



# Finding Growth in a Growth-Starved World

## Three Secular Themes Driving Growth in the Coming Years



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The global economy had its share of volatility in the last decade, but we believe it remains dynamic. Evolving technologies and changing demographics are creating fundamental shifts in consumer habits and business practices. Companies on the right side of these changes may experience rapid growth even if the broader economy remains sluggish, in large part because the business rationale for these trends is compelling.

Below we highlight three secular growth themes we see taking shape over the next several years. Not every company will win from these trends, however. Many companies will see their businesses disrupted or displaced. But forward-looking companies have built competitive moats around their business that position them to benefit as these trends unfold. The fact that these trends are still nascent in their development leaves us favorable about the opportunity set in equity markets, independent of the economic backdrop.

### A Broad Shift from an Offline to an Online World

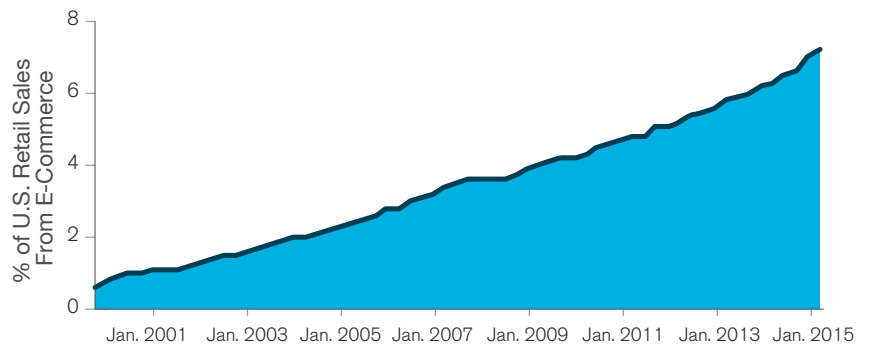
Nearly two decades after the birth of the Internet and more than five years since most Americans fastidiously began checking their smartphones, the digital transition continues changing how we shop, interact and consume content. As the charts below show, we believe there is still plenty of retail and advertising spending yet to migrate online. The value proposition of better pricing transparency for a consumer, and better reach for a brand or advertiser, will propel the transition from offline to online, even if economic growth remains tepid.

Importantly, e-commerce and digital advertising platforms are winner-take-most markets. Companies need tremendous scale and must build a wide network of both users and retailers for a platform to be successful. Once those competitive advantages are established, we believe it is unlikely for buyers or sellers to migrate away from that platform as long as the company continues to earn the trust of its customers.

### What To Tell Your Clients

- > Evolving technologies and changing demographics are creating fundamental shifts in consumer habits and business practices. Companies on the right side of these secular trends may experience rapid growth even in a slow-growth economic environment.
- > Select, forward-looking companies that have built competitive moats around their business are well positioned to benefit as these secular trends unfold and create disruption across a number of industries.
- > We believe holding companies at the forefront of these secular changes in a concentrated portfolio can amplify growth for investors even if economic growth is muted.

### U.S. RETAIL SALES FROM E-COMMERCE



Source: Economic Research Division, Federal Reserve Bank of St. Louis

### PROJECTED U.S. AD SPENDING – PERCENTAGE BY PLATFORM

	TV	DIGITAL	PRINT	RADIO	OTHER
2014	39.00%	28.30%	17.30%	8.60%	6.80%
2019	34.60%	41.40%	12.10%	6.80%	5.10%

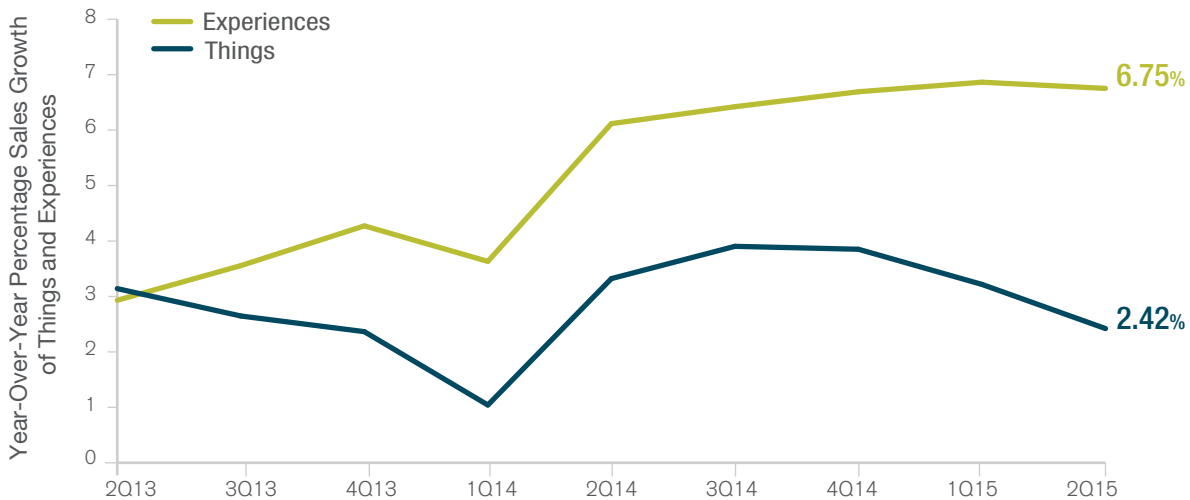
Source: eMarketer, September 2015

### Increased Tourism

In many developed countries, an aging population has more time to travel. In Asia, meanwhile, newfound wealth is leading to increased tourism. A gradual shift in consumer spending from physical goods to services also underpins demand in the travel industry.

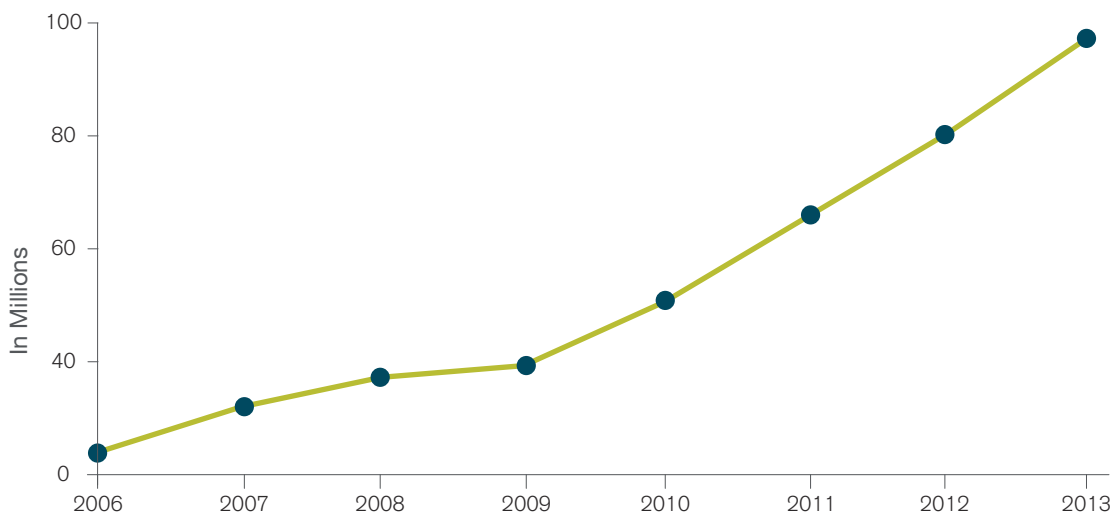
As this trend unfolds, however, select companies can disproportionately benefit. We see opportunity in select online travel agencies, which have built a wide network of hotel choices on their sites, and in select cruise lines. The cruise industry remains highly concentrated, with three companies controlling roughly 90% of U.S. capacity, and 75% of capacity globally. These companies should meet the increase in Chinese cruise demand over the next generation.

### U.S. PERSONAL CONSUMPTION SPENDING – EXPERIENCES VS. THINGS



Source: Bureau of Economic Analysis, Janus. As of September 2015.

### OUTBOUND CHINESE TOURIST – NUMBER OF DEPARTURES



Source: The World Bank

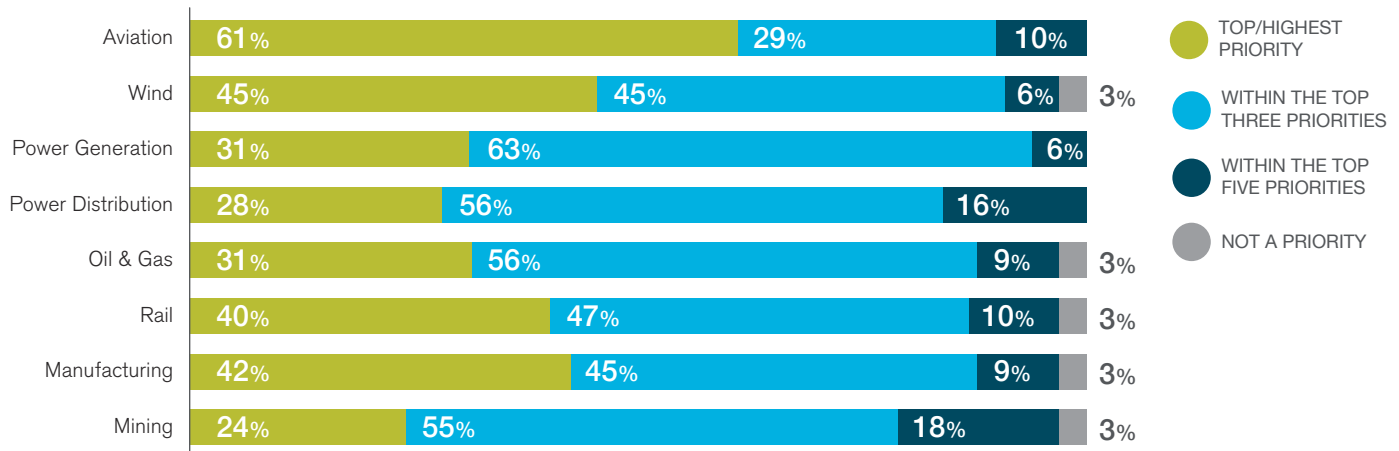
## A Proliferation of Connected Devices

The decline in silicon prices, embedded sensors and an improved ability to collect and analyze data creates a growing interconnectedness between consumers and electronic devices, and also between machinery used in manufacturing and management. The metrics collected from these devices lead to better experiences and choices for consumers, and ways for companies to drive productivity.

Some companies are more uniquely positioned to benefit from these changes than others. Firms with superior intellectual property and greater scale will see more benefits from this trend. A large industrial company may collect superior data from a wide customer base, and reap the benefits of cost savings over a broad range of products or offer an improved product to a larger set of customers. It truly is the “Internet of Things.”

## THE INTERNET OF INDUSTRY - PUTTING BIG DATA TO WORK

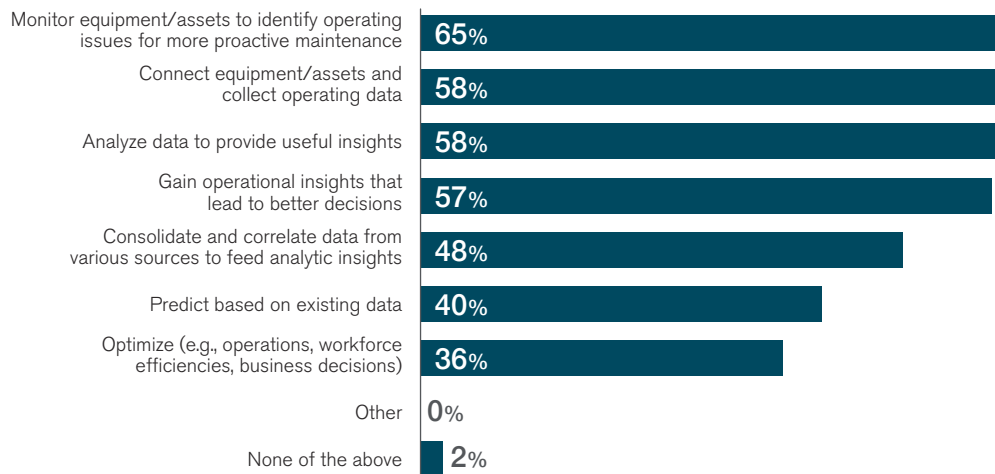
A recent General Electric and Assurant Survey asked industry leaders across key sectors how important big data is to their respective companies. Here's how members of each industry view putting big data to work.



Source: General Electric & Accenture, Industrial Internet Insights Report for 2015

## THE INTERNET OF INDUSTRY - WHAT CAN BIG DATA DO?

In the same survey from General Electric and Assurant, industry leaders described putting big data to work.



Source: General Electric & Accenture, Industrial Internet Insights Report for 2015

## Conclusion

The medium to long-run direction of the broader economy is difficult to predict, but we feel the progression of the trends discussed above seems clear. The demographic shifts, economic rationale or improved outcomes associated with each of these trends presents multiyear secular growth opportunities we believe are largely independent of the volatile economic backdrop.

Investing behind these themes requires a selective approach. We place a tremendous amount of our research efforts on identifying companies that have built well-defined competitive moats around their businesses. Those moats are necessary to uniquely position a company as a key beneficiary, or pivotal player in driving these themes. We believe holding companies at the forefront of these secular changes in a concentrated portfolio can amplify growth for investors even if economic growth is muted.

## Janus Forty Fund: Portfolio Snapshot

- > Fundamental research-driven approach, investing with conviction in 20 to 40 of our best large cap growth ideas where we believe we have a differentiated view from the market.
- > Seeks companies with sustainable competitive advantages that capitalize on their competitive moat to grow market share globally over a multi-year period.
- > Emphasizes dominant companies driving innovation and change through disruptive technologies, products or business models.

### About the Manager:

Doug Rao joined Janus in May 2013 and is Portfolio Manager of the Janus Forty Fund.



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