

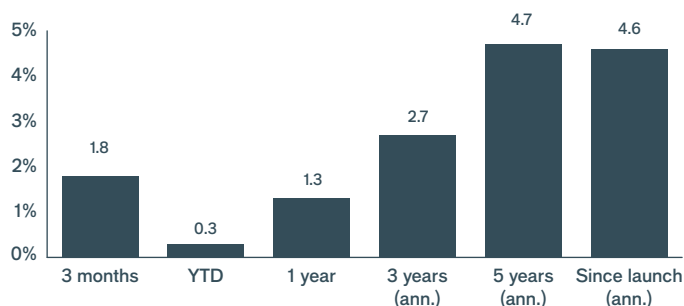
UNITED KINGDOM ABSOLUTE RETURN FUND

Quarterly review

A fundamental and tactical long/short equity fund designed to:

- Target positive risk-adjusted returns, independent of market conditions
- Offer a structured, conviction-led process
- Bring diversification benefits to a portfolio
- Blend a 'Core' long-term book with 'Tactical' short-term trading positions

Performance summary (Q2 2018)



Source: Morningstar, at 30 June 2018. 'R' accumulation share class, net of fees in sterling terms. Ann. = annualised returns. 'R' accumulation launch date 31 March 2010.

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Key fund characteristics

Launch date	March 2010 (fund) December 2003 (strategy)
Fund size	£4.3bn
Fund managers	Ben Wallace and Luke Newman

Source: Janus Henderson Investors, at 30 June 2018.

Fund return (Q2 2018)	1.8%
Net market exposure	24.1%
Gross market exposure	74.8%
Max drawdown since inception	-4.6%
FTSE All-Share max drawdown (since fund inception)	-14.5%

Source: Morningstar, Barra, Janus Henderson Investors at 30 June 2018. Quarterly return is for the 'R' accumulation share class, net of fees in sterling terms.

Performance %

GBP	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	0.62	1.54	-0.29	0.86	-0.05	0.19	-0.85	-2.10	-0.72	0.88	-0.33	-0.32	-0.61
2012	0.83	1.31	-0.45	-0.25	-2.62	0.44	0.57	0.64	0.53	0.78	1.24	1.28	4.30
2013	2.30	1.26	1.41	1.20	2.07	-0.32	3.28	0.19	1.39	1.73	0.02	1.01	16.63
2014	-0.19	2.03	-1.24	-0.12	0.90	-0.12	-0.32	1.22	-0.03	0.01	1.97	0.30	4.44
2015	1.30	0.37	0.83	0.22	1.39	-1.12	1.38	-0.49	-0.36	1.38	-0.49	-0.37	6.69
2016	0.06	0.11	0.43	-1.12	1.53	-1.54	0.54	0.87	0.54	-0.85	0.16	0.53	1.22
2017	-0.52	0.85	0.66	0.70	0.43	-0.22	0.23	-0.50	0.47	1.09	-0.55	0.20	2.86
2018	-0.10	-0.99	-0.37	1.57	0.20	0.03							

Source: Morningstar, at 30 June 2018. 'R' accumulation share class, net of fees in sterling terms.

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.

Performance analysis

Market overview

- Equities generally recovered from their Q1 losses, with the US and UK equity markets now in positive territory year to date and continental European markets broadly flat.
- Trade war-related headlines yet again provided volatility to markets, with President Trump imposing tariffs on Chinese imports and posturing further measures.
- Central banks continued their divergence, with the US Federal Reserve acting on its widely anticipated rise of 0.25%, while the European Central Bank and Bank of England maintained a more balanced line.

Performance overview

- The fund returned 1.8% over the quarter
- Long positions in Rolls-Royce and Capita were the largest contributors to performance, while two long positions in financial stocks were among the largest detractors.
- At a sector level, long positions in industrial and consumer discretionary stocks were significant contributors, while offsetting short positions within the same sectors detracted, along with short index futures.

Performance analysis over the quarter

Stock level analysis

Key contributors	Sector	Long/short	Total effect
Rolls Royce	Industrials	Long	+34bps
Capita	Industrials	Long	+31bps
Informa	Consumer discretionary	Long	+22bps

Key detractors	Sector	Long/short	Total effect
UniCredit	Financials	Long	-26bps
Alfa Financial Software	Financials	Long	-12bps
OSRAM Licht	Industrials	Long	-9bps

Source: Factset/Janus Henderson Investors, at 30 June 2018.

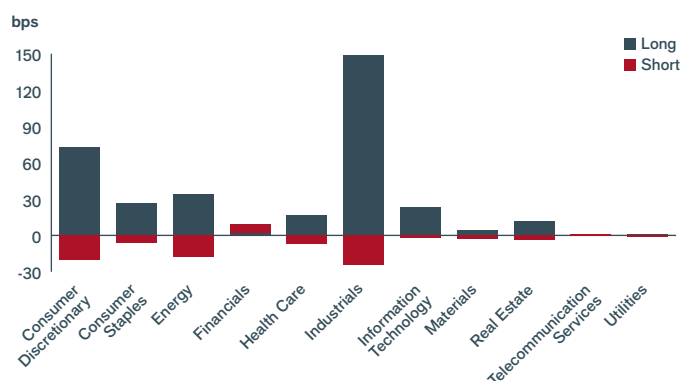
Drivers

- Higher-than-expected guidance on medium-term free cash flow targets
- Capital raise completed and several central government contract wins
- Positive trading update

Drivers

- Italian banks came under pressure post election
- Contract delays
- Cut forecast due to fall in performance in lighting division

Sector absolute performance contributions



Source: Factset/Janus Henderson Investors, at 30 June 2018. Excludes index futures.

Drivers

- In direct contrast to the first quarter, long positions within the industrials sector were the most significant contributor to returns.
- Long positions within consumer discretionary and IT stocks were also positive for performance.
- The short book overall contributed negatively to fund performance, during what was a very strong quarter for equities.

Portfolio activity through the quarter

Core (long-term) book

- US dollar strength and the prospect of more trade tariffs saw profits being taken in a number of long positions in US-based exporters. Conversely, this created opportunities for new longs within selected UK and European-listed, but predominantly dollar-earning companies.
- Long positions within UK domestic equities were added to following some level of clarity with regards to a transitional Brexit deal and the extreme valuation gap relative to US and European markets.
- The position in Rolls Royce was increased following higher-than-expected guidance on free cash flow targets during their capital markets day. The fund managers see material upside potential for the share price, with shareholders' interests well-aligned with management's improved LTIP structure.
- Long position established in UK outsourcer Capita due to a capital raising removing concerns around their balance sheet, and paving the way for central government contract wins.

Tactical (short-term/trading) book

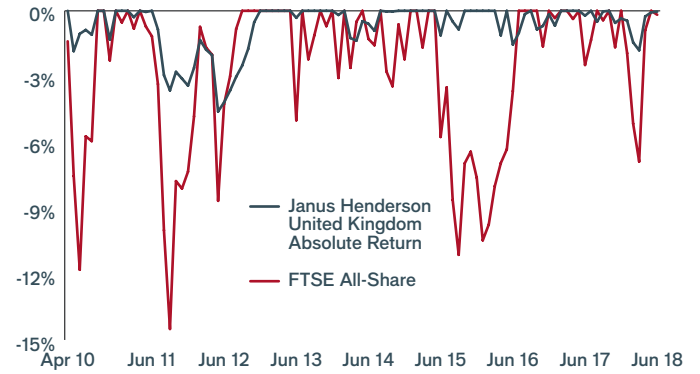
- Short positions opened in US-based exporters poised to suffer from a protracted trade war, with a focus on names with high valuations and a reliance on steel and other imported commodities.
- Alongside trade war news creating short-term opportunities within industrial and commodity-related equities, a flattening yield curve also resulted in high levels of trading within financial stocks.
- Long position established in German conglomerate Siemens due to a positively inflecting order book and potential tailwind to reported profits from any continuation in US dollar strength.
- Maintained short positions in aggressively valued 'defensive' equities with deteriorating revenue and/or profits.
- Use of index futures helped manage volatility during periods of market weakness.

Portfolio analysis

Risk analysis	
Volatility	2.65
Beta	0.13
Correlation	0.45
Sharpe ratio	0.85
Sortino ratio	1.44
Up-market capture ratio	17.25
Down-market capture ratio	5.07

Source: Morningstar/Janus Henderson Investors, at 30 June 2018. 'R' accumulation share class. 3-year realised annualised figures. Risk statistics are relative to the FTSE All-Share index.

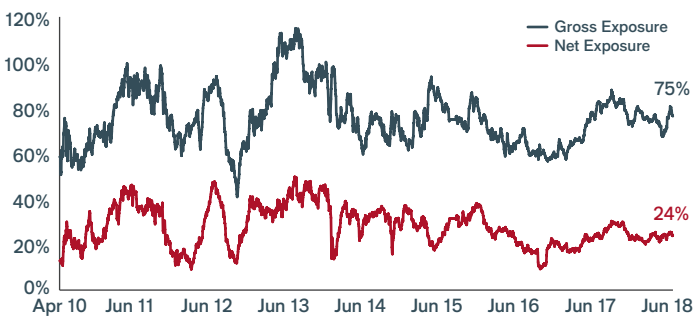
Drawdown history



Source: Janus Henderson Investors, Datastream at 30 June 2018. 'R' accumulation share class, net of fees in sterling terms. Past performance is not a guide to future performance.

Positioning

Gross and net exposure

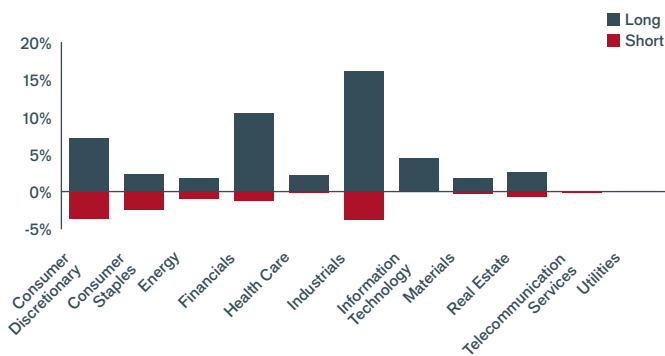


Source: JP Morgan, at 30 June 2018.

Investment rationale

- Gross exposure was gradually increased during the quarter, in response to a number of new long and short ideas identified at the bottom-up level and falling levels of market volatility.
- Net exposure is driven by bottom-up stock decisions.
- Liquid futures can be used to manage exposures in response to macro events.
- The managers remain comfortable being net long or short, based on bottom-up views.
- Gross exposure is a function of the number of ideas, and market volatility.

Sector allocation



Source: Factset/Janus Henderson Investors, at 30 June 2018. Excludes index futures.

Regional distribution



Source: Factset/Janus Henderson Investors, at 30 June 2018. Excludes index futures.

Outlook

While the political and economic outlook remains hard to read globally, two factors detailed below have seen a tilt in the fund's weighting towards its more fundamentally driven, longer-term 'Core' book. This is in contrast to the 'Tactical' book, which is designed to take advantage of factors affecting share prices over a shorter time period.

Share price rationality

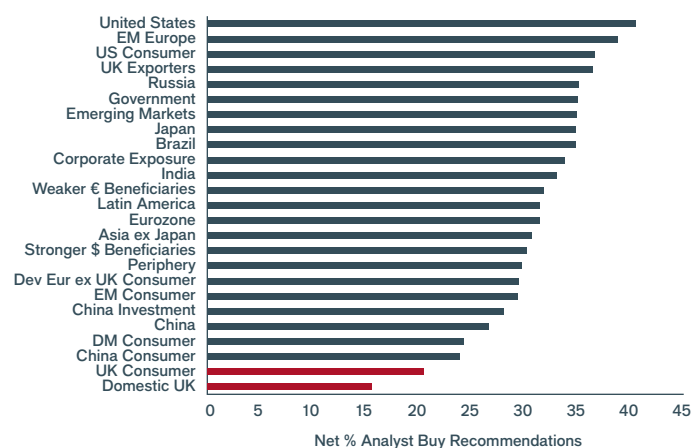
The first quarter of 2018 saw a period of much tighter stock-to-stock correlation; however, the last few months have seen a marked improvement, returning to historically more 'normal' levels of stock dispersion – both at the overall market level and intra-sector – which typically favours a fundamental stock picking approach, such as that of the fund's Core book. This has created a number of new ideas on both the long and short side, as well as strong performance in some of the fund's long-standing positions, such as UK housebuilders and insurers.

Domestic bias

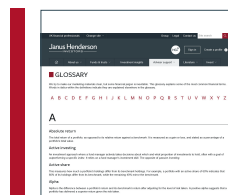
Tentative signs of blockages clearing – with regards to a transitional Brexit deal with the EU – may have heralded the beginnings of a potential end to the 'buyers strike' within UK domestic equities. Q2 finally saw asset allocators reduce their underweight to UK equities, although sentiment towards the region still remains extremely negative, creating opportunities at the bottom-up level. While the fund managers are far from apologists for the domestic UK market (having been net short UK domestic shares for much of the last two years), political progress and the extreme valuation gap relative to the US and Europe have seen the fund increasing its net exposure to domestic equities, both through increasing longs and reducing or closing shorts. New investments include longs in Tesco, Barclays, Capita and Next.

While a tilt towards longer-term holdings in UK domestic equities may bring with it intermittent periods of volatility – be it through a period of weaker sterling or ongoing Brexit news flow – the managers believe this is outweighed by the long-term potential for these holdings, offsetting short positions, and the volatility-dampening effect of the Tactical trading book (which still remains the larger of the two books). Both books give the fund potential to generate positive returns in varying markets, and the fund managers will not hesitate to rapidly allocate more or less capital to either, as conditions dictate.

Domestic UK shares have lowest number of sell-side net buy recommendations in the market



Source: Morgan Stanley Research, MSCI, Factset, as at May 2018.



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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