

Janus Henderson Horizon Pan European Alpha Fund

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Key differentiators

Targets long-term capital appreciation with low volatility: The fund aims to deliver long-term capital appreciation in rising or falling markets, although this is not guaranteed. The fund manager combines long and short positions, blending sector thematic views and active management of net and gross exposure in a highly liquid portfolio.

Contrarian investment approach: The manager looks for inflection points in sectors and businesses in the belief that stock prices are ultimately mean reverting.

Well-balanced, high conviction strategy: Balance of thematic longer-term holdings (approximately 65-75% of the portfolio) and opportunistic holdings designed to exploit short-term catalysts (approximately 25-35% of the portfolio).

Adapts to shifting market conditions:

The fund's flexible long/short investment structure means that the manager can quickly adjust net and gross exposures to suit changes in the market backdrop. Index futures and options are used to help protect the fund's net asset value in turbulent markets.

Diversification benefits: This fund aims to enhance the overall risk-return characteristics of a balanced portfolio, by offering returns regardless of market direction, and with lower volatility in the long term than equity markets.

Overview

The fund is a defensive long/short equity strategy. The fund aims to provide a long-term capital appreciation, whether equity markets go up or down, by investing primarily in European (including the UK) company shares and associated derivatives.

strategies throughout the market cycle. John's tried and tested European long/short process began in June 1998 when he launched the GAM European Equity Hedge Fund. John is supported by the 23-strong European equities team.

John joined Janus Henderson in April 2011 following the acquisition of Gartmore by Henderson. He is head of the well-resourced Pan European equities team, a team of experienced investment professionals who leverage each other's capabilities and ideas in a collegiate atmosphere.

Fund management team

The fund is managed by John Bennett, who has 30 years' industry experience and extensive knowledge of managing European long/short

Investment philosophy

The strategy is shaped by three core beliefs:

Early insight

Macroeconomic and sector trends travel globally; the identification of broader market and industry trends can provide early insight into the likely impact on European companies.

Mean reversion

Stock markets are inefficient and stock prices are ultimately mean reverting (the theory that share price extremes, both high and low, are temporary and that share prices will revert towards their long-term valuation averages over time).

Market exposure

Long-term capital appreciation may be achieved through active management of net and gross exposure. Index futures can help protect capital in turbulent markets.

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Investment process



The fund's flexible, research-driven investment approach is characterised by the identification of sector themes, bottom-up fundamental analysis of companies and management meetings, and active management of net and gross exposure.

The investment approach has been developed to capitalise on all elements of the Pan European equity team's skill sets and philosophy, capturing opportunities across all types of market conditions.

The portfolio consists of ideas that are both long-term and opportunistic in nature. Thematic long-term holdings typically constitute 65-75% of the portfolio. Shorter-term opportunistic holdings typically constitute 25-35% of the portfolio.

Source: Janus Henderson Investors, target allocation as at 30 September 2017 and subject to change.

1. Focus the universe

The investment universe for the fund is the MSCI Europe (inc UK) Index. The investment team starts by identifying the key investment themes that will drive the portfolio's structure, selected on the basis of global market and industry dynamics. In-house qualitative screens, independent research, company visits and other sources are then used to construct a shortlist of stocks for more in-depth research.

John's focus within the universe tends to be towards large-cap companies, given the better liquidity among these stocks. Mid-cap companies, however, also play a role in the portfolio, given the reduced level of research in this part of the market, and hence the potential to find unrecognised value.

For both large and mid-cap stocks, the manager seeks to identify companies for the portfolio on both the long and short side. Key considerations include:

- Pricing power
- Cash generation
- Cash flow return on investment (CFROI)
- Valuation

2. Identify sector themes and select stocks (65-75% of portfolio)

The team seeks to identify the most promising ideas from the list of potential stocks assembled in step one. Research is conducted through one of two approaches, depending on the capitalisation of a stock and its potential role in the portfolio:

Large-cap stocks are chosen to capitalise on sector themes

High-grade research is used to identify those companies best placed to take advantage of sector themes. These positions, whether long or short, will typically have a share price target of at least 20% upside or downside to the current share price. These positions are then normally held with an expected time horizon of at least six months.

Mid-cap companies are chosen opportunistically to add performance

Some of the team's time is spent analysing under-researched 'mid-cap' and non-benchmark stocks, where independent scrutiny tends to add the most value. The strong relationships, built through meeting management and regular contact, enables the development of unique insights into these smaller firms and their competitors. Potential long or short positions may be identified through sector themes or by independent analysts, country visits, news or other sources.

3. Opportunistic holdings (25-35% of portfolio)

Short-term positions are those companies where a specific catalyst has been identified that the manager expects to lead to a change in the share price over a shorter period of time. Such catalysts may include company news, changes in management, earnings releases, broker upgrades/downgrades and competitor activity, as well as any other information that the manager expects to influence share prices over the relevant time period. As with thematic holdings, these positions may be long or short.

4. Construct and monitor portfolio

The team's research efforts culminate in a high-conviction portfolio that holds stocks based on their fundamental merits. Allocation to each sector is dependent on John's expectations for the scale and duration of each theme. The fund is reviewed on an ongoing basis to ensure that the investment case for each holding in the portfolio remains compelling.

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Portfolio characteristics

Indicative ranges as at 30 September 2017	
Country allocation	European equities*
Individual position size	0.75% to 2.0%
Net exposure	-20% to +75%
Gross exposure	50% to 150% (maximum 200%)
Bias	Long bias with active short book and market hedging

Source: Janus Henderson Investors. Please note that the ranges may vary over time and should be used for illustrative purposes only.

*The fund may invest up to 20% of its NAV in highly liquid non-European listed equities and associated derivatives.

Managing gross and net exposures

The fund's flexible long/short investment structure means that the manager can quickly adjust net exposure to suit changes in the market backdrop. Index futures and options are used to help protect the fund's net asset value in turbulent markets.

Gross exposure is equally as important as net exposure. The manager believes too many investors place a greater weighting on net rather than gross exposure in the hope that short positions will offset long positions in difficult times. Hedge fund performance in 2008, 2011 and 2014 serves as a useful reminder of the perils of leverage. For this reason the manager typically reduces both gross and net exposure in times of increased uncertainty.

Instruments

Holdings are a mixture of both long and short positions.

- Long positions may be held through a combination of direct investment and/or derivative instruments, typically equity swaps, commonly known as Contracts for Difference (CFDs) and futures.
- Short positions are achieved through the use of derivative instruments, typically CFDs and futures.

The fund invests in highly liquid positions, without using complex option or derivative trading overlays.

Currency hedging

The fund hedges the currency exposure of the underlying assets against the base currency of the fund.

Cash

Given that the manager utilises derivative investments, the fund may have large cash holdings. The manager takes a very conservative approach to managing cash balances and deposits will only be made with organisations with a high credit rating. The fund may also invest cash with selected banks and money market funds in line with UCITS diversification rules.

Sell discipline

Positions may be sold down or closed for a variety of reasons, including:

- Changing sector theme dynamics
- Changing stock fundamentals
- The stock story supporting positive (or negative) change has run its course

The manager seeks to take profits from winning long and short positions. Should a long position lose 15% of its value, a revaluation of this position is made. For short positions, a 15% loss on a position would generally result in closing the trade. The tolerance thresholds are subject to review at times when the gross exposure is lower.

Positions are usually sold gradually, although the manager ensures that investments have sufficient liquidity to be sold quickly should it become necessary. As a guideline, the aim is to be able to liquidate a minimum of 85% of the portfolio within five business days.

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Risk management: team specific

Stock-specific and sector-specific risks are actively managed. A margin of safety is built into the price paid for each stock and the manager sizes positions based on risk/return, volatility and liquidity. The team's risk management is supplemented with sell-side analysis.

Independent risk monitoring

Janus Henderson has an independent Investment Risk Team (reporting into the Chief Risk Officer), which is ultimately responsible for the oversight and challenge of market risk. The day-to-day market risk activities are carried out by the Portfolio Risk & Analytics Team reporting into the Chief Investment Officer (CIO). This ensures that the resourcing of market risk is appropriate and in line with the investment strategies followed under the CIO, while providing an independent check of the suitability and effectiveness of the market risk function.

The Janus Henderson Market Risk Function, comprising the Portfolio Risk & Analytics Team and the Investment Risk Team, work closely with senior management and portfolio managers as part of the overall investment risk management and oversight process.

Portfolio managers and senior management have access to a variety of third party and internally built risk management tools in order to qualify and quantify the various types of market risks. Daily reports and dashboards are used for day to day monitoring of the portfolio's exposures and risks and regular oversight meetings are held with the fund managers to discuss any relevant risk in the portfolio. A monthly investment performance and risk meeting is held with senior management, allowing the teams to escalate any potential remaining issues and provide senior management with an independent view of the portfolio.

Fund Manager



John Bennett

Director, European Equities | Fund Manager

John Bennett is Director, European Equities at Janus Henderson Investors and Fund Manager on the Janus Henderson Continental European and Pan European long only and long short strategies. He has held these roles since 2011 when Gartmore

was acquired by Henderson. Prior to Gartmore, John served as fund manager at GAM for 17 years. During this time he managed their flagship European long only and European equity long/short hedge funds. Prior to GAM, he was a fund manager at Ivory and Sime.

John qualified as a member of the Chartered Institute of Bankers in Scotland in 1980. He has 30 years of financial industry experience.



Glossary

Please see [HGI.co/glossary](https://hgi.co/glossary) for a glossary of financial terms used in this document.



Guide

Please see [HGI.co/AbsoluteReturnGuide](https://hgi.co/AbsoluteReturnGuide) for a guide to absolute return.

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Janus Henderson
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