



JANUS

4Q: Bright spots emerge

Out of what has seemed like pervasive gloom, our bottom-up view of the world is decidedly bright. We see opportunities for investors—across market sectors and around the globe.

GLOBAL SECTOR VIEWS FROM THE JANUS EQUITY TEAM

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For four decades, fundamental, bottom-up research has been at the core of the Janus investment process. Our team of equity analysts covers approximately 1,500 stocks around the globe. Each takes an intensive, hands-on approach to research. We believe this differentiates us from our peers and drives results for our clients and the investors they serve.

Every quarter, our seven global sector teams share their bottom-up perspective on key themes in the equity markets and how those themes impact their sectors and areas of coverage.

GLOBAL SECTORS



COMMUNICATIONS



CONSUMER



ENERGY + UTILITIES



FINANCIALS



HEALTHCARE



INDUSTRIALS + MATERIALS



TECHNOLOGY

The opinions expressed are those of the authors as of October 2010 and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

4Q: Bright spots emerge

We are pleased to introduce a new quarterly report in which our seven global sector teams share their perspectives on key market themes and how they are impacting the companies and industries that we track. In the pages that follow, we highlight areas of potential opportunity uncovered through our fundamental research process. You'll read how the industrials sector is seeing signs of an improving global economy, with particularly surprising strength in Europe. Several quarters ago, Europe was in the throes of a debt and banking crisis. While issues linger—such as Greece's ongoing challenges and banking bailouts in Ireland—Germany and other European countries are booming. One German CEO told us that he used to come to the United States to hear an optimistic view. Today the mood is more sanguine in Frankfurt than New York.

In the United States, our consumer team sees particular strength in high-end retail. Back-to-school sales were good enough to make the holiday season a hopeful one. A recovery in advertising spending continues too. Healthcare utilization remains uncertain, but there are reasons it may pick up. In the financial sector, credit conditions continue to improve, although overall loan growth is modest.

Bottom line is that, even in slow growth markets, good companies find ways to grow. The year 2009 marked the first time since 1992 that at least 25% of the S&P 500 did not report a three-year growth rate above 10%—even as market average growth rates were below that in several of the years.

Investors—as opposed to speculators—should not try too hard to time the markets. We believe patience will be rewarded for those willing to ride out the economic imbalances and stay the course. In this new world, we don't think it's prudent to take what the market gives you. Rather, the need for individual stock picking couldn't be greater. Our bottom-up view of the world, pieced together from thousands of research data points and contacts, is decidedly bullish. Those who move first may benefit most.

For the specifics on how we've arrived at this stance, please read on.



Jim Goff, CFA
Director of Research



Adam Schor, CFA
Vice President and Client Portfolio Manager

Janus Global Equity Research Sector Summary

This sector-by-sector review provides a snapshot of how Janus equity analysts are applying their research insight—including favored industries and themes and potential sector risks and challenges—to their stock selections. While the views and recommendations of Janus analysts drive our research strategies, they may not be reflected in all Janus equity strategies due to varying portfolio objectives and stock selection criteria.



COMMUNICATIONS

- The strength of the advertising recovery is surprising the market.
- Advertisers are shifting spending to a combination of television and Internet.
- Valuations in the sector imply lower expected growth than we are observing.

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CONSUMER

- High- and low-end retailers are surprisingly strong, with weakness in the middle.
- Our biggest concerns remain unemployment and the potential for higher tax rates hurting luxury spending.
- We generally favor companies that should have operating leverage even in a modest consumer spending environment.

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ENERGY + UTILITIES

- Near-term concerns include below-normal global economic growth, high oil inventories and excess natural gas production.
- These concerns have resulted in equity prices that are discounting overly pessimistic outcomes.
- We think international markets will continue to provide strong demand and production opportunities over the longer term.

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INDUSTRIALS + MATERIALS

- The ongoing recovery is benefiting the sector and its cyclical exposure.
- One risk we are monitoring is the rising competitiveness of Chinese manufacturing.
- We think autos and airlines are transforming into higher-return, higher-value companies.

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FINANCIALS

- Despite some regulatory clarity, economic uncertainty continues to weigh on the sector.
- We think the sector is operating below normalized returns but with drivers in place to increase returns.
- We are favoring higher-quality business models where the valuations are most compelling.

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TECHNOLOGY

- The key long-term trend is cautious IT spending by corporations.
- The success of the iPad has broad implications for the sector beyond Apple.
- We think valuations in the sector are very reasonable, especially among large cap stocks.

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HEALTHCARE

- Investors seem to be getting more comfortable with the outlook for the healthcare sector.
- The trend toward lower utilization of healthcare services should be mitigated as we get into 2011.
- We like companies with products that address unmet medical needs or services that help control costs.

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COMMUNICATIONS

Multimedia strength

The strength of the advertising recovery is surprising the market, although our surveys and research had picked up much of the improvement. As advertisers return to the task of brand building, they are shifting spending to the successful combination of television and Internet. As the line between these mediums blurs further, we expect the demand for traditional media content to grow. While the fundamentals have not wavered, communications stocks were volatile in the third quarter as the market focused on the risk of a “double-dip” recession.

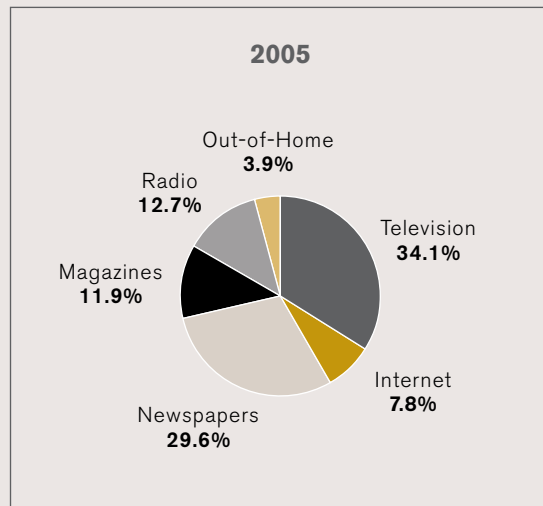
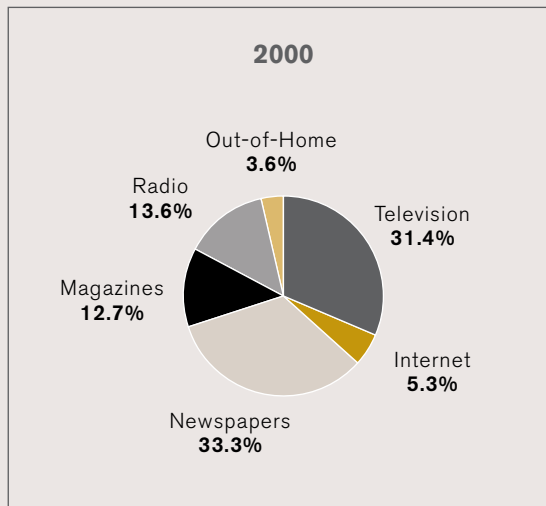
We are watching how the variety of choices for consuming entertainment shifts the power over time toward content providers and away from distributors.

On the distribution side, mobile data usage is accelerating, driven by the increased penetration of smartphones and other new devices. Tower companies are benefiting because mobile operators must add capacity to their networks. It should be meaningful for Internet service providers that can increase their audience reach and usage on these new platforms.

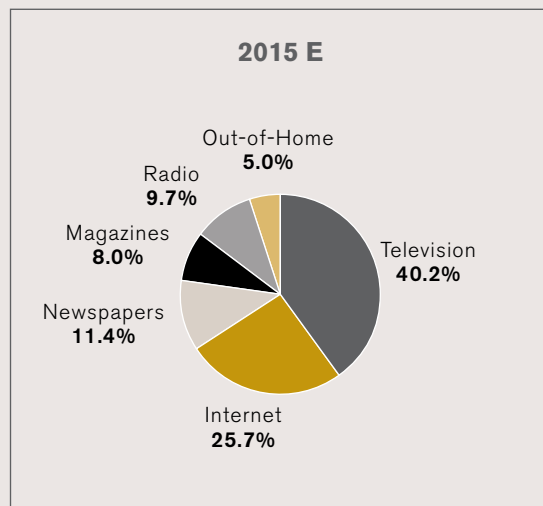
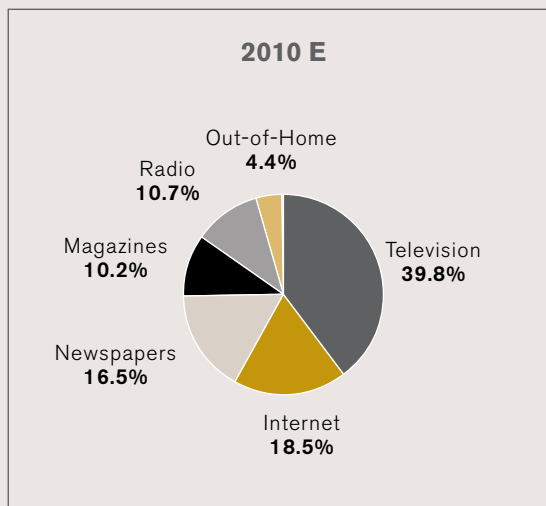
Portfolio Implications

In the first half of this year, we increased our exposure to the mobile operators that we believe will start to see benefits from demand growth, and have maintained our exposure through the third quarter. Valuations imply lower expected growth than we see. We also remain interested in the telecom, media and Internet businesses at the receiving end of these changes in how we use mobile computing and how advertisers allocate their budgets. Volatility gave us the opportunity to adjust position sizes but did not change our core investment outlooks.

NORTH AMERICAN ADVERTISING MIX



Video content (TV/ Internet) is projected to continue taking share from a growing advertising pie.



Source: MAGNAGLOBAL. As of June 2010.



ON THE RADAR

TV and radio advertising demand remains strong

Industry checks have increased our confidence that television—and to a lesser degree, radio advertising—remains strong and that rates will continue to increase. National spend is the big driver, and spending on auto advertising is the key category. Some radio industry contacts reported to us that auto advertising accounted for half the overall growth. Auto unit sales will be important to track to make sure this spending can continue.





CONSUMER

Not your typical recovery

There's a recovery here, but it's neither typical nor normal. We believe that consumer spending will increase in the fourth quarter, but at a slower pace than we saw in the first half of the year. What is interesting is the strength of high-end retailers and low-end retailers, with weakness in the middle. High unemployment is pushing middle-market shoppers down market. Year-to-date sales, in particular, have been heavily event- or holiday-driven, with consumers showing little resistance to paying full price for discretionary items.

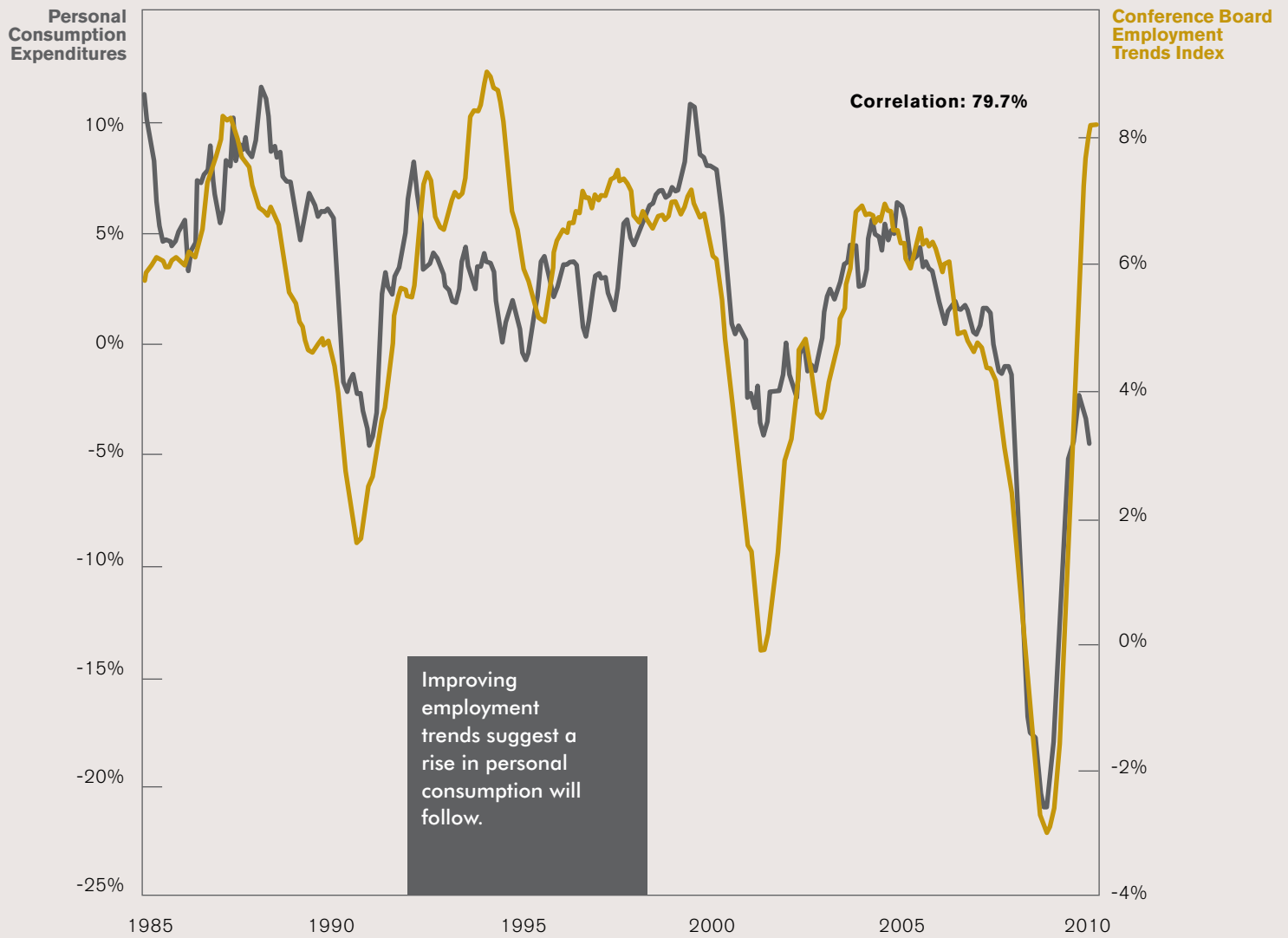
Good back-to-school numbers are a sign that consumers will be out shopping for the holidays.

Our biggest concerns remain unemployment and the potential for higher tax rates hurting luxury spending in 2011. We are also monitoring cost pressure coming out of higher wages in China and rising commodities. Many companies that had hedges to protect themselves from commodity cost increases are seeing them expire. In Europe, demand has been largely resilient and stable, despite the feared impact from sovereign debt volatility and austerity plans. Emerging market demand remains strong, but we are watchful of inflation in those markets.

Portfolio Implications

Valuations are attractive with a number of growth companies offering free cash flow yields of 7% to 8%. We generally favor businesses with growth from product innovation, market share gains, pricing power and a strong commitment to inventory and expense control. These characteristics should lead to operational leverage even in a modest consumer spending environment. In staples, we see value in some household and personal care, tobacco and alcohol. While we're not buying stocks solely on this expectation, we think we may see acquisitions. Many companies are cash flush, and those smaller companies that survived the last two years have proved their mettle. They could make nice bolt-on acquisitions for larger companies.

PERSONAL CONSUMPTION & EMPLOYMENT INDEX (3-month moving average, year-over-year)



Source: Conference Board, Bureau of Economic Analysis.
As of 8/31/2010.



ON THE RADAR

Unemployment holds the key

One of the key factors for the consumer sector is unemployment, which is highly correlated to personal consumption, as the above chart shows.





ENERGY + UTILITIES

Supply/demand imbalances abound

We remain bullish long term on oil prices but cautious on some near-term areas. Near-term concerns include below-normal global economic growth, high levels of inventory and spare production capacity. Global political uncertainty may support oil prices, but given inventory levels, we need global demand to pick up for prices to strengthen. Longer term, we believe that as the global economy normalizes, oil demand will indeed pick up and sop up these excesses.

Economic weakness is depressing demand for natural gas, while new technology is unlocking large-volume growth potential. Together, this puts pressure on natural gas prices and the stock prices of natural gas producers. We don't see a near-term fix for natural gas. The need to drill to maintain leases on properties even at uneconomical pricing means increased supply into the second half of 2011. At some point beyond next year, drilling activity will be fueled by the marginal cost and not legacy leases, which supports an eventual increase in spot gas prices.

Portfolio Implications

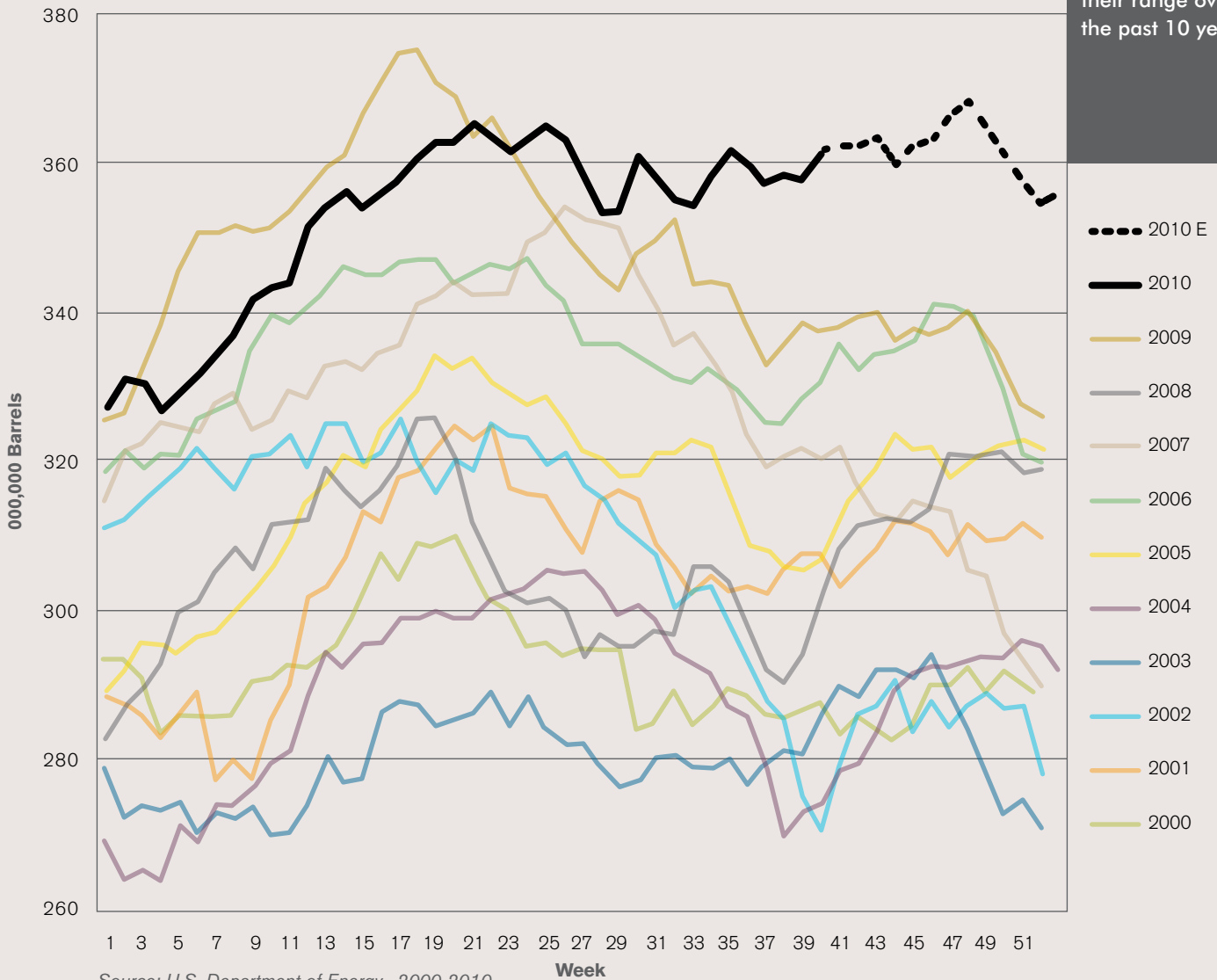
Many of these current concerns have manifested themselves in equity prices that are discounting overly pessimistic outcomes. We can find opportunities in exploration and production companies with undervalued assets, but it requires a long-term view and a thorough analysis of asset quality. It is not prudent to assume that rising commodity prices will help all stocks.

The well-
documented woes
of the natural gas
market continue.

We own service companies that we feel are able to take advantage of their specific expertise to create value even in an unstable commodity environment. We also own some equipment providers that have the potential to benefit from new safety requirements and retrofits following the Gulf of Mexico oil spill. North America production looks strong for the next year or two, while we think international markets will continue to provide strong demand and new production opportunities over the longer term.

CRUDE OIL INVENTORIES

Oil inventories are at the top of their range over the past 10 years.



ON THE RADAR

The dirty truth about oil demand

Oil inventories, measured in days of supply or in absolute amounts, are at the top of their range for the last ten years. Excess supply and weak demand will pressure oil in the near term.





FINANCIALS

Signs of coiled springs

The passage of financial reform and reduced uncertainty about global capital standards under the Basel III guidelines provided some regulatory clarity, but economic uncertainty continues to weigh on the sector. Financials are struggling to show significant profit growth in the face of modest loan demand and a historically low and flattening yield curve (the difference between the yield on 2- and 10-year Treasuries). On the positive side, credit quality continues to improve, and merger and acquisition activity is increasing. Many institutions have rebuilt healthy capital bases to support growth and, with increased clarity, return capital to shareholders. We are also seeing greater strength in Europe than many thought possible during the most concerning days of the sovereign debt crisis this spring.

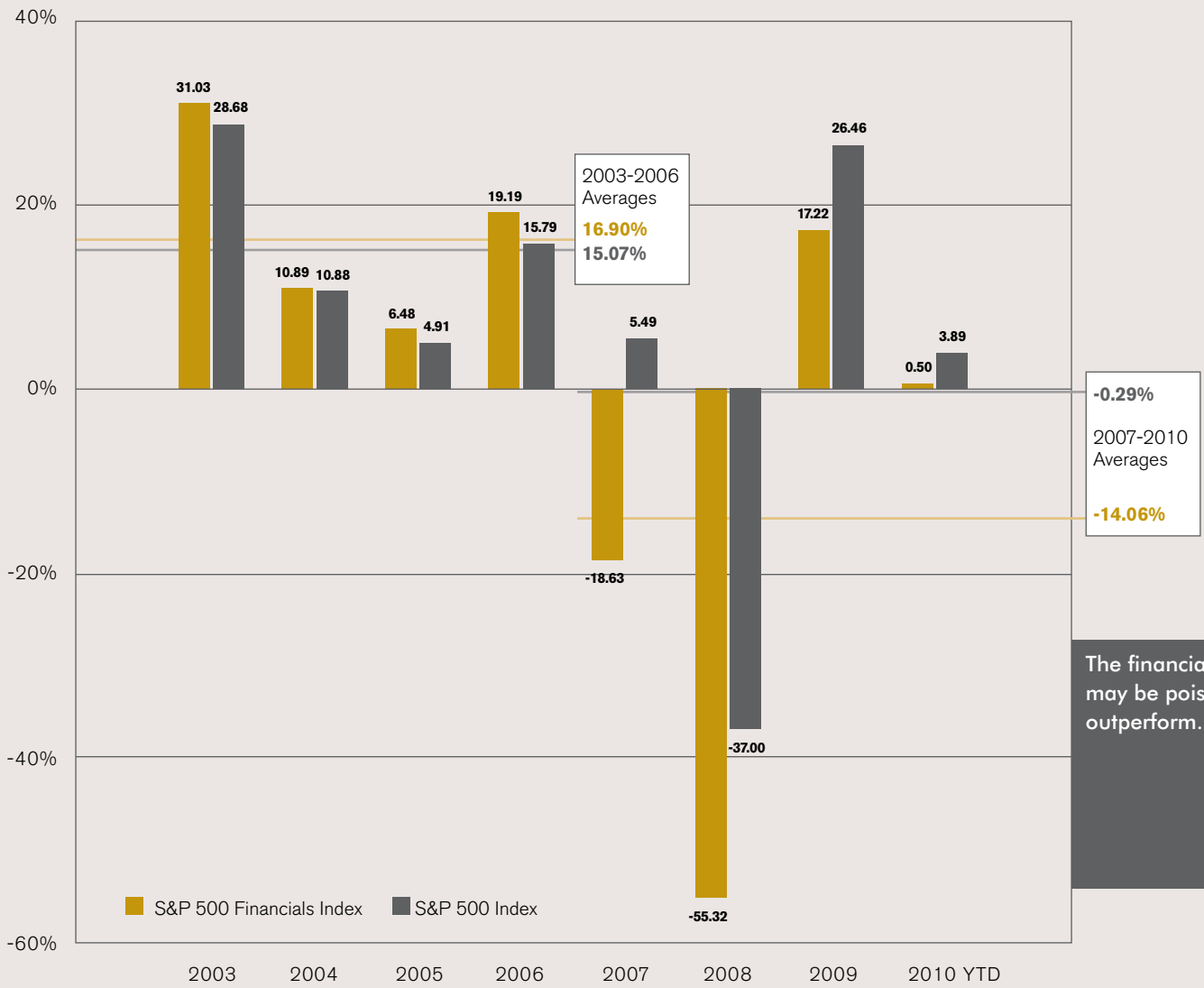
In general, the positive factors and compelling valuations leave us bullish on the financials sector.

Many stocks, we think, could be coiled springs and should see normalized earnings double current levels. An increase in rates or a return to more normal loan demand unleashes a great deal of earnings power. We think the sector is operating below normalized returns but with the drivers in place to increase returns.

Portfolio Implications

We own a range of financial companies, including money center banks, insurance companies, exchanges and asset managers. All could benefit from higher sector returns. In particular, we are favoring the higher-quality business models where the valuations are most compelling. We think these companies maintain strong franchises and, with high sensitivity to rising demand, are poised to benefit once activity increases. We have also found some opportunities in financial companies with emerging markets exposure, an area where many financial service business lines are less mature and offer more attractive growth prospects.

PERFORMANCE OF S&P 500 FINANCIALS INDEX VS. S&P 500 INDEX



Source: FactSet. As of 9/30/2010.



ON THE RADAR

Financials could be set to outperform

The last eight years have been tough sledding for the S&P 500 Financial subsector, including the past three-plus years of underperformance, which dwarfed the modest outperformance of the prior four years. With a normalization of returns in the sector and a pick-up in demand, sector performance may improve. Valuations appear compelling as many companies we analyze are trading around book value and less than 8x normalized earnings.





HEALTHCARE

Cheap and unloved

We believe healthcare stocks are cheap and unloved by investors, which creates opportunity. Earnings estimates have changed little from six months ago, so compression of P/E multiples explains most of the weakness. Fears about healthcare utilization and, more broadly, a “double-dip” recession, resulted in terrible performance over the summer.

We believe the observed trend toward lower utilization of healthcare services stems from fewer cases of H1N1, the expiration of extended insurance coverage (COBRA) for those who lost jobs, and plan changes that have increased out-of-pocket health expenses. Some of these issues should be mitigated as we get into 2011. Still, some of the issues, such as low employment, increased cost shifting to patients and soft overall economic conditions, may linger.

Portfolio Implications

We continue to focus on companies with products that address unmet medical needs or services that help to control costs. We recognize the pressure, in general, on revenues in the healthcare sector as government budget deficits continue to rise. In medical technology, where we see an environment with modest sales growth, we favor companies that can increase operating margins. Select service companies, such as pharmacy benefit managers, should benefit from the upcoming wave of new generic drugs. While the effects of European price cuts and U.S. reform may weigh on financial results into next year, we continue to find a number of attractively valued opportunities in the sector.

It feels as if investors are getting more comfortable with the outlook for the healthcare sector.

HEALTHCARE PRICE-TO-EARNINGS AND DIVIDEND YIELD



Source: FactSet. As of 9/30/2010.

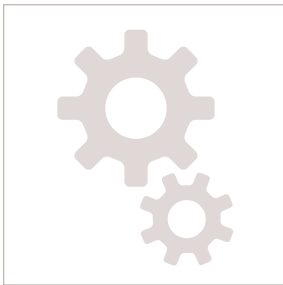


ON THE RADAR

Ready for a return to the mean

Valuations are attractive in healthcare stocks, with P/E ratios almost two standard deviations from the mean and dividend yields near 15-year highs.





INDUSTRIALS + MATERIALS

Looking up

The industrial data for the third quarter was positive with all regions of the world experiencing positive growth, even in Europe, despite austerity programs. Export-driven Germany more than offset the weakness of the much smaller markets of Italy and Greece. The ongoing recovery is benefiting the industrials sector and its cyclical exposure. Even the worst-hit end market, construction, looks to have bottomed. According to data from the U.S. Census Bureau, existing home sales and residential construction (which we cover within the industrials sector) in the U.S. are three standard deviations below their long-term trend lines. Non-residential construction is two standard deviations below its long-term trend. Both of these end markets have shown early signs of a recovery, which benefits homebuilders and other industrial companies.

One risk we continue to monitor is the rising competitiveness of Chinese manufacturing. China has gained economies of scale in its home market and has begun to climb the value chain to more technically advanced products. It exports products in higher value-added sectors, such as power generation equipment. We try to avoid areas where China's competitiveness may lower the returns for all players.

Portfolio Implications

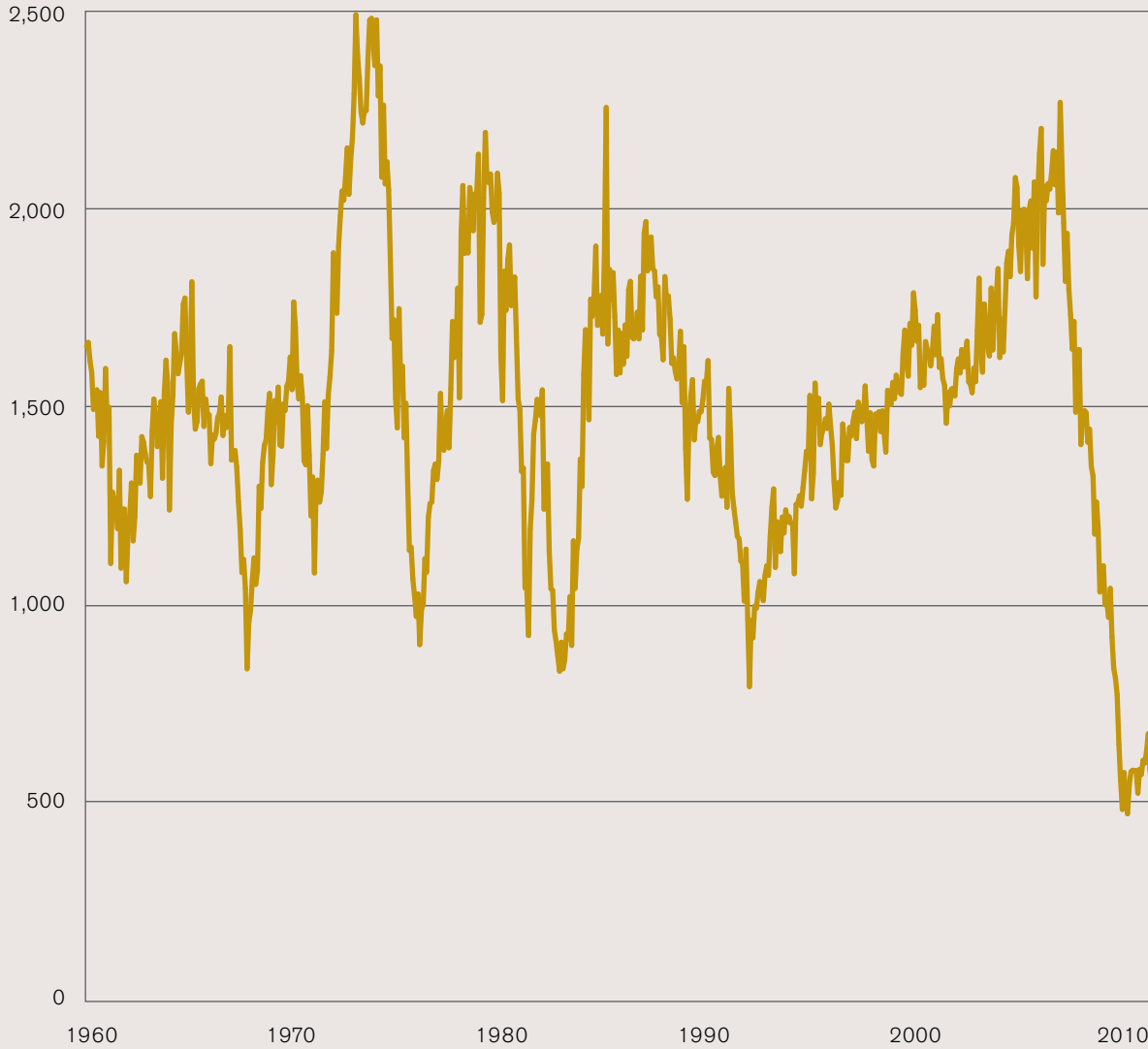
We hold companies that invested through the economic downturn and improved the competitive positioning and return profiles of their businesses. These investments have been paying dividends with market share gains and lower cost structures. We think these companies have become stronger through the downturn.

We also maintain holdings in airlines and auto stocks with the belief that these industries are in a multi-year period of transforming themselves into higher-return and higher-value companies.

The gains to date have been modest but lead us to believe the worst is past us for industrials.

NEW PRIVATELY OWNED U.S. HOUSING STARTS

(in thousands)



Source: U.S. Census Bureau. 1/1/1959-8/31/2010.

Has housing bottomed? Early signs of recovery in residential construction should benefit homebuilders and other industrial companies.



ON THE RADAR

No signs of life yet from the housing sector

How bad is the housing sector? By the end of 2010, we will have built over the past two years the same number of homes that were built in what had been the worst single year in at least 30 years. Paint production is at the same level as 18 years ago. Residential investment as a share of GDP is at levels not seen since the end of WWII and is about 20% below the previous low in 1981.





TECHNOLOGY

Tablet mania

Long-term, the key theme in technology is the cautious IT spending by corporations and longer-term trends favoring those companies that can earn a larger share of the money spent on new technology. This caution seems more acute in Europe than in the U.S. Shorter term, however, an important theme is what we call “tablet mania.” The sweeping success of the iPad has broad implications for the sector beyond Apple. The likely appearance of competent competitors puts long-term pressure on the traditional infrastructure of Windows-based PCs and the component suppliers to this area, and opens opportunities for those companies that can address this growing market.

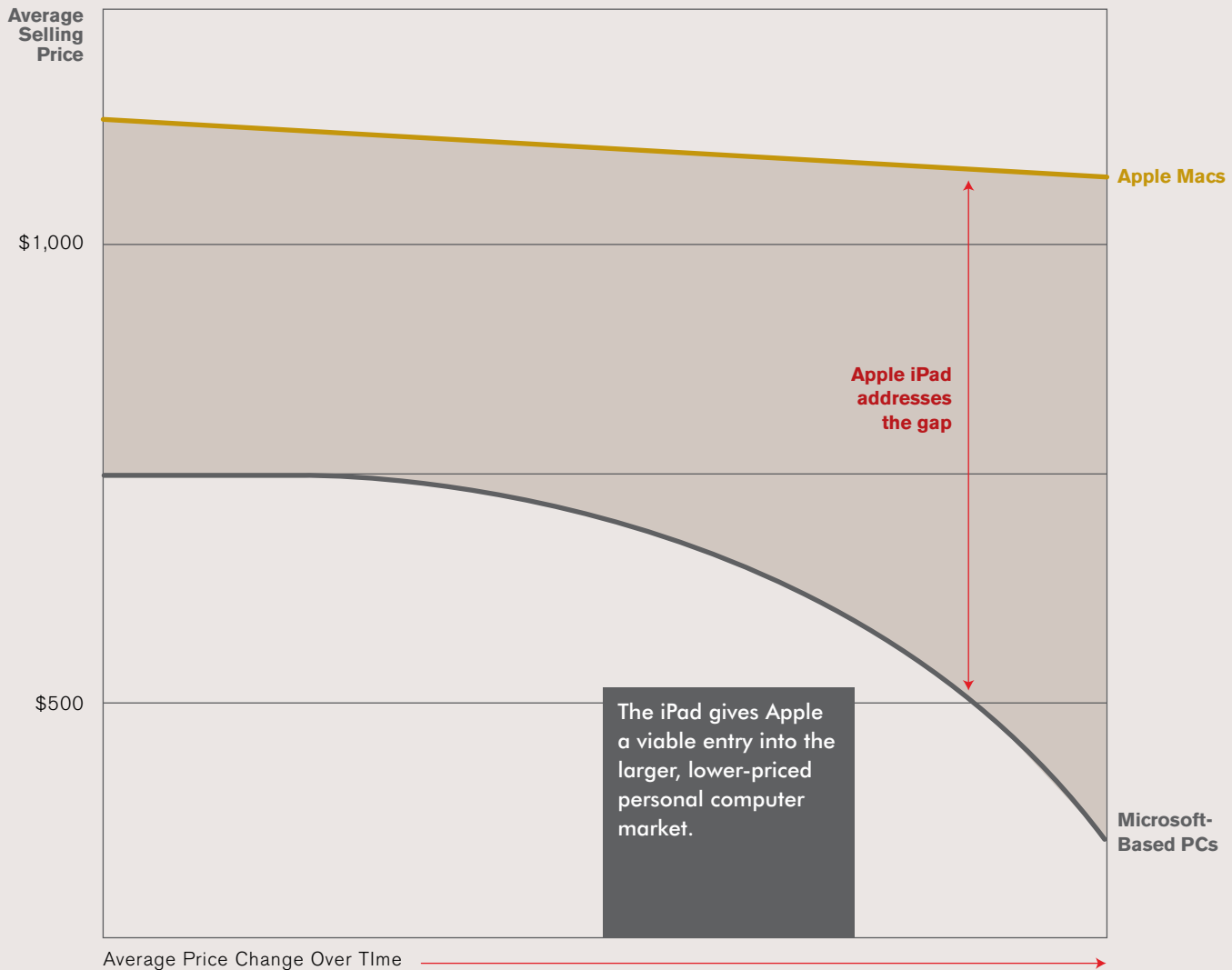
The iPad is likely to have the most successful first year in terms of adoption of any product.

Beyond tablets, after months of component shortages the supply chain is finally catching up to demand. We should be back in a normal environment by the end of the year. Inventory levels and pricing continue to look healthy, so we expect an orderly return to equilibrium in the supply chain, even though the consensus view differs. The technology sector dynamics favor those companies with the scale and resources to integrate product and offer comprehensive solutions, or companies with successful niche products. At either end of the spectrum, we believe these companies have the ability to gain market share in what may turn out to be slow markets.

Portfolio Implications

We believe valuations in technology are very reasonable, especially among the large capitalization stocks that have compelling market share gains. Several of our key investment themes remain, including smartphones and the proliferation of mobile computing devices; companies that can offer software as a service through the Internet; connectors that are not dazzling tech but offer a sensible and stable market; and companies with well-protected return structures. Some U.S. component suppliers look inexpensive compared to their Asian competitors, given our view that the supply chain will avoid major price pressure as capacity comes online. Some semiconductor stocks also reflect a worse-than-expected downturn in the pricing cycle.

HOW THE IPAD EXPANDS APPLE'S MARKET



Source: Janus. This chart is for illustration purposes only.



ON THE RADAR

Taking on the iPad

Apple's success in personal computers has been in the above \$1,000 market segment. But the bulk of computers sold today are below \$1,000 after several years of declining prices and the introduction of netbooks. The market for computers between \$500 and \$1,000 is many times larger in terms of units sold. The iPad gives Apple a viable entry into the lower-priced market segment. But Apple won't be alone with the tablet solution. Competing tablets already are on the market; look for a big push in the spring when Google rolls out an improved Android operating system for tablets.



EQUITY RESEARCH SURVEY TAKEAWAYS

An important component of Janus' intensive bottom-up research approach is the development of independent and differentiated views supported by in-depth primary research. We conduct over 200 ongoing proprietary surveys—many of which have been conducted for multiple years—providing a valuable time series of grassroots-level information. Following is a sampling of our latest survey findings.

BUSINESS INSIGHTS	
+	Used commercial truck pricing improving: Higher used truck prices make buying new more attractive; this is bullish for truck sales.
+	Freight pricing improving: Freight volumes are off the charts, in the +25-35% range.
+	Housing inventory and foreclosures continuing to show improvements: Housing inventory is steadily declining. The number of foreclosures is leveling off but remains high.
+	Information technology cloud-based services gaining traction: The number of chief information officers expecting to spend more than 10% of their IT budgets on cloud-based services increased to 40% from 25% a year ago.
+	Extremely strong demand for semiconductors for automotive applications: China is especially strong and Brazil is improving.
-	Pharmaceutical companies taking charges because of the healthcare reform legislation: On average, charges are expected to negatively impact revenues by 2% in 2010 and 4% to 5% in 2011.
-	Decrease in demand for loans: Lending standards are stable but demand is falling.

CONSUMER INSIGHTS	
+	Cosmetic procedures volumes improving: Doctors see modest growth in wrinkle filler and cosmetic toxin procedures.
+	Private-label usage for drug products continuing to increase: Private-label use for cough, cold, gastro and other areas reached 33.3% market share from 30.9% at end of 2009.
+	Wheat farmers expected to increase wheat acres: This should be a positive for fertilizer demand and wheat-intensive industries if supplies increase and prices fall.
-	Sluggish recovery in HVAC: Consumers and businesses are opting for repair rather than replacing a unit.
-	Motorcycle sales continuing to deteriorate: However, inventory levels remain disciplined.
-	More than 30% of turbines in China are not connected to the electricity grid: This dampens demand for future installations.
-	Las Vegas hotel rates remain weak: This contradicts positive readings elsewhere for business travel.

Janus proprietary research surveys ("surveys") are not conducted for each security Janus analyzes. Surveys are not scientific and are a single element of the Janus research process that may or may not be implemented. The insight(s) gained as a result of research efforts presented were a single factor in analyzing each particular company, and were not the only factor used in Janus' analysis.



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Guiding Principles of Janus Research

- Invest with our clients' interests first.
- Develop a deep understanding of the companies we research.
- Employ a strong valuation discipline focused on quality growth.
- Develop independent and differentiated views on our companies, supported by in-depth primary research.
- Spend as much time thinking about what could go wrong as about what could go right.
- Take a long-term view.
- Seek to anticipate change, don't just analyze it.
- Attract the best and brightest analysts in the business, and foster an environment in which they can succeed on behalf of our investors.





Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus containing this and other information, please call Janus at 800.525.3713 or download the file from janus.com. Read it carefully before investing or sending money.

Investing involves market risk. Investment return and value will fluctuate, and it is possible to lose money by investing.

The value of equity securities fluctuates in response to issuer, political, market, and economic developments. In the short term, equity prices can fluctuate dramatically in response to these developments which can also affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole.

There is no assurance that the investment process will consistently lead to successful investing.

The S&P 500® Index is a commonly recognized, market capitalization-weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance.

The S&P 500® Financials Index is a capitalization-weighted index that measures the performance of financial companies within its parent index, the S&P 500, as defined by the Global Industry Classifications (GICS).

MSCI World Health Care Index is a capitalization-weighted index that monitors the performance of healthcare stocks from developed market countries in North America, Europe and the Asia/Pacific Region. The index includes reinvestment of dividends, net of foreign withholding taxes.

MSCI World Pharmaceuticals and Biotechnology Index is a capitalization-weighted index that monitors the performance of pharmaceuticals and biotechnology stocks from developed market countries in North America, Europe and the Asia/Pacific Region. The index includes reinvestment of dividends, net of foreign withholding taxes.

Price-to-Earnings Ratio: The ratio of a stock's current price to its per share earnings within the last year. For a portfolio, the ratio is the weighted average P/E of the stocks it holds.

Dividend Yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock.

In preparing this document, Janus has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.

Statements in this piece that reflect projections or expectations of future financial or economic performance of the markets in general are forward-looking statements. Actual results or events may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements. Important factors that could result in such differences, in addition to the other factors noted with such forward-looking statements, include general economic conditions such as inflation, recession and interest rates.