

## US SMID Cap Growth

### Market Environment

- Stocks delivered strong positive performance in the fourth quarter, boosted by emergency approval of several COVID-19 vaccines and anticipation of a return to normal economic activity in 2021.
- The Federal Reserve continued its accommodative monetary policy and indicated it will likely keep interest rates near zero for the foreseeable future.

### Performance Summary

The Portfolio outperformed its primary benchmark, the Russell 2500® Growth Index, for the quarter ended December 31, 2020. It underperformed its secondary benchmark, the Russell 2000® Growth Index. Stock selection in the financials and consumer discretionary sectors lifted relative performance. Stock selection in health care and industrials detracted.



**For detailed performance information, please contact a Janus Henderson Institutional team representative.**

### Portfolio Discussion

In the fourth quarter we saw a tug-of-war for leadership within the small- and mid-cap markets. At times, investors continued to favor the high-growth, high-valuation stocks that have outperformed year-to-date. At other times, we were encouraged to see investors pay renewed attention to the more moderate, sustainable, long-term growth stories we favor. This broadening of the market helped our relative performance.

Our search for game-changing innovation led us to QuantumScape, a top positive contributor. This newly public company is developing a next-generation, solid-state battery that has the promise of allowing electric vehicles to charge faster and travel farther without a recharge. While the battery may not reach the market for several years, QuantumScape is already receiving interest from vehicle manufacturers such as Volkswagen, which injected its second round of equity into the company in 2020. The stock has benefited as investors have looked to capitalize on long-term growth potential in the electric vehicle market.

Euronet Worldwide was another notable contributor. Euronet owns the largest ATM network in Europe, a business that typically provides consistent revenue streams. This business slowed sharply in the first half of the year due to steep declines in European travel. It also faced headwinds in the third quarter as tourism was slow to recover. The stock rebounded strongly in the fourth quarter, however, as the arrival of several vaccines has raised hopes for a resurgence in European travel. We also believe Euronet is positioned for growth in its other businesses, including electronic payments and money transfers.

As investors positioned themselves for a return to normal in 2021, they took profits on stocks that outperformed during the pandemic. Wayfair is an online retailer of discounted furniture, and its website gained popularity with at-home consumers eager to improve their nesting experience. Soaring sales volumes helped the company

deliver strong earnings growth and stock performance year-to-date. The stock lagged the market in the fourth quarter, however, due to concerns that the company's revenue may slow once fears of COVID-19 ease. We remain positive on long-term trends for the company, however. It has seen many of its new customers return for second or third purchases, which we view to be a strong indicator of customer loyalty and future earnings growth. We also believe the pandemic has made people more comfortable with buying large-ticket items online.

Clarivate Analytics was another stock that underperformed after outperforming year-to-date. Clarivate Analytics owns Web of

Science, an online portal that provides access to over 7,000 scientific journals and proprietary databases. Its subscription-driven business model has helped deliver robust recurring revenues and cash flow, even during the pandemic. This stable growth profile was less attractive to investors seeking to capitalize on a potential return to normal in 2021, and the stock underperformed in the fourth quarter. We remain excited about the company's long-term growth prospects due to its high customer retention rates and robust operating margins.

Top Contributors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
QuantumScape Corp	1.60	4.40
Fate Therapeutics Inc	0.77	0.46
Euronet Worldwide Inc	1.30	0.39
Alarm.com Holdings Inc	0.70	0.28
ON Semiconductor Corp	1.22	0.27

Top Detractors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
Wayfair Inc	0.81	-0.49
Vaxcyte Inc	0.34	-0.36
Clarivate PLC	0.90	-0.33
Global Blood Therapeutics Inc	0.53	-0.24
Blackbaud Inc	1.02	-0.23

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 recently available disclosure period contact a Janus Henderson institutional team representative. Relative contribution reflects how the portfolio's holdings impacted return relative to the benchmark. Cash and securities not held in the portfolio are not shown.

## Manager Outlook

As we look ahead, we are optimistic that the distribution of multiple vaccines could set the stage for a return to normal. We also recognize it could take time for vaccines to be widely available, and for people to return to pre-pandemic behaviors. As a result, we believe we could see a continued push and pull for market leadership as investors await more clarity on the economic outlook. We also remain concerned about some areas of the market where we believe speculation more than fundamentals is driving stock performance. In this environment, we remain committed to a disciplined, fundamental investment approach. Our focus remains on companies with long-term drivers of earnings growth that we believe will play out over the next five to 10 years. These are companies with sustainable competitive advantages, strong market positions and pricing power that will allow them to adapt to the possibility of higher inflation as the economy recovers. We will also look for opportunities to capitalize on innovation and long-term trends that may have accelerated during this unprecedented period.

## Portfolio Management



**Jonathan Coleman, CFA**



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

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Past performance is no guarantee of future results.

Discussion is based on performance gross of fees.

Closed to certain new investors.

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 12/31/20 the top ten portfolio holdings of the Representative Account are: QuantumScape Corp (4.16%), Crown Holdings Inc (2.83%), Catalent Inc (2.76%), SS&C Technologies Holdings Inc (2.15%), Zendesk Inc (1.82%), Terminix Global Holdings Inc (1.72%), Integra LifeSciences Holdings Corp (1.69%), Etsy Inc (1.63%), Sensient Technologies Corp (1.60%) and Broadridge Financial Solutions Inc (1.57%). 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 recommendation to buy or sell any security.

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For equity portfolios, relative contribution compares the performance of a security in the portfolio to the benchmark's total return, factoring in the difference in weight of that security in the benchmark. Returns are calculated using daily returns and previous day ending weights rolled up by ticker, gross of advisory fees, may exclude certain derivatives and will differ from actual performance.

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

US SMID Cap Growth Composite, benchmarked to the Russell 2500™ Growth Index and secondarily to the Russell 2000® Growth Index, includes portfolios that invest primarily in small-sized and medium-sized companies selected for their growth potential. Small- and medium-sized companies have market capitalizations less than \$10 billion. Effective January 1, 2009 the composite definition was expanded to also include sub-advised pooled funds and separately managed institutional accounts. The composite was created in March 2005.

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