# Janus Fund

JANUS®

## Investment Environment

The building pressure in U.S. and global equities in late 2015 erupted into a broad-based sell-off in January and February. Once again, a chief concern was the fear of slower-than-expected growth in China, the world's second-largest economy. The negative sentiment was also reflected in weakness in energy markets, with the U.S. benchmark for crude oil dipping to levels not seen in over a decade. The outlook for stocks was not helped by weak manufacturing data and an underwhelming holiday season for retailers. Later in the quarter, markets regained confidence, with both stocks and crude retracing earlier losses. Headline employment data remained solid, but doggedly weak wage growth caught the attention of central bankers. Accordingly, at its March meeting, the Federal Reserve (Fed) lowered its projected forecast for interest rate hikes. The market interpreted this step as favorable for risk assets. Despite the March rally, defensive sectors, including telecommunications and utilities were among the quarter's biggest gainers. Financial and health care stocks lagged the broader market.

## Performance Discussion

The Fund underperformed its primary benchmark, the Russell 1000 Growth Index, and also its secondary benchmarks, the Core Growth Index and the S&P 500 Index, for the period. As part of our investment process, we seek companies with clearly definable, sustainable long-term growth drivers. These companies often have high barriers to entry and notable competitive advantages in attractive, growing industries. They also have strong management teams with clear visions for the future of their companies. While we underperformed our benchmarks during the three-month period, we believe a collection of companies with these competitive advantages should lead to compounded growth in excess of the market over longer time horizons. Despite lagging our primary benchmark index, the Fund performed roughly in the middle of its peer group of funds in a quarter that was difficult for growth stock managers.

Some of our specialty pharmaceutical stocks were top detractors this quarter. Questionable accounting and drug pricing tactics at one of the largest and most well-known specialty pharmaceutical companies has cast a shadow over all specialty pharmaceutical companies. Against that backdrop, most, if not all, specialty pharmaceutical and biotech stocks sold off, and companies with any disappointing results sold off particularly hard.

Endo International was one of our largest detractors. The company had to increase its liability provision for cases related to one of its products. This was a legacy issue that was created during the tenure of former management, and we think the stock overcorrected on the news. Looking ahead, the company stands to benefit from a new product that launched in early 2016: Belbuca is a Schedule-3 opioid that was recently approved by the FDA for use in chronic pain. Unlike many other opioids, Belbuca is less abusable, and therefore does not require handwritten prescriptions from doctors, but can instead be refilled automatically. We believe these qualities will appeal to both doctors and patients.

Allergan was another specialty pharmaceutical stock tainted by negative sentiment surrounding the industry. The stock was also impacted by news that the sale of its generic business to Teva Pharmaceuticals may be delayed and also due to fears that a

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**Jean Barnard, CFA**

**Portfolio Manager:**
**Barney Wilson**

## Executive Summary

- U.S. large-cap growth equities notched minimal gains but stocks were volatile during the quarter.
- The Fund underperformed its benchmarks during the period, due largely to some of our health care holdings.
- We believe the months ahead will be a great time to invest in U.S. large-cap growth stocks — a category that includes companies that are gaining market share in growing areas like cloud computing, software as a service, pharmaceuticals and consumer goods.

proposed merger between Allergan and Pfizer could fall apart. While the outlook for the Allergan and Pfizer deal is harder to predict, we believe the sale of the generics business will still take place. We think the move would strengthen Allergan's balance sheet and increase the company's capital return potential. We also like the company's product mix, many of which are not subject to government reimbursement.

Outside of the health care sector, Amazon was a top detractor. Amazon's stock performed strongly for the Fund in 2015, but pulled back during the quarter. Some of its share price decline was fueled by fears of increasing competition for Amazon Web Services (AWS), the company's cloud-based computing platform. AWS has come to market with scale and a disruptive pricing model for businesses seeking cloud-based services. While we expect competition to continue for AWS, we do not believe it poses a significant threat. We have maintained our position in Amazon and remain optimistic about its potential.

Our investment in Facebook was the Fund's top contributor to performance for the quarter. The company has benefited from a growing shift toward digital advertising that has gained momentum over the last several years. Within this high-growth area, Facebook has taken market share from top competitors, a feat that drove solid earnings growth at the end of last year. We remain confident in the company's ability to maintain a high rate of growth in the months ahead.

Dollar General was our second-strongest contributor to returns. The company targets an underserved customer niche with a unique offering that meets its needs, including low prices, convenience and a broad selection of products. We have held the stock for its long-term track record of consistent growth. During the quarter, Dollar General laid out a multi-year financial plan that provided assurance to the investment community that the strength we've seen in the company over the past five years is likely to continue for several years to come.

Cadence Design Systems was another contributor. The stock was up after the company announced impressive fourth quarter results, topping consensus expectations on earnings and revenue. We continue to like the company's competitive position as one of only two that specialize in semiconductor design software, which has become increasingly important as semiconductors continue to grow more complex.

For detailed performance information or to download a Fact Sheet, please visit www.janus.com/funds

## Outlook

The past quarter was challenging for the market share gainers in which we invest as fears of recession led investors to sell higher growth stocks in favor of slower growth companies that were perceived as being safer investments. We do not expect this trend to continue.

We believe the months ahead will be a great time to invest in U.S. large cap growth stocks — a category that includes companies that are gaining market share in growing areas like cloud computing, software as a service, pharmaceuticals and consumer goods. Going forward, we plan to stick to our process of identifying companies that we believe are winning in the product marketplace, and that are well positioned to deliver better than average growth and stable or increasing returns on capital. We will look to times of price weakness like last quarter's for opportunities to add to these positions.

## Top Contributors and Detractors for the Quarter Ended 3/31/16

| Top Contributors | Ending Weight (%) | Contribution (%) | Top Detractors | Ending Weight (%) | Contribution (%) |
|---|---|---|---|---|---|
| Facebook Inc | 3.62 | 0.29 | Endo International PLC | 0.36 | -0.44 |
| Dollar General Corp | 1.13 | 0.20 | Allergan | 2.17 | -0.33 |
| Apple Inc | 4.11 | 0.18 | Amazon.com Inc | 2.52 | -0.29 |
| Cadence Design Systems Inc | 1.43 | 0.17 | CBRE Group Inc | 1.32 | -0.23 |
| Dunkin' Brands Group Inc | 1.54 | 0.16 | Colony American Homes | 0.45 | -0.22 |

The holdings identified in this table, in compliance with Janus 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 877.33JANUS (52687) or visit janus.com/advisor/mutual-funds.

## Top Contributors

**Facebook:** The social networking website facilitates the sharing of information, photographs, website links and videos among family, friends and co-workers. Recent data, including fast-growing sales, has given us greater confidence in the sustainability of Facebook's core product and thus the advertising market that should accrete to it. We believe the company will be among the few mobile platform operators that disproportionately benefit from meaningful new developments in advertising/marketing models, which we expect will develop over the next several years. In particular, we think we are in the early phase of advertising dollars shifting to mobile, where Facebook is gaining traction with app developers, direct response advertisers, brand advertisers and small- to medium-size businesses.

**Dollar General:** Dollar General owns a chain of variety stores offering goods to consumers at low price points. We believe their stores serve an under addressed customer with unique offerings that fit the needs of convenience and a low price point. We believe the company is poised to drive moderate square footage and same store sales growth in the coming years.

**Apple:** One of the world's largest mobile device and computer maker continues to be the beneficiary of incremental sales opportunities and increased penetration in new geographies, mobile service providers and product categories. We think it has strong opportunities as its ecosystem continues to attract new and potentially long-term subscribers onto its platform and increase its addressable market as lower price points draw new customers. We also appreciate management's commitment to returning capital to shareholders via dividends and stock repurchases.

**Cadence Design Systems:** A provider of software technology, design and consulting services and technology, Cadence licenses its electronic design automation software to customers who use Cadence's software to design semiconductors and electronic systems. We believe the company's semiconductor design software is becoming increasingly important as semiconductors grow more complex. As one of only two companies specializing in this market segment, Cadence should be able to increase pricing and profits. We also appreciate the company's intellectual property licensing business, which we believe is a high-margin, high-growth operation.

**Dunkin' Brands Group:** We like the company's franchised business model, which offers an asset-light lower risk and higher margin opportunity for the company. We also believe

## Top Detractors

**Endo International:** We believe the new management team, which has demonstrated previous success at other pharmaceutical companies, will make Endo more efficient. While we like the company, we have trimmed the position, as concerns about the potential of increased regulatory oversight of drug prices continue to impact the entire specialty pharmaceutical industry.

**Allergan:** We like the multi-specialty health care company's dominant market positions in aesthetics and ophthalmology, and like that many of its products have a high cash pay component, making them less subject to government reimbursement. We also like the improved financial profile of the company after its merger with Actavis, and believe the management team will create shareholder value as it deploys cash from the sale of its generics business to Teva Pharmaceutical Industries.

**Amazon:** The online retailer offers a wide range of products, including books, music, videotapes, computers, electronics, home and garden, and numerous other products. Amazon offers personalized shopping services, Web-based credit card payment and direct shipping to customers. We believe the company's competitive advantages of a low overhead cost structure, allowing an aggressive pricing structure, and faster shipping will continue to cause consumers to shift an increasing amount of their general merchandise spending toward it. Given that over 90% of retail sales are still sold offline, Amazon has significant opportunities ahead, particularly as they expand into new business lines and geographies.

**CBRE Group:** We believe CBRE Group has the potential for long-term secular revenue growth from its mix of real estate businesses and services. We also believe there are further opportunities to improve operating margin.

**Colony American Homes:** Colony American was a private holding that was written down after the company's merger with Starwood Waypoint Residential Trust during the quarter. We like the outlook for the combined company, which we believe will benefit from rising rent prices and improved occupancy rates among rental homes.

**Top Contributors** (continued)

there is significant growth potential ahead as Dunkin' expands into the western half of the U.S.

**Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from janus.com/info. Read it carefully before you invest or send money.**

Past performance is no guarantee of future results. Call 877.33JANUS (52687) or visit janus.com/advisor/mutual-funds for current month-end performance.

Discussion is based on performance of the Fund's "parent" share class (typically that with the longest history).

As of 3/31/16 the top ten portfolio holdings of Janus Fund are: Alphabet Inc (5.46%), Apple Inc (3.95%), Facebook Inc (3.48%), Amazon.com Inc (2.42%), Bristol-Myers Squibb Co (2.38%), Home Depot Inc (2.31%), Amgen Inc (2.14%), Allergan plc (2.09%), Honeywell International Inc (2.02%) and Comcast Corp (1.80%). There are no assurances that any Janus portfolio currently holds these securities or other securities mentioned in this commentary.

The opinions are as of 3/31/16 and are subject to change at any time due to changes in market or economic conditions. Janus 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.

**A Fund's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Fund may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Fund has different risks. Please see a Janus prospectus for more information about risks, Fund holdings and other details.**

**Russell 1000® Growth Index** measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

**S&P 500® Index** measures broad U.S. equity performance.

**Core Growth Index** is an internally calculated, hypothetical combination of total returns from the Russell 1000® Growth Index (50%) and the S&P 500® Index (50%).

A Fund's portfolio may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore its performance does not reflect the expenses associated with the active management of an actual portfolio.

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