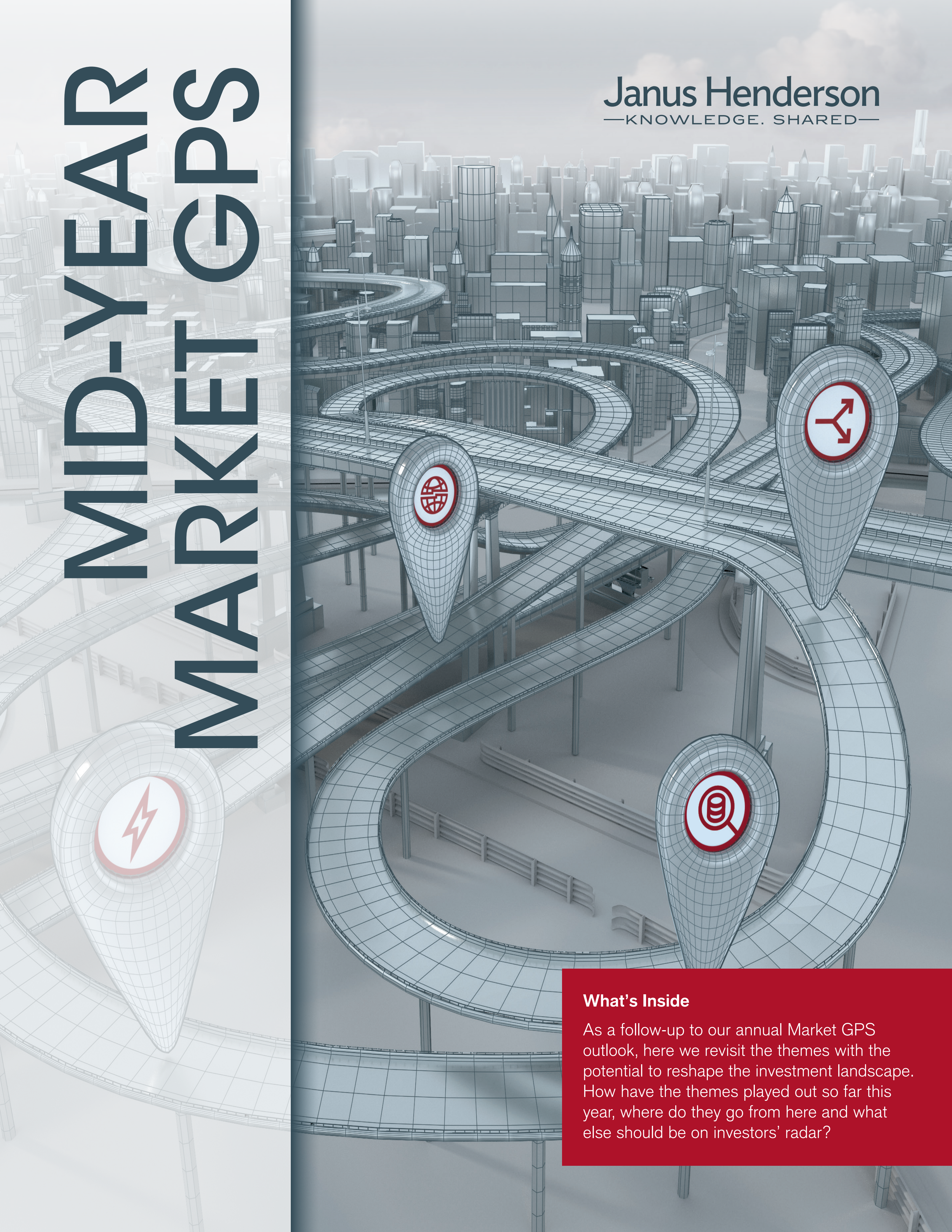

# MID-YEAR MARKET GPS

Janus Henderson

KNOWLEDGE. SHARED

**What's Inside**

As a follow-up to our annual Market GPS outlook, here we revisit the themes with the potential to reshape the investment landscape. How have the themes played out so far this year, where do they go from here and what else should be on investors' radar?

# AN UPDATE ON OUR 2019 OUTLOOK

At the start of 2019, we asked our investment teams for their views on the year ahead. Their outlooks helped identify core themes, or mega trends, considered likely to impact markets. Here, we assess how closely reality has mapped expectations and ask key managers how they have seen the themes evolve and what investors should watch for over the remainder of the year.

We also look at fast-approaching themes, which, while maybe not yet mega trends, have the potential to grow in importance and play a key role in investor thinking.

At Janus Henderson, investment teams are free to form their own opinions of opportunities and risks in the marketplace. We believe in making these insights widely available to our clients as part of our *Knowledge. Shared* approach.

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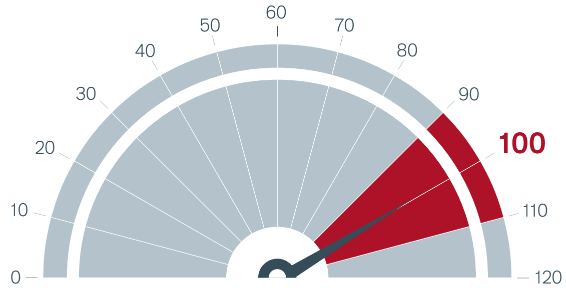
# DISRUPTIVE FORCES

## Keep Up with the Pace of Change

Disruption is being felt across industries and geographies and proving to be a differentiator in the long-term performance of investors' portfolios. Such rapid and widespread change is creating new investment opportunities but also significant risks. This continued to be the case through the first half of 2019. Technology and health care are among key sectors, with tech serving as the engine of the digital economy and health care experiencing unprecedented levels of innovation.

## Speed of change: Fast

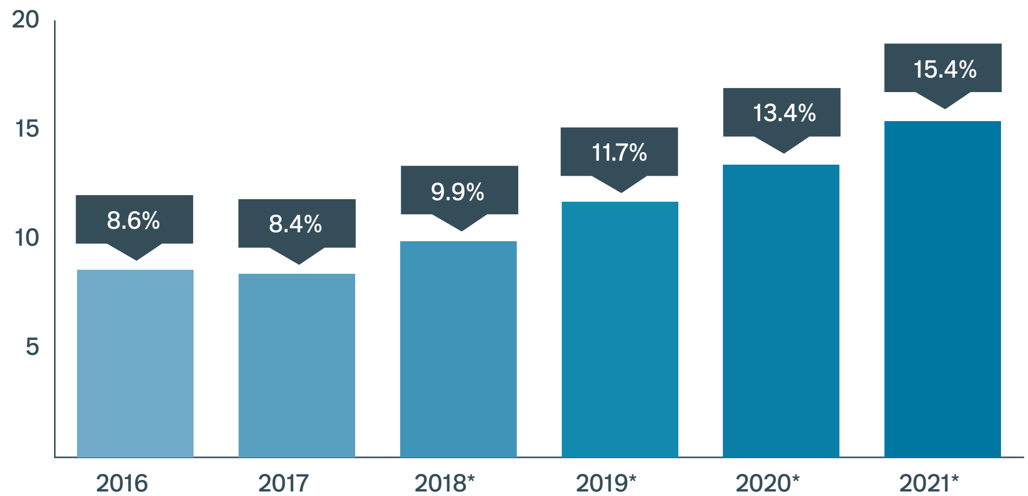



## 2019 so far

- Disruption continued as progress in drug development led to a wave of mergers and acquisitions in health care and secular tailwinds drove growth in technology.
- Even so, both sectors showed they were susceptible to short-term volatility. In April, health care stocks retreated in the face of a proposal to eliminate private insurance in the U.S. Inventory and trade concerns weighed on semiconductor stocks, while Internet platforms faced increasing scrutiny over privacy.
- Demand for cloud computing has been particularly strong, with spending expected to grow markedly in the years ahead.
- The Internet of Things (IoT), artificial intelligence (AI) and the rollout of 5G remained dominant forces for change.

## The Transition to the Cloud: Long Runway of Growth Ahead

Cloud computing as % of total enterprise IT spend in the U.S.




Source: Gartner, as of 4/30/19. Notes: IT spend excludes telecom and IT services. *Estimated

## The Technology Long Game

### Denny Fish

**Portfolio Manager, Technology**

With the tech sector writing the operating system for a digital global economy, we focus on long-term themes – cloud computing, the IoT and AI – that are disrupting a host of business models. We, therefore, keep business cycles in perspective. After being hampered by an inventory overhang, semiconductor stocks (semis) surged early in the year as markets anticipated more favorable industry dynamics. Throughout, we kept our favorable view of semis given their integral role in IoT deployment.

Other disruptive forces also fueled tech gains. Companies are integrating the cloud into front-office functions, digital payments spurred consolidation and digital advertising remains a steady revenue generator. Investors anticipated a potential resolution to the U.S.-China trade dispute may not be as onerous to global supply chains as feared, and intellectual property protections could see improvement. Furthermore, trade conditions have little bearing on the themes of China's Internet and the U.S. cloud.

These advancements should continue. It remains to be seen whether the expected semi recovery is pronounced or more measured. We also expect Internet platforms to endure greater calls for regulation in advance of the 2020 U.S. presidential election.

## Health Care Innovation and Rising M&A Activity

### Andy Acker

**Portfolio Manager, Global Life Sciences**

Health care continues to experience rapid innovation, thanks to advances in genetic sequencing, new modalities for targeting disease and accommodative regulatory paths. Increasingly, small- and mid-size companies are behind today's medical breakthroughs. Consequently, we have seen a surge in mergers and acquisitions (M&A), often at significant premiums: Year to date, more than $151 billion in biotech and pharmaceutical deals have been announced, already more than half the total for all of 2018.* At the same time, the 2020 U.S. presidential election has created volatility as some candidates push for a single-payer health care system. However, we believe the odds of such proposals becoming reality are low, while volatility has helped make valuations of many health care stocks more attractive.

Innovation looks set to continue. We expect results from landmark studies for cancer-fighting immunotherapies in the coming months, while new technology is emerging in medtech such as continuous glucose monitoring systems and robotic-assisted surgeries. Meanwhile, progress continues in the fields of gene and cell therapies, both of which show promise in treating a number of intractable diseases. In our view, these advances could lead to significant growth for the companies developing the products, as well as fuel additional M&A.

## KEY NUMBERS

**90%** OF THE WORLD'S DATA WAS CREATED IN THE PAST 2 YEARS[1]

DEVICES CONNECTED TO THE INTERNET

**28B** BY 2021[3]

MORE THAN 1,000 CELL THERAPIES UNDER DEVELOPMENT

ROUGHLY **80%** INCREASE OVER THE LAST 12 MONTHS[2]

U.S. FOOD AND DRUG ADMINISTRATION NOVEL DRUG APPROVALS

2014-2018 = 213
2009-2013 = 143

**49%** INCREASE[4]

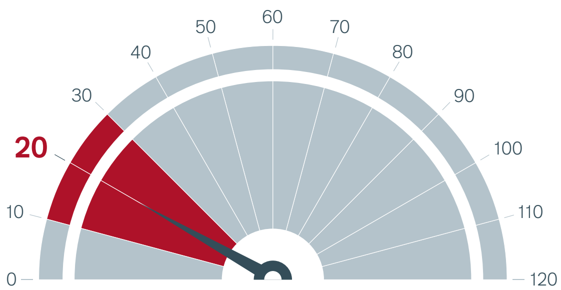
Source: [1] IBM, as of 2015. [2] 2019 *Global life sciences outlook*, Deloitte. Data as of 9/24/18. [3] Ericsson mobility report. [4] U.S. Food and Drug Administration. *Bloomberg, as of 5/6/19.

# DIVERGENCE

## Delayed for Now But Still on the Table

Expectations at the start of the year were for further divergence of returns in 2019 with the U.S. moving in a more aggressive monetary policy direction compared to other markets. The pivot by the Federal Reserve (Fed) toward a more dovish stance largely dampened these expectations and a rally followed in both riskier and safe-haven assets. This does, however, leave many segments of the market appearing fairly or fully priced with divergence potentially ahead. Where there was divergence this year, was in asset class flows as shown in the chart below.

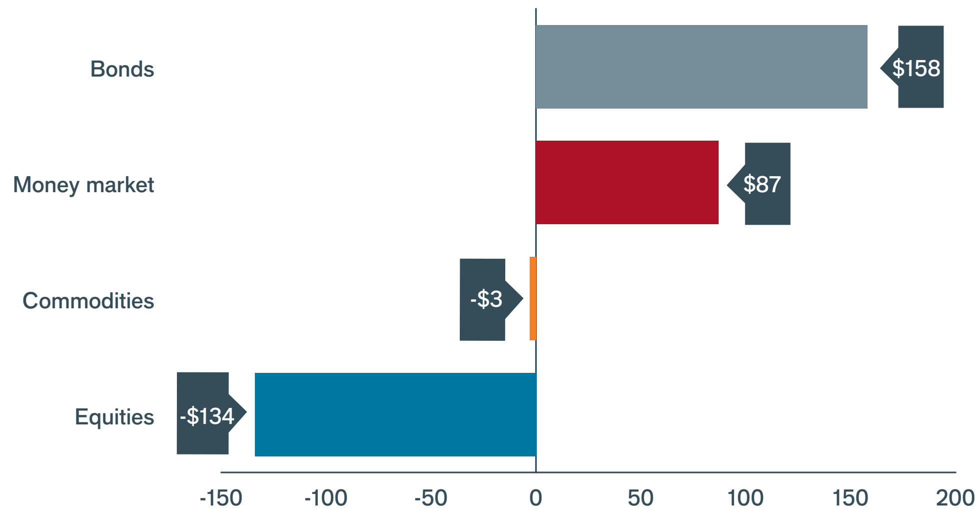
## Speed of change: Slow




## 2019 so far

- Rather than seeing further divergence in global monetary policies, the Fed's dovish pivot gave the green light for still-struggling economies to extend their accommodative approach.
- While both riskier and safer assets rallied in the aftermath of the Fed's reversal, subtle divergences emerged. U.S. stocks outpaced global shares and growth stocks generated higher returns than value.
- Investment-grade corporates and government bonds were the most direct beneficiaries of lower interest rates, but with the risk of hawkish policy error off the table, high-yield corporates outshone other segments of the fixed income market.
- Investors' enthusiastic chase for yield, and caution over the strength of the global recovery, saw a sharp divergence in flows into fixed income and equity products (see chart below).
- Perhaps a further sign of caution: the U.S. dollar continued to strengthen over the period, given its relative safety compared to export- and commodities-oriented currencies.

## Divergence in Global 2019 Asset Class Flows (US$ billion)




Source: Janus Henderson Investors, BofA Merrill Lynch Global Investment Strategy, EPFR Global, weekly data, 1/1/19-5/1/19.
Note: includes mutual funds and ETFs.

## In Times of Uncertainty, Focus on Fundamentals


### Michael Ho
**Global Head of Multi-Asset and Alternatives**


How likely is a bear market in the near future? This is the question on everyone's mind, with concerns over equity valuations persisting since 2010. Shiller's cyclically adjusted P/E ratio currently stands above the 30 mark. The last two times it reached this level were 1929 and 1998, just prior to the Great Depression and dot-com burst. This is therefore an uncomfortable place for investors, especially when more boomers are retiring and cannot withstand capital loss from a large market fall. What is one to do?

Should we follow and react to complex changes in monetary policy, macro indicators and sentiment scores? While these are important for refined asset allocation, we believe the main focus should be on earnings growth. After all, stocks are claims on dividends that come from earnings. If investors bought stocks when realized earnings grew over the prior year, but switched to 10-year duration Treasury bonds when there was no growth, then much of the medium-term market turmoil could have been avoided.

So what is earnings growth telling us today? Realized earnings per share of S&P 500 Index companies are still growing, although arguably too quickly. This suggests that long-term investors should not be overly concerned by macro uncertainty today. However, we should be watchful of any sign that earnings growth starts to flatline.

## Diverging Monetary Policy – Not So Fast


### Ash Alankar
**Head of Global Asset Allocation**


The narrative of policy divergence among central banks ended with the Fed's accommodative pivot. This move increased the likelihood of the true source of recession materializing: a succession of rate hikes brought on by accelerating inflation. While Chairman Jerome Powell correctly stated that short-end interest rates were fairly priced – roughly matching inflation – and thereby removing a need for additional hikes, we believe he erred in ending the Fed's balance-sheet runoff. Longer-term real rates remain below their equilibrium of roughly matching real GDP. Market distortions have ramifications, and the consequences of cheap long-end rates are probably excessive economic activity leading to higher prices.

Heightening the risk are a strong labor market and solid economic growth. Even tariffs and geopolitical tensions – often transmitted through commodity supply shocks – are inflationary. Perhaps most concerning are banks holding fewer excess reserves at the Fed. Given the volume of money in circulation, it would only take a marginal uptick in velocity to ignite inflation.

Looking ahead, conditions reflect a "goldilocks" environment with dovish central banks, continued growth and muted inflation. Yet an absence of inflation today does not portend an absence tomorrow. The Fed's about-face has left it in a more reactive position, especially as the ingredients for an inflationary snapback are converging, and that could switch the narrative to the "three bears."

## KEY NUMBERS

**2019 GDP ESTIMATES[1]**

U.S. = 2.6%
UK = 1.3%

EUROZONE = 1.1%
JAPAN = 0.7%

**2019 CHANGES IN CENTRAL BANK ASSETS[2]**

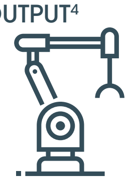
U.S. FEDERAL RESERVE –US$147B
EUROPEAN CENTRAL BANK –US$98B
BANK OF JAPAN +US$14B

**ACCOMMODATIVE RATES? EUROPE VS. U.S.[3]**

| EUROPE VS. U.S. | YIELD ON 2-YEAR GOVERNMENT BONDS |
|---|---|
| U.S. | 2.12% (TREASURIES) |
| EUROPE | -0.63% (BUNDS) |

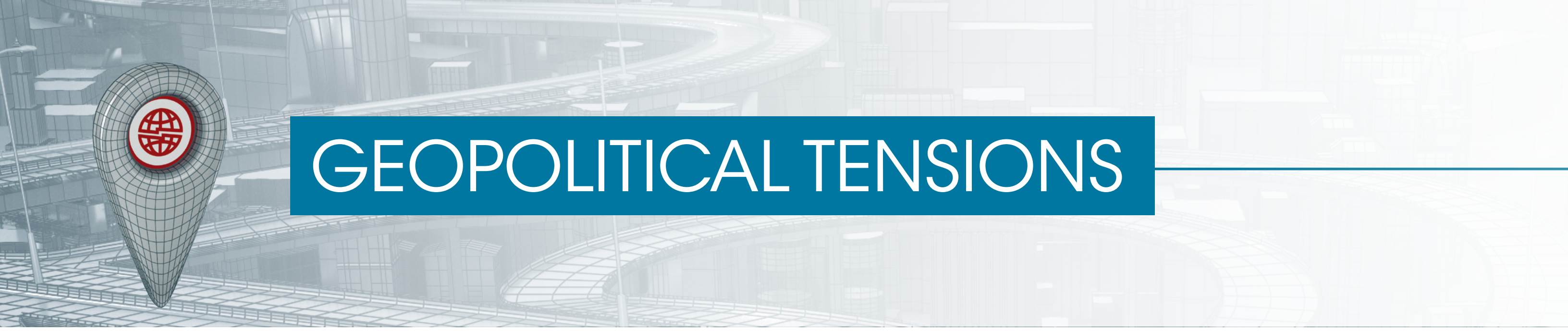
**MANUFACTURING OUTPUT[4]**

U.S. = 52.8 (EXPANSION)



EUROZONE = 47.9 (CONTRACTION)

Source: [1] Bloomberg, as of 5/13/19. [2] Bloomberg, April 2019. Figures in US$ billion. [3] Bloomberg, as of 5/13/19. [4] Bloomberg, Purchasing Managers' Index (PMI). Above 50 indicates expansion, at end April 2019.

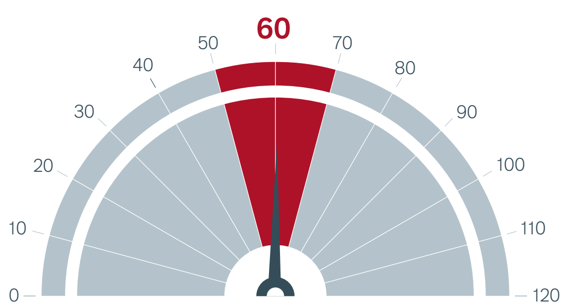


# GEOPOLITICAL TENSIONS

## Filter the Noise When Navigating the Geopolitical Environment

While some tensions such as U.S.-China trade talks, Brexit and oil-related issues were anticipated, the expectation was that these would be accompanied by additional unforeseen challenges. While there have been pockets of turbulence elsewhere, the three issues flagged remain dominant. As ever, the challenge for investors is being able to filter meaningful signals from the noise and capture opportunities suited to long-term investment horizons.

## Speed of change: Medium

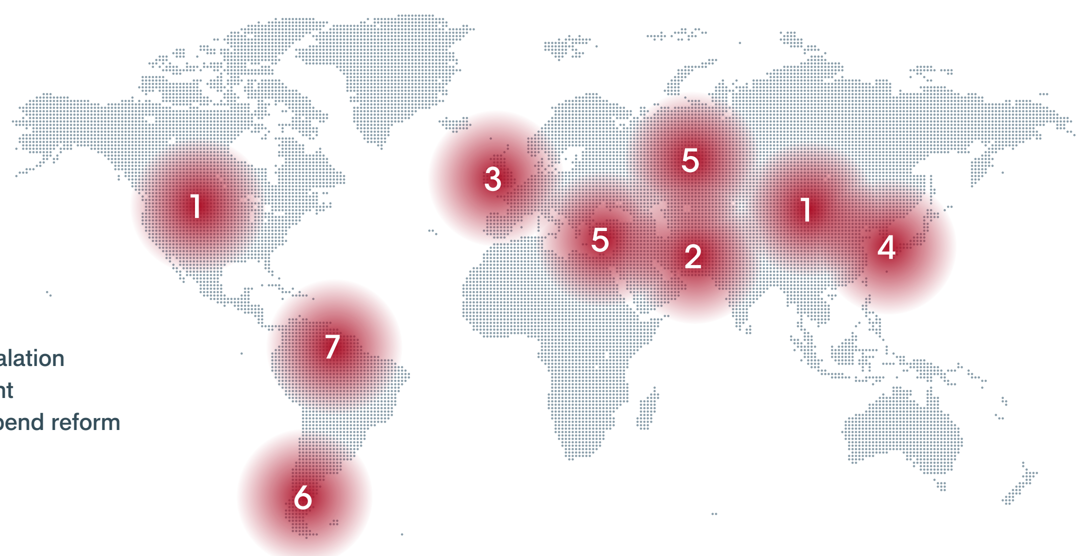



## 2019 so far

- As attitudes toward globalization shift, geopolitics has re-emerged as a significant factor to consider when making investment decisions.
- Populist opinion manifests on both ends of the political spectrum and has spurred a number of events globally, including Britain's 2016 decision to leave the European Union and its ongoing ramifications.
- Trade tensions between the U.S. and China continue to cause uncertainty in markets.
- Populism has promoted the push toward regulation of tech giants in matters related to privacy and mental health.

## Global Threats to Geopolitics

The map below pinpoints the potential hot spots for geopolitical activity that could impact markets in 2019.




1. U.S.-China trade wars
2. Iran sanctions/oil
3. Brexit
4. North Korea conflict escalation
5. Russia/Syria engagement
6. Elections in Argentina upend reform
7. Venezuela crisis

Source: Janus Henderson Investors, May 2019.

## It Doesn't Matter Until it Matters

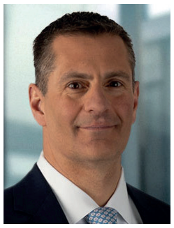
### Jim Cielinski
**Global Head of Fixed Income**

Geopolitical risks have a habit of making investors look bad. Nothing reveals behavioral flaws like true uncertainty. Geopolitical risk lulls investors into complacency before suddenly, and without much warning, erupting and causing overreaction.

Investors must know their risks. First, geopolitical risks are not always negative. Fading global tensions were key to the global risk rally in Q1. Second, risk can be defined by volatility, or the probability of losing money. For most, permanent money loss is what matters. The key to navigating geopolitical risk is to separate truly systemic events from those that are merely noise. This is easier said than done, as the nature of these events ensures that they surprise markets and dominate headlines.

The list of geopolitical threats is long and getting longer (see chart on previous page). Of these, only the first two are likely to create true systemic global risks. The probability of navigating 2019 without one or more of these threats erupting is low. Most of these will dominate markets but then quickly fade, presenting investors with opportunity. But avoid getting caught out. One of these times, a major global threat will go awry, and investors will need to know when to take cover.

## Supportive Backdrop but Trade Talks Remain Key



### George Maris
**Co-Head of Equities – Americas**

We have seen some easing of geopolitical tensions since the end of 2018. Although trade negotiations between China and the U.S. have not been smooth as of late, talks are continuing, with President Donald Trump set to meet with President Xi Jinping at the end of June. At the same time, the Federal Reserve and other central banks have decided to keep monetary policy accommodative, a reversal from what was signaled last year. Meanwhile, earnings growth remains strong, U.S. GDP accelerated faster than expected during the first quarter and stimulus from Beijing has helped to lift China's economy, all of which contributed to a sharp rally in global equities early this year.

We think trade remains one of the most important issues for the second half of 2019. As the U.S.-China trade spat continues, the Trump administration is also threatening tariffs on goods from Europe, a significant economic and trading partner. In addition, Brexit remains an open question, and we are witnessing extreme policy proposals introduced by candidates in the 2020 U.S. presidential election. Against this backdrop, we believe central banks will remain accommodative to support the global economy and backstop volatility. We also think U.S. corporate and household strength could continue to positively surprise, thanks to subdued inflation, strong employment, low interest rates and ongoing innovation.

## KEY NUMBERS

**U.S. AND CHINA GROWTH SURPRISES TO THE UPSIDE**

**BUT WILL THIS CONTINUE?**

| | FORECAST | ACTUAL |
|---|---|---|
| CHINA | 6.3% | 6.4% |
| U.S. | 2.3% | 3.2% |

Q1 2019 GROWTH, YOY[1]

**OIL PRODUCTION**

IN THE U.S. UP 45% SINCE **2016** LOW[2]

**U.S. EARNINGS GROWTH CONTINUES**

76% SHARE OF COMPANIES IN THE **S&P 500® INDEX** REPORTING **BETTER-THAN-EXPECTED** EARNINGS FOR **Q1**[3]

**BREXIT IMPACT**

**ALMOST** 60% OF BUSINESS LEADERS EXPECT THINGS TO **GET WORSE** IN THE UK IN 2019[4]

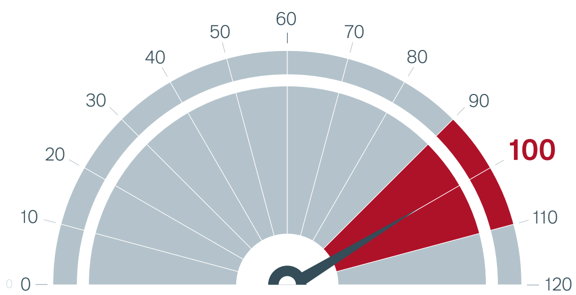
Source: [1] Bloomberg, Bureau of Economic Analysis. National Bureau of Statistics of China. China GDP as of 4/18/19. U.S. GDP reflects advance estimate as of 4/26/19. [2] Bloomberg, April 2019. [3] FactSet, as of 5/3/19. [4] Institute of Directors, December 2018.

# TAPPING THE INCOME STREAM

## The Importance of an Active Approach within Fixed Income

Income has always been in high demand but now more so than ever. Whether meeting the needs of investors collecting a regular income, or being rolled up as the backbone of accumulated total returns, this remains a key theme. The expectation was that the low-yield world would continue for the foreseeable future with limited opportunities for price appreciation. Therefore "carry" (the excess income generated by a position) was expected to be the primary driver of fixed income returns with the need for a suitably high-conviction approach to capturing them.

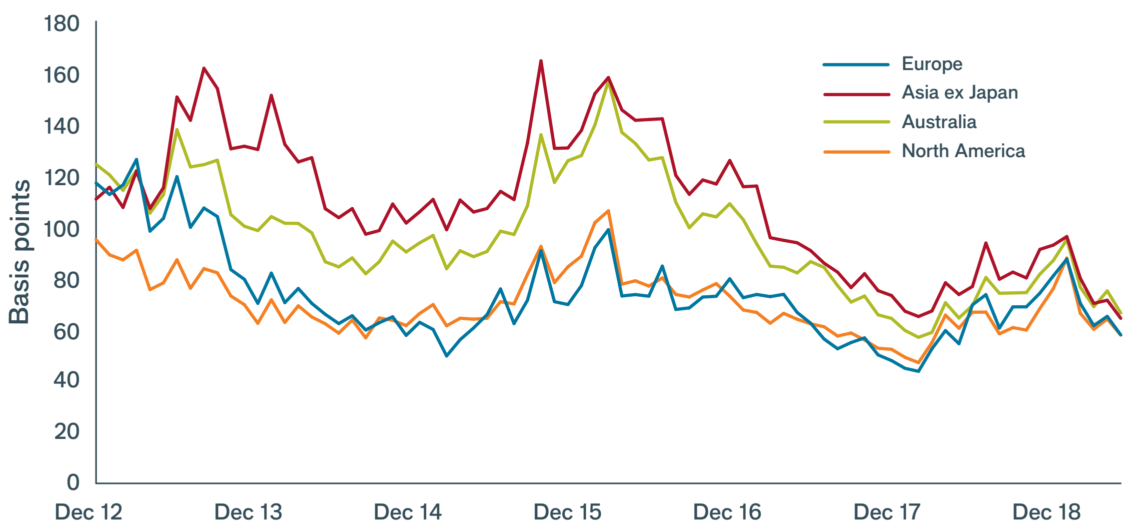
## Speed of change: Fast




## 2019 so far

- The U.S. Federal Reserve's (Fed) willingness to pause its rate hike cadence and its balance sheet runoff helped to keep Treasury yields capped and risk asset valuations climbing early in 2019.
- In response to slowing global growth, many of the developed world central banks have followed in the Fed's footsteps, adopting a more dovish tone and further supporting risk assets.
- Yields on corporate bonds over the yields of their comparative risk-free benchmarks have tightened back in line with long-term averages, limiting opportunities for price appreciation.
- Credit spreads in many international developed markets tend to be wider than those of North America but have notably converged.

## Investment-Grade Corporate CDS Spreads by Region




Source: Bloomberg, monthly data as of 5/9/19. CDS = Credit Default Swaps.

## Greater Dovishness Crystalizes Bond Investors' Choices

### Nick Maroutsos

**Co-Head of Global Bonds**

Our view that – when faced with a choice – the Fed would opt for greater dovishness was resoundingly validated by the central bank's December pivot. While the market may have gotten too aggressive in pricing in interest rate cuts, we believe the Fed's next move will be down – albeit in 2020. Under a backdrop of lower rates and continued U.S. economic expansion, we believe bond investors should favor the front end of the U.S. yield curve and look globally to meet their objectives.

While favorable for risk assets, lower rates likely limit the opportunity for capital appreciation on longer-dated bonds. Shorter-duration securities, on the other hand, present the best chance for gains, given our expectation of a steepening yield curve as policy rates eventually fall. For income-seeking investors, we do not believe the marginal gain in carry justifies the additional interest-rate risk undertaken with longer-dated bonds.

The Fed's pivot also gave cover for other central banks to continue – or increase – their accommodative stance. For countries reliant upon global trade or commodities, slowing growth makes rate cuts all the more likely. We also consider foreign-domiciled investment-grade issuers to be attractive sources of carry, given their relative yields, strong competitive positions, and in some cases, implicit government backing.

## Look to Labor Inflation for Cycle Signals

### Seth Meyer

**Portfolio Manager, Fixed Income**

The U.S. economy remains relatively healthy, the Fed is on pause, and we have yet to identify any real excesses in the system. This backdrop, along with a low default rate, strong demand and limited supply, suggest that high-yield corporate valuations are generally fair. On the other hand, we are late in the economic cycle and this is a coupon clipping environment. It is time to focus on free-cash-flow generative businesses with the ability to service their debt, and on issuers that are deleveraging, as opposed to those levering up for growth.

There are still transformational balance sheet stories to be found in the corporate sector, but income seekers may benefit from looking across fixed income asset classes for the most attractive yields on a risk-adjusted basis. The strength of the consumer, for example, is generating appeal in certain high-yielding asset-backed securities such as restaurant franchise securitizations that benefit when same-store sales are positive. The consumer's ability to service its debt is also creating compelling opportunities in sub-prime auto securitizations through well-established loan originators.

From here, monitoring economic data for signs of deterioration remains critical, but labor inflation – if it emerges – and its impact on corporate profit margins, will be particularly telling in terms of how much time the cycle has left.

## KEY NUMBERS

**OF TOTAL RETURNS OVER THE LAST 12 MONTHS, INCOME ACCOUNTED FOR[1]**

**54%** OF U.S. TREASURY RETURNS

**74%** OF GLOBAL INVESTMENT-GRADE CORPORATE BOND RETURNS

**100%** OF GLOBAL HIGH-YIELD CORPORATE BOND RETURNS

**72%** = PROBABILITY OF A RATE CUT AT JAN 2020 FED MEETING[2]

**2** OUT OF THE LAST **26** YEARS ONLY TIMES FORECASTERS HAVE PREDICTED LOWER TREASURY BOND YIELDS[3]

Source: [1] Bloomberg, ICE BofAML indices, hedged to US$, as of 4/30/19. [2] Bloomberg, as of 5/14/19. [3] Philadelphia Fed Survey of Professional Forecasters, December 2018.

# FAST-APPROACHING THEMES

These are themes that we believe have the potential to rise in importance for investors in the second half of 2019 and beyond.

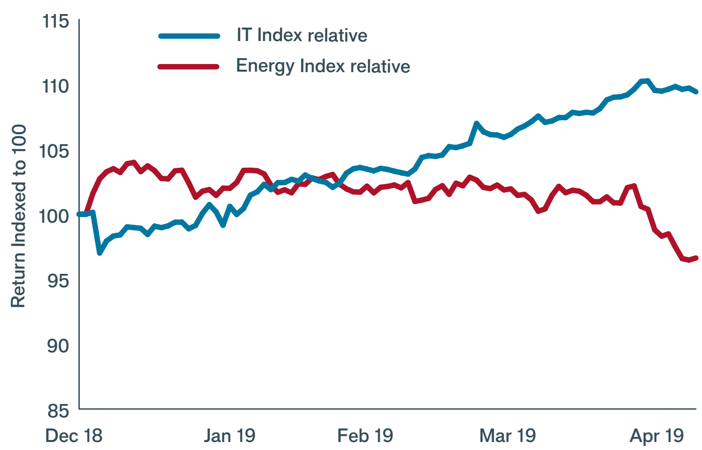
## Sustainable Investing: Micro Trends Behind the Macroeconomic Veil

Hamish Chamberlayne
**Head of Sustainable and Responsible Investing (SRI)**

We believe the slowing macroeconomic environment has disguised a divergent micro reality where some companies continue to grow while others struggle to navigate disruptive forces. Our focus on sustainability helps us to identify companies on the right side of secular trends.

The two generational investment trends upon which we are focused are the transition to a low carbon economy and the fourth industrial revolution. Thus far in 2019 we have seen evidence that both are driving investment returns. Many companies in the information technology sector have posted strong growth while many companies exposed to fossil fuels have underperformed. Our outlook for the year remains constructive with loose monetary policy supportive of higher valuations for those companies that are growing. On a longer term view, we believe a sustainable approach to equity investing will continue to grow in importance.

**Divergent Fortunes: Tech Companies versus Stocks Exposed to Fossil Fuels**




Source: Bloomberg, indexes relative to MSCI World in US$, as of 5/6/19.

## Hedge Fund Strategies Go Mainstream

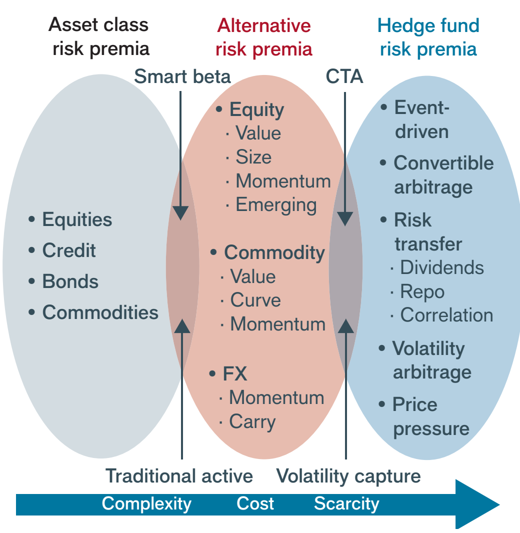
### David Elms

**Head of Diversified Alternatives**

There is a natural evolution in both finance and technology – complex becomes simple – as participants and infrastructure grow more sophisticated. For example, Warren Buffett's long-term success can be retrospectively explained by his exposure to low beta and value factors combined with leverage. However, these factors are now well known and widely available, causing their results to lag. Meanwhile, many differentiated and opportunistic strategies are outperforming in this changed landscape. Consequently, publicly available alternative products are evolving to include strategies that were previously only accessible via hedge funds.

To provide unified solutions, we have integrated our alternative risk premia and hedge fund teams into a single platform to enable the sharing of ideas, resources and technology. This is based on the view that bringing complex strategies to more investors can reduce fees, improve returns and provide true diversification. Rather than relying on a single static factor, we believe a good alternative strategy in the future will need to construct a solution that blends different sources of return and lowers overall portfolio risk.

**Alternative solutions**




The chart shows the range of factors that we believe alternative solutions of the future should provide access to in order to best meet investor objectives.

## Cloud Computing: The Next Frontier for U.S. Equities?

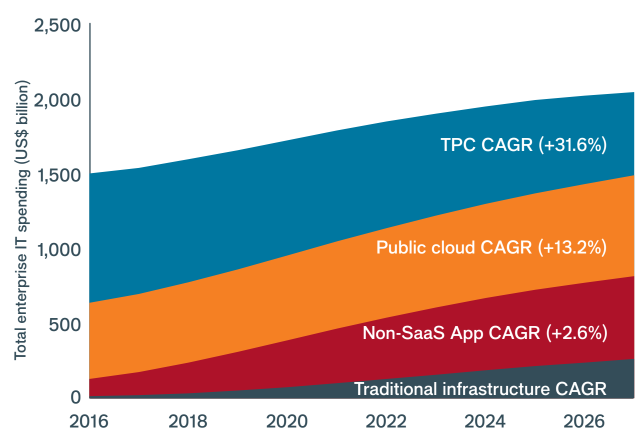
### Jeremiah Buckley

**Portfolio Manager, U.S. Equities**

We believe that there are still interesting stories within U.S. equities at the present time. The economic backdrop and current policy remain favorable for companies, while high employment levels are feeding through to wage inflation at a moderate level, which is supportive for consumer spending. We see the growth in global travel as an attractive area of opportunity, particularly in Asia.

The transition to cloud technology is a very economical move for enterprise applications. Only a fraction of total enterprise spending is allocated to the cloud, so we believe this has genuine potential – not just for those companies providing cloud services, but also those firms behind the infrastructure and equipment that help to facilitate the growth of the cloud. Software as a Service (SaaS) is also hugely interesting, and it is an area in which we see continued expansion of the market for companies that are offering subscription services.

**Cloud Market Set for Significant Growth Over the Next Few Years (US$ billion)**




Source: Wikibon, total expected IT spending on the cloud market, US$ billion, 2017-2027. Compound annual growth rate for each category shown in brackets.
Note: TPC - True private cloud compound annual growth rate (CAGR); Public cloud CAGR; Non-SaaS application spending (including business process outsourcing - BPO) CAGR; Traditional infrastructure (hardware, software, services, IT operations staffing) CAGR. Forecasts are not guaranteed.

# GLOSSARY OF TERMS

**(Baby) Boomers**
The generation of people born between 1946 and 1964. The name refers to a huge surge in the birth rate after World War II.

**Carry**
The definition of carry can vary based on the context in which it is used. The term is often used interchangeably for a number of things, from a simple reference to interest income on a bond, to the positive or negative return from holding a bond by earning yield on the bond versus holding cash (or the funding cost on borrowed funds).

**Credit default swap**
A financial contract whereby a buyer of corporate or sovereign debt in the form of bonds attempts to eliminate possible loss arising from default by the issuer of the bonds. This is achieved by the issuer of the bonds insuring the buyer's potential losses as part of the agreement.

**Default**
The failure of a debtor (such as a bond issuer) to pay interest or to return an original amount loaned when due.

**Duration**
How far a fixed income security or portfolio is sensitive to a change in interest rates, measured in terms of the weighted average of all the security/portfolio's remaining cash flows (both coupons and principal). It is expressed as a number of years. The larger the figure, the more sensitive it is to a movement in interest rates. "Going short duration" refers to reducing the average duration of a portfolio. Alternatively, "going long duration" refers to extending a portfolio's average duration.

**Front end**
The front end of the yield curve represents the shorter-dated maturities (1-5 years) and the back end is the longer-dated maturities (10-30 years).

**Real (interest) rates**
The real interest rate is the rate of interest an investor receives after allowing for inflation.

**Risk premium/premia**
The additional return over cash that an investor expects as compensation from holding an asset that is not risk free. The riskier an asset is deemed to be, the higher its risk premium.

**Secular trends**
Long-term investment themes with strong growth potential.

**Shiller price to earnings (P/E) ratio**
The cyclically adjusted price-to-earnings ratio (CAPE), Shiller P/E or P/E 10 is a common valuation measure, defined as the price of a stock divided by the average of the previous 10 years of earnings, adjusted for inflation. The ratio helps to indicate if a stock is undervalued or overvalued, giving a better picture of a company's sustainable earnings power over time, and reducing the impact of business cycles or other events on the price.

**Single-payer health care**
A health care system in which one entity, typically the government, collects all health care fees and pays for all health care costs.

**Sub-prime**
Relating to credit or loan arrangements for borrowers with a poor credit history and a greater risk of loan default than prime borrowers.

**Systemic event**
A change in the financial system as a whole, which would affect all markets and asset classes.

**Unicorn**
A unicorn is a privately held startup company with a value of more than US$1 billion.

Janus Henderson
—KNOWLEDGE. SHARED—

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Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

The health care industries are subject to government regulation and reimbursement rates, as well as government approval of products and services, which could have a significant effect on price and availability, and can be significantly affected by rapid obsolescence and patent expirations.

Technology industries can be significantly affected by obsolescence of existing technology, short product cycles, falling prices and profits, competition from new market entrants, and general economic conditions. A concentrated investment in a single industry could be more volatile than the performance of less concentrated investments and the market as a whole.

No investment strategy, including an absolute return strategy, can ensure a profit or eliminate the risk of loss. Additionally, investing in an absolute return strategy may result in underperformance during a bull market.

Actively managed portfolios may fail to produce the intended results. No investment strategy can ensure a profit or eliminate the risk of loss.

Price-to-Earnings (P/E) Ratio measures share price compared to earnings per share for a stock or stocks in a portfolio.

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