1Q17 PORTFOLIO COMMENTARY

Janus Research Fund

JANUS®

Portfolio Manager:
Team Managed

Executive Summary

- U.S. stocks rose during the quarter as investor confidence was buoyed by improving economic data and the promise of regulatory and tax reform.
- The Fund underperformed its primary benchmark, but outperformed its secondary benchmark.
- We believe optimism about possible economic reforms could lead to higher business investment and drive economic growth.

Investment Environment

U.S. stocks continued their strong run well into the first quarter. Optimism was premised on the belief that the Trump administration would champion a series of pro-growth reforms. Even prior to any legislation being passed, economic data lent support to the notion of a strengthening U.S. economy. Gains in nonfarm payrolls accelerated and average hourly wages registered the highest year-over-year increase since 2009. Also achieving a recent high was a widely-followed U.S. manufacturing survey. This favorable environment was a factor in allowing the Federal Reserve (Fed) to raise interest rates by a quarter of a percentage point at its March meeting. After peaking in early March, however, many key U.S. indices slid over the remainder of the period.

On a sector basis, information technology and consumer discretionary stocks registered solid returns. Energy slipped, in part, on a decrease in global crude oil prices and a ramp-up in U.S. production.

Performance Discussion

The Fund underperformed its primary benchmark, the Russell 1000 Growth Index, but outperformed its secondary benchmark, the S&P 500 Index. Our goal is to provide consistent outperformance long term by focusing on what we consider our strengths: picking stocks and avoiding macroeconomic risks. Stocks are selected by our six sector teams, which employ a bottom-up, fundamental approach to identify what we consider the best global opportunities.

Underperformance relative to the primary benchmark was concentrated in the Fund's consumer holdings. The Fund's selection of technology and industrials stocks contributed to relative results.

Bristol-Myers Squibb was the top detractor. The stock of this pharmaceutical giant stumbled after the company announced in January that it would forgo trying to get quick approval from the Food and Drug Administration (FDA) for its combination immuno-oncology (I-O) lung cancer treatment, suggesting that Bristol-Myers is less optimistic about trial results for this treatment. Given these concerns, we exited our position.

Kroger was another detractor. The stock fell when the grocery-store operator reported that same-store sales declined 0.7% during the company's fourth quarter, which ended in January. Food deflation was the main culprit, according to management, as well as increased competition. Although disappointed by these results, we believe Kroger will likely benefit from a number of tailwinds this year, including higher food prices, easier comparisons for same-store sales, fewer costly store remodels and the continued integration of Roundy's, a Midwest grocer that Kroger acquired in 2015. The stock also trades below the market multiple, and so has room to rebound, in our opinion.

TD Ameritrade also weighed on performance. Shares of the discount broker fell after competitors cut trading fees. As a result, TD Ameritrade reduced its commissions by 30%. Although we believe lower fees will weigh on near-term earnings, we continue to like the stock. TD Ameritrade's commissions are still roughly $2 higher than peers', which we think reflects the value of the company's product. We also believe the fee war in the industry has reached a bottom. Further, TD Ameritrade's recent acquisition of Scottrade gives the company more scale and, in our opinion, will help improve margins as cost synergies are realized.

Other holdings added to performance, including technology hardware giant Apple, a top contributor during the period. Shares of the iPhone maker climbed after the company reported record sales for the fourth quarter, beating analysts' forecasts. The stock was also bolstered by growing anticipation surrounding the roll out of the iPhone 8, slated for later this year. The growing number of iPhone users has fueled the expectation that the launch of the newest iteration of Apple's flagship product will be strong. Investors also identified Apple as a beneficiary of potential tax reform that would enable multinationals to repatriate cash to the U.S. under less punitive rates.

After selling off toward the end of last year, shares in social network operator Facebook recovered, reaching a record high during the first quarter. The company had dialed down expectations for 2017, citing a slowdown in advertising growth, however, fourth-quarter metrics were better than expected, which eased investor concerns around the impact that expense growth and competition would have over the coming year. These developments were catalysts for sending shares higher, along with investors warming up to the technology sector after having shunned it in the wake of November's U.S. elections.

Video-game producer Activision Blizzard also contributed to return. During the period, the company released an earnings report that beat both top- and bottom-line estimates. Just as important, strong performance was dispersed across a range of products, rather than being concentrated in its flagship Call of Duty franchise. The company also made inroads in its transition to a subscription-based model built around cultivating in-game micro-transactions. This move, in our view, should lead to steadier revenue streams and greater profitability.

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

Outlook

The Trump Show is just beginning, but so far the markets are giving it two thumbs up. We think the surge in indices reflects not only the benefits that the new president likely will bring to the U.S. economy but also the economy's underlying strength. In March, the Fed reported that the labor market was strong and economic activity was expanding. Outside the U.S., conditions are better, too.

For all its special effects, Donald Trump's presidency marks the beginning of a few important transitions. For the first time in many years, we have a decidedly pro-business administration that's promising lower corporate tax rates and less regulation. Companies, as a result, are starting to feel more positive about capital investment and expansion. That could mean corporate activity will return to being the driver of economic growth, not central bank policy and financial engineering. In that scenario, we believe the era of macro- and defensive-driven investing will finally give way to a period where active investing and stock picking thrive.

If the U.S economy improves, Europe also stands to benefit. Demand for the continent's exports could grow, for one, especially if the euro remains weak (making European exports more affordable for consumers overseas). Firms also have cut costs, suggesting many European companies will be levered to an economic recovery. But this transition won't come easy: This year, several nations will hold key national elections, while the UK will begin to negotiate the terms of its exit, or Brexit, from the European Union (EU). Like a horror movie villain, the Greek debt issue won't go away. The European Central Bank (ECB) also has to find a way to unwind its bond holdings without stalling an economic recovery, a difficult task (and one that the Fed must also undertake in the U.S.).

True, equity indices have hit record levels, but we'd argue that valuations do not seem extreme. Today's average forward price-to-earnings (P/E) ratio of 18 or so for large-cap U.S. stocks may look a bit toppy, but it is not out of line in a low-rate environment. Plus, our fixed income team expects a flattening yield curve, suggesting that even if the Fed continues to raise short-term rates, the long-term rates that matter more for stock valuations won't spike. Correlations also are down sharply, giving stocks that have not participated in the rally an opportunity to break from the pack and revalue. In addition, we may see earnings growth estimates adjusted upward in the coming months after several years of Wall Street having to revise its forecasts lower. When we study consensus estimates, we find that analysts are just as likely to be too pessimistic as they are optimistic. We may see that pessimism be corrected as the year progresses.

Optimism vs. pessimism brings us back to Trump. The risk is that markets expect too much of him or that he tweets us into a policy or trade war that saps economic confidence. We think, however, that his pro-business instincts ultimately will win out and that his actions will outweigh his words. We also think that corporate confidence, once ignited, will take more than 140 characters to extinguish. Thus, while the plot may wander and the characters may confound us at times, we think the story goes on. Stay tuned.

Top Contributors and Detractors for the Quarter Ended 3/31/17

Top Contributors	Ending Weight (%)	Contribution (%)	Top Detractors	Ending Weight (%)	Contribution (%)
Apple Inc	2.89	0.63	Bristol-Myers Squibb Co	0.00	-0.24
Facebook Inc	2.94	0.62	L Brands Inc	0.47	-0.18
Amazon.com Inc	3.42	0.58	Kroger Co	0.91	-0.11
Activision Blizzard Inc	1.37	0.43	AutoZone Inc	0.90	-0.10
Adobe Systems Inc	1.80	0.42	TD Ameritrade Holding Corp	0.73	-0.09

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

Apple: The mobile device and computer maker has strong free cash flows and a large sum of cash sitting on its balance sheet. It remains a dominant player in the smartphone and tablet market. We like the company for its growth potential and appreciate its commitment to returning capital to shareholders via dividends and stock repurchases.

Facebook: The social networking site facilitates the sharing of photographs, videos, news and other information among users. With a growing number of people using Facebook daily, we are confident about the sustainability of Facebook's core product and the advertising market that should accrete to it. Facebook also is rolling out new ways for users to become engaged, including Marketplace, a platform where individuals can buy and sell items, as well as video and messaging. In addition, Facebook has launched new ad products, and we believe the company will be a significant beneficiary of long-term growth in mobile and video usage.

Amazon.com: The online retailer is a major player in a number of retail categories, including books, apparel, home goods, video and electronics. Amazon offers an appealing combination of value and convenience. As a result, membership in its annual subscription service, Amazon Prime, has increased at a double-digit rate in recent years, creating a loyal base of shoppers who tend to spend more than non-Prime members. In addition, Amazon Web Services (AWS), the firm's cloud-computing business, is an industry leader. Importantly, we believe AWS has a long runway of growth, as we are only in the early stages of companies shifting workloads from on-site servers to the cloud.

Activision Blizzard: We like the company for its core business, which has developed several popular gaming

Top Detractors

Bristol-Myers Squibb: We like the potential for the company's immuno-oncology (I-O) franchise, headlined by Opdivo, which is proving effective in treating an expanding number of cancers and is already approved for the treatment of lung cancer, kidney cancer, skin cancer, head and neck cancer and Hodgkin's lymphoma. Opdivo also has the potential to be combined with other immuno-oncology agents, but those combinations are still under development. However, given the evident setback in a particular immuno-oncology combination therapy trial that occurred during the quarter, we chose to exit the position.

L Brands: We believe the company's top brands, Victoria's Secret and Bath & Body Works, are uniquely advantaged because of their dominant market share, proprietary sourcing and digital scale. While L Brands' heavy exposure to malls is a serious concern, digital sales are growing quickly and we believe the brands can manage channel shift long term. The key debate is to what degree Victoria's Secret can recover from its exit from certain product categories and shift to a less promotional posture, which has hurt store traffic. But we believe management is making the right moves to ensure the long-term health of the business, and we think the stock is cheap relative to its long-term free cash flow potential.

Kroger: We appreciate Kroger's focus on productivity gains, which have enabled the grocery store operator to compete with general merchandising companies moving into the supermarket business. Although Kroger faces increasing competition and has closed underperforming stores, the company continues to gain market share. Helping with that is the grocer's analytics operation, 84.51°, which allows Kroger to study shopping patterns and improve customer

Top Contributors (continued)

franchises, and believe the company will improve profitability of those franchises as gaming moves more heavily into a digital environment. We also believe the company has the potential to significantly improve monetization of mobile gaming operator King. King has been one of the few (if not the only) major mobile gaming properties that does not advertise. Given Activision's history of managing key franchises well, we expect the company to be able to grow the business and have it contribute to revenues on the back of increased advertising. Furthermore, we like Activision's aim of maximizing free-cash-flow generation.

Adobe Systems: We believe the company is poised to grow profitability as its digital media business moves from a perpetual license-based business model to a subscription-based model. We also believe Adobe's digital marketing business, which helps advertisers create digital content, is well positioned for the transition in advertising spending toward digital advertising platforms.

Top Detractors (continued)

experience. This data gathering, in our opinion, will accelerate future same-store sales growth for the company.

AutoZone: AutoZone is a retailer and a distributor of automotive replacement parts and accessories in the United States and Mexico. We appreciate the company for its historical ability to generate high returns on invested capital with industry-leading profit margins and sales per square foot. This produces strong free cash flow, which AutoZone uses to aggressively repurchase its shares. AutoZone also has been investing in its supply chain to improve the availability of products, which we think will win over customers and expand the company's market share.

TD Ameritrade Holding Corp.: We believe the online broker is a best-in-class asset gatherer. We also like that TD Ameritrade has outsourced banking operations, which, in our opinion, allows the broker to run a capital-light business model that helps generate free cash flow in excess of net income and deliver attractive returns. Going forward, we believe TD Ameritrade will benefit from the dual tailwinds of retiring baby boomers moving assets from defined contribution plans to rollover IRAs and younger investors preferring to do financial planning online.

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 the performance of Class I Shares.

As of 3/31/17 the top ten portfolio holdings of Janus Research Fund are: Alphabet Inc (5.13%), Amazon.com Inc (3.40%), Microsoft Corp (3.34%), Facebook Inc (2.93%), Apple Inc (2.88%), Altria Group Inc (2.39%), Walt Disney Co (2.29%), Visa Inc (2.05%), Comcast Corp (2.03%) and Coca-Cola Co (1.99%). There are no assurances that any Janus portfolio currently holds these securities or other securities mentioned in this commentary.

The opinions are as of 3/31/17 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.

Performance may be affected by risks that include those associated with non-diversification, portfolio turnover, short sales, potential conflicts of interest, foreign and emerging markets, initial public offerings (IPOs), high-yield and high-risk securities, undervalued, overlooked and smaller capitalization companies, real estate related securities including Real Estate Investment Trusts (REITs), derivatives, and commodity-linked investments. Each product has different risks. Please see the prospectus for more information about risks, 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 reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

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