

Janus Henderson Continental European Fund

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Key differentiators

Distinctive process: A highly contrarian fund designed to capture performance by correctly anticipating the catalysts for change in continental European companies and industries.

Thematic and tactical opportunities: Portfolio construction blends top-down sector themes with compelling stock-specific stories, to provide access to sustainable long-term trends in continental European markets.

Unconstrained strategy: The investment process emphasises decisive deviation from benchmark index weightings, with scope to take aggressive stock and sector positions where the manager has the highest conviction.

Adaptable approach: The fund manager's flexible strategy uses fundamental research and thought leadership to identify opportunities across the market cycle.

Overview

The Janus Henderson Continental European Fund is an actively managed portfolio that invests at least two-thirds of its net assets in companies registered or which do most of their business (directly or through subsidiaries) in Continental Europe. The portfolio is constructed following a contrarian strategy driven by sector themes blended with stock specifics. Core positions in large-cap companies are balanced with a selection of mid-cap stocks to create additional alpha opportunities. The return will be a combination of capital growth and income.

Management team

John Bennett, who has 30 years' investment experience, manages the fund, assisted by Asim Rahman, who has 17 years' investment experience.

They are supported by Janus Henderson's broader UK-based Pan European Equity Team, who bring together a broad range of experience and skillsets.

The team approach is based on collaboration, discussing potential investment ideas and participation in company meetings. Individual managers, however retain ownership of their investment process and portfolio decisions.

For the Janus Henderson Continental European Fund, John and Asim are free to implement views on economic or sector themes and individual companies as they see fit.

Investment philosophy

John Bennett looks to take advantage of long-term thematic opportunities created by structural inefficiencies across European markets, due to changing supply and demand factors at a local, regional, industry and global level. His investment philosophy is based on the following beliefs:

Early insight	Macroeconomic and sector trends travel globally; identifying 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 average over time).
Invest in change	Investment opportunities can be captured through correctly anticipating change and inflection points in companies and industries. Patience and long-term commitment is essential to capturing potential gains.
Capital investment drives value creation	Cash flow return on expenditure is the true measure of value creation. Companies must also be evaluated in the context of a range of fundamental metrics and qualitative factors.

Past performance is not a guide to future performance.

The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

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Investment process

The fund's research-driven investment approach is characterised by the identification of sector themes, combined with bottom-up fundamental analysis of companies and management meetings. The investment process looks to identify those companies within Europe (ex UK) that are expected to experience positive change in the future, from often contrarian situations.

The strategy is designed to capture opportunities across all types of market conditions, implemented through three key stages, as summarised in the following graphic:



1. Focus the universe

The investment team, led by John Bennett, 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 of stocks. Mid-cap companies, however, also play a key 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 with characteristics that suggest they are well positioned to add value. These characteristics include:

- Pricing power
- Strong cash generation
- Improving or sustainable cash flow return on investment (CFROI)
- Compelling valuations

2. Identify target stocks

The prioritisation of the team's research is guided by the structural thematic identified in the first step of the investment process. All team members are involved in putting forward investment cases. Research is principally qualitative and quantitative, based on fundamental analysis of company metrics. Both analysis and meetings with company management are focused on understanding cash flow and capital deployment, which the team considers to be powerful drivers of inflection points in companies. These factors are evaluated in the context of the broader sector/industry.

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 provided by a small set of carefully chosen and trusted analysts is used to identify those companies best placed to take advantage of sector themes. The preference is for positions that offer identifiable, strong long-term growth potential, thus avoiding frenetic trading that can be expensive to overall returns.

Non-benchmark and mid-cap companies are chosen 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.

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3. Construct and monitor the portfolio

The team's research efforts culminate in building a diversified, high conviction portfolio that hold stocks based on their fundamental merits. The manager seeks to generate alpha by taking stock and sector positions that are significantly different from benchmark indices. Allocation to each sector is dependent on John's expectations for the scale and duration of each theme.

The thematic framework is primarily populated with those blue chip stocks that have been identified as the best in each sector. The relative size of each stock position is based on John's conviction. The portfolio is then 'seasoned' with mid-cap stocks with the aim of enhancing portfolio performance. Investments are made with a longer-term horizon, to give ideas sufficient time to mature.

Themes drive sector allocation	Conviction determines position size	Monitoring
<ul style="list-style-type: none"> • Hold blue chips in each favoured sector • Dynamic sector allocation captures trends • Build exposure as conviction grows 	<ul style="list-style-type: none"> • Can include small absolute, but meaningful relative positions in mid-cap stocks 	<ul style="list-style-type: none"> • Stock/industry trends and fundamentals • Valuations • Positioning versus benchmark

Stock weights are allocated based on fundamental analysis and conviction, with traditional stock characteristics the most important factor:

Factor	Relative importance
Stock selection	50%
Industry/sector selection	25%
Theme selection	25%

The strategy is reviewed on an ongoing basis to ensure that the investment case for each holding in the portfolio remains compelling. Team members continue to test the results of their quantitative analysis with extensive research, including on-site company visits. Formal examination of the portfolio's fundamentals is also undertaken on a monthly basis, with specific focus paid to valuation, beta and tracking error.

The team uses the following informal guidelines to assist with portfolio construction. Please note these indicative ranges may vary over time and should be used for illustrative purposes only. Portfolio characteristics as at 30 September 2017:

Portfolio range	50–65 stocks
Maximum country allocation	40%
Maximum sector allocation	30%
Free float limit	5% of the share capital of any single issuer
Maximum stock weight	10% No more than 8% in securities of a single issuer at time of purchase
Diversification	No more than 40% of the portfolio in positions that each make up 5% or more of the fund Top 10 holdings: 25–40%

Derivatives

Derivatives are used solely to assist with efficient portfolio management.

Currency hedging

Currency hedging is seldom utilised and is not a central facet of the investment process.

Cash

The fund manager aims to be as close to fully invested as possible, with cash below 5% of the portfolio. The maximum cash level permitted is 10%. Cash in excess of 2% may be equitised.

Strong 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 change has run its course

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

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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 management team



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 fund. 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.



Asim Rahman, CFA

Fund Manager

Asim Rahman is a Fund Manager of European equities at Janus Henderson Investors, a position he has held since joining Henderson in 2011. Asim previously worked at Gartmore and GAM where he was an investment analyst from 2003. Prior to joining GAM, he was a financial analyst in Goldman Sachs' investment banking division.

Asim graduated with an MA in economics from Cambridge University. He holds the Chartered Financial Analyst designation and has 17 years of financial industry experience.

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Glossary

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

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