22</td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co</td>
<td>3.23</td>
<td>0.34</td>
<td>Occidental Petroleum Corp</td>
<td>0.52</td>
<td>-0.16</td>
</tr>
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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.

For more information, please visit janushenderson.com.

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 6/30/19 the top ten portfolio holdings of the Representative Account are: Microsoft Corp (5.53%), McDonald’s Corp (3.39%), Merck & Co Inc (3.30%), Boeing Co (3.27%), JPMorgan Chase & Co (3.23%), CME Group Inc (3.15%), Apple Inc (3.12%), Accenture PLC (3.03%), Texas Instruments Inc (2.96%) and US Bancorp (2.51%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.
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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.
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