

Janus Henderson Horizon US Growth Fund

Q2 2019

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Fund manager names: Derek J. Pawlak and W. Scott Priebe

Overview

Equity markets continued to push higher in the second quarter with growth equities continuing to lead the way. Much of the strong performance came in June when investors positively responded to the Federal Reserve (Fed)'s commentary around the potential for rate cuts in the second half of the year. In spite of the low quality rally late in the quarter, most of the period favoured high quality equities and factor attribution showed that low debt-to-cap, high return-on-equity (ROE) and high price-to-earnings (P/E) companies all outperformed.

Performance and activity

The fund returned 4.5% versus 4.4% for the Russell 3000 Growth Index.

The outperformance was driven by strong stock selection in the producer durables and materials and processing sectors. At the stock level the top contributors were Paycom Software, Walt Disney Co and CoStar Group. Paycom delivered an impressively strong quarter, continuing the trend of solid double-digit revenue growth and rising 30% in the first quarter, with healthy margins, despite ongoing investments in research and development (R&D) and sales and marketing. Walt Disney Co reported a good quarter but what drove shares was an investor day in April which highlighted to company's plan for its new streaming service. Company guidance for expected subscriptions by 2024 was well ahead of forecast and the depth of content also surprised positively. Shares of CoStar Group were higher after the company reported a solid first quarter with outperformance in revenue, margins and earnings per share (EPS). Revenue grew 20% during the period and given the strong growth rate the full-year guidance may prove to be conservative.

Detracting from performance was stock selection in the consumer staples sector and an underweight position to financial services. The three greatest detractors at the stock level were Walgreens Boots Alliance, Alphabet and Lowes. Walgreens reported disappointing results this quarter with a significant earnings before interest and taxes (EBIT) shortfall, lowered EPS guidance for 2019 and a forecast for no growth in 2020. Due to these fundamental issues we sold the position. Alphabet reported a rare miss of 2% on the top line and year-on-year growth of 18.6% was the slowest quarterly growth rate in three years. The issues seem transitory and the core business remains strong. Lowes posted strong first quarter comparables but earnings came in below expectations as gross margin weakness weighed on profitability. These gross margin pressures will not abate any time soon and as a result management reduced its full-year EPS guidance from 17-19% to 7-10%.

New positions were initiated in Grand Canyon Education and Trex Company. Grand Canyon Education is a leader in for-profit education and has fast growing physical campus in Arizona and a strong online business. Trex is the leader in composite decking products and we believe there is a secular shift away from wood decking towards composite materials. Sold from the portfolio were Red Hat, which was acquired by IBM, Walgreens Boots Alliance and Watsco, which we sold for fundamental reasons.

Outlook

A change in expectations for rate cuts later this year has been a driver of markets during the early part of the summer and changes the outlook for economic growth going forward. Economic data started to weaken earlier this year but up until recently the Fed had not acknowledged this weakness and expectations for a rate cut were around 50/50. Now, with the Fed telegraphing its intentions to cut rates in the second half of the year, investors are reacting to an environment of lower rates. The question remains how much the Fed feels it needs to cut and how quickly. Fundamental economic data continues to be mixed but recent employment data was strong and the temporary truce in tariff escalations is a positive for markets. China tariffs, and to an extent the issues with Mexico, pose the greatest threat to economic stability for the foreseeable future. If the deal with China were to be resolved and investors and business owners had more confidence we feel the economy would be on stronger footing.

Source: Janus Henderson Investors, as at 30 June 2019

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com.

Benelux

Janus Henderson Investors
Tel: +31 20 675 0146
Fax: +31 20 675 7197
Email: info.nederlands@janushenderson.com

France/Monaco/Geneva

Janus Henderson Investors
Tel: +33 1 53 05 41 30
Fax: +33 1 44 51 94 22
Email: info.europe.francophone@janushenderson.com

Germany/Austria

Janus Henderson Investors
Tel: +49 69 86 003 0
Fax: +49 69 86 003 355
Email: info.germany@janushenderson.com

Dubai

Janus Henderson Investors
Tel: +9714 401 9565
Fax: +9714 401 9564
Email: JanusHenderson-MEACA@janushenderson.com

Hong Kong

Janus Henderson Investors
Tel: +852 2905 5188
Fax: +852 2905 5138
Email: marketing.asia@janushenderson.com

Italy

Janus Henderson Investors
Tel: +39 02 72 14 731
Fax: +39 02 72 14 7350
Email: info.italy@janushenderson.com

Latin America

Janus Henderson Investors
Tel: +44 20 7818 6458
Fax: +44 20 7818 7458
Email: sales.support@janushenderson.com

Nordics

Janus Henderson Investors
United Kingdom
Tel: +44 20 7818 4397
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

Singapore

Janus Henderson Investors
Tel: +65 6836 3900
Fax: +65 6221 0039
Email: marketing.asia@janushenderson.com

Spain/Portugal/Andorra

Janus Henderson Investors
Tel: +34 91 562 6172
Fax: +34 91 564 6225
Email: info.iberia@janushenderson.com

Switzerland (Germanic)

Janus Henderson Investors
Tel: +41 43 888 6262
Fax: +41 43 888 6263
Email: info.switzerland@janushenderson.com

United Kingdom

Janus Henderson Investors
Tel: +44 20 7818 1818
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

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