

# Janus Henderson Horizon China Fund

April 2019

**Fund manager names:** Charlie Awdry & May Ling Wee

## Overview

Chinese policymakers appear increasingly content with the pickup in economic activity signalled by the purchasing managers' index (PMI) surveys of manufacturing and service activity because their rhetoric has turned slightly less dovish towards the end of April. 2019 will likely see another year of fine-tuning the balance between the competing policy goals of growth, reform and deleveraging. While addressing financial tail risk and pressing on with deleveraging remain key policy goals that come right from the desk of President Xi Jinping, we are seeing ongoing supportive microeconomic measures such as increasing issuance of automobile asset-backed securities (ABS) as a pro-cyclical regulatory development.

We do not know how the trade dispute will play out but President Trump is probably enjoying using his bargaining leverage and the Chinese must be alarmed that a tweet from the Oval Office in Washington can send their stock market into a tailspin on any given day. Over the short term a pragmatic solution that will allow businesses to resume investing is the most likely outcome, but we should caution that over the medium term the trade war is just one part of rising friction between China and other global economic and political heavyweights.

## Performance and activity

The fund rose 3.6%\* in April ahead of the benchmark MSCI China Index which rose 2.2%. Year-to-date the fund has risen 22.9%, ahead of the benchmark return of 20.3%.

Top stock contributors included a short position in China Mobile which reported weak first quarter results, and on the long side automobile part supplier Nexteer, life insurer Ping An, and A-share listed baijiu brand Kweichow Moutai.

In portfolio activity we harvested some profits by reducing our positions in a number of shares that had performed well and were losing fundamental valuation headroom. Examples included A-share listed construction equipment machinery supplier Sany Heavy, baijiu liquor brand Kweichow Moutai, and Hong Kong-listed cyclical companies such as diesel engine manufacturer Weichai Power and the stock market operator Hong Kong Exchange & Clearing.

On a review of underperforming stocks we exited our position in luggage brand Samsonite on a stop loss. On the purchase side of the ledger we topped up positions in gas supplier ENN Energy and consumer driven businesses such as Macau casino operator Sands China, online travel agent C-trip and domestic automobile brand Geely. We also initiated a position in e-sports and live gaming streaming platform Huya Inc, which with Tencent as a shareholder is well positioned to make the most of a rapidly expanding industry.

## Outlook

Having taken profits in a number of shares we found ourselves with slightly higher than normal cash levels in the fund, which is fortuitous because as we write in early May the markets are selling off after President Trump has called for higher tariffs to be imposed imminently as part of the trade negotiations with China. Perhaps investors had forgotten that trade negotiations contained uncertainty and were unlikely to be smooth, or perhaps they just needed a reason to try and lock in some profits after strong runs in the overall markets year-to-date? Whatever the reason we will continue to patiently look for stock specific opportunities that are emerging and we feel are much more likely to drive returns going forward after the recent risk-on/buy the market rally. Importantly, the monetary and fiscal easing of the last nine months, and the associated pick up in the PMI surveys of business activity, suggest the outlook for corporate profitability in China has turned up and after the first quarter results we may even see positive earnings revisions. This would likely be highly supportive for the market and for investor sentiment.

Source: Janus Henderson Investors, as at 30 April 2019

\*Gross of fees - gross of 5% initial sales charge. Calculated on a bid to bid basis, with gross income reinvested in USD.

Note: Reference to any specific company or stock is for information purposes only and should not be construed as a recommendation to buy or sell the same.

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