

Janus Henderson US Forty Fund

Q2 2020

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US Macro

The Russell 1000® Growth Index staged an impressive rebound on the heels of a near-total shutdown of the economy as the US government and Federal Reserve (Fed) implemented massive stimulus and liquidity measures to backstop markets. Growth stocks, driven primarily by large-cap technology firms, significantly outperformed value stocks and the broader market. The unemployment rate, which had previously risen to an extremely high level, eventually showed signs of recovery but remained elevated. Relatively positive economic data toward the end of the quarter, including an uptick in consumer spending, pointed to a nascent recovery; however, the development of virus hot spots, particularly in the Southern and Western regions of the country, underscored the challenges that remain as the economy reopens amid the ongoing COVID-19 pandemic.

Top/Bottom

The fund underperformed its Russell 1000® Growth Index benchmark for the quarter.

Stock selection and our allocation to cash were detractors from performance relative to the benchmark during the period. A top individual detractor was defence contractor L3Harris Technologies. Defence stocks in general held up better during the initial market sell-off but have struggled more recently. Huge levels of fiscal stimulus will likely lead to strained government budgets for the foreseeable future. As a result, fears that defence spending will be negatively impacted weighed on the stock during the quarter.

Elanco Animal Health also detracted from relative performance. The stock declined after the company reported lower-than-expected quarterly revenues and withdrew fiscal year guidance because of COVID-19. Elanco is a top participant in the expanding animal food and health market. The firm's planned acquisition of Bayer Animal Health remains targeted for a mid-year close and should help diversify Elanco's portfolio and distribution channels.

Avalara was a top contributor for the period. The Software as a Service company is a provider of tax calculation solutions for medium-size ecommerce businesses. Companies that sell goods online are now required to collect the appropriate sales tax for each state they sell into, even if they do not have a physical presence in that state. This requirement, combined with the complexity of the US tax code, makes Avalara's software an essential service for many online businesses. The stock was up during the quarter after reporting strong earnings and a growing customer base through a challenging economic environment.

Another top contributor for the period was semiconductor manufacturer Microchip Technology. We believed the stock was punished disproportionately during the market downturn due to concerns around the impact of the recession on its business and its elevated financial leverage from a prior acquisition. As the business proved to be more resilient than the market had expected and the company addressed covenant concerns during the quarter, the stock rerated.

Outlook and Positioning

Massive fiscal and monetary stimulus measures have thus far helped cushion the blow from shelter-in-place orders and provided much-needed liquidity for markets, Main Street businesses and consumers. As a result, the individual savings rate has gone up dramatically, and many companies with impaired balance sheets have likewise been able to raise inexpensive capital and deleverage. Interest rates (and therefore company cost of capital) are likely to remain at or near zero for the foreseeable future. This could eventually lead to price extremes for both equities and fixed income and will present investors with significant challenges in assessing corporate valuations.

The economy has shown signs of a budding recovery as it reopens but it is clear that COVID-19 infection rates will need to be kept in check, as large spikes could necessitate renewed shutdowns and create risks to the developing recovery. Thus, the path back to normalcy will likely be extended and volatile until there is an effective and widely implemented vaccine. Adding to short-term market volatility is a recent spike in retail trading volume and accounts, spurred by zero-cost commissions across the retail brokerage industry and an increase in hours spent at home for individual investors.

While we cannot predict macroeconomic outlooks, nor the trajectory of COVID-19, we believe many of the themes we have discussed in the past, specifically the widespread digitisation of sectors across the economy, will not only persist but also get stronger over the coming months and years. Now more than ever, we think it is important to

Janus Henderson US Forty Fund

own companies that can benefit from long-term secular trends and that can continue to invest and grow. These are firms that have durable business models with deeply rooted competitive advantages, including strong balance sheets. Such qualities should allow these companies to allocate capital to growth opportunities despite a recessionary environment.

Source: Janus Henderson Investors, as at 30 June 2020

Janus Henderson US Forty Fund

Fund information

Index	Russell 1000 Growth Index
Morningstar sector	Morningstar Europe OE U.S. Large-Cap Growth Equity
Objective	The Fund aims to provide capital growth over the long term.
Performance target	To outperform the Russell 1000 Growth Index by at least 2.5% per annum, before the deduction of charges, over any 5 year period.

Performance %	I Acc (Net)	Index	Sector	Quartile ranking	I Acc (Gross)	Target (Gross)
1 month	4.4	4.4	3.3	1st	-	-
YTD	10.3	9.8	6.5	2nd	-	-
1 year	21.7	23.3	16.3	1st	-	-
3 years (annualised)	19.2	19.0	14.8	1st	-	-
5 years (annualised)	14.1	15.9	12.1	2nd	15.5	18.8
10 years (annualised)	15.8	17.2	14.1	1st	17.1	20.2
Since inception (annualised)	5.4	5.5	5.3	-	6.6	8.2

Source: at 30 June 2020. © 2020 Morningstar. All rights reserved, performance is with gross income reinvested.

Discrete year performance %	I Acc (Net)	Index	Sector	I Acc (Gross)	Target (Gross)
30 Jun 2019 to 30 Jun 2020	21.7	23.3	16.3	23.1	26.4
30 Jun 2018 to 30 Jun 2019	13.8	11.6	9.5	15.1	14.3
30 Jun 2017 to 30 Jun 2018	22.2	22.5	18.8	23.6	25.6
30 Jun 2016 to 30 Jun 2017	22.7	20.4	20.6	24.1	23.4
30 Jun 2015 to 30 Jun 2016	-6.7	3.0	-2.8	-5.6	5.6

Source: at 30 June 2020. © 2020 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Source for target returns (where applicable) - Janus Henderson. Where quartiles are shown, 1st quartile means the share class is ranked in the top 25% of share classes in its sector.

Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective.

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Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

Janus Henderson US Forty Fund

For further information on the Janus Henderson fund range please contact your local sales office or visit our website:

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Janus Henderson US Forty Fund

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