COMMENTARY

Janus Henderson Horizon Pan European Alpha Fund

Q1 2019

Fund manager names: John Bennett & Robert Schramm-Fuchs

Overview

Global equity markets ended 2018 with their worst December performance since 1931. A Federal Reserve on autopilot with regard to balance sheet reduction still – and in our view unexpectedly – surprised markets negatively and they briefly dipped into bear territory with -20% from their peak triggered on intra-day levels. The traditional year-end rally was very limited and late and was followed by a January rally in equity markets as they came off of their Christmas lows. In our view, it is possible that the correction will remain just that – a correction, limited in both time and extent. Investor positioning is still light, in particular in Europe which has seen the longest period of persistent investor fund outflows in over a decade. Policy remains very supportive, too. Some of the pessimism on the macroeconomic data that has now become quite consensual may need to be questioned. Since many of Europe's economic problems last year were 'made in China', upwards-inflecting Chinese credit growth and survey data should lead to improving European earnings estimates.

Performance and activity

The fund delivered 2.2%* over the quarter.

Performance was driven by strong performance from our consumer discretionary, materials and healthcare allocations on the long book. Our short index hedges, used as portfolio insurance, hurt performance in a rising market.

Our top performer at a stock level was international brewer Carlsberg as the company released another set of solid results, demonstrating strong organic sales growth in its latest quarter. We have been impressed by Carlsberg's management team since its appointment in 2015/16 and the position remains among our biggest holdings. Building materials manufacturer LafargeHolcim was also among the key positive contributors. Having recovered well from the 2018 sell-off we believe there is more to come as the market comes to appreciate the turnaround being executed by Lafarge's first class management team. We expect 2019 to be a busy year for the company as the new team reshape what was for far too long a sprawling, underachieving empire. Pharmaceutical company Roche was also among the winning positions. There were no significant laggards on the long side, however, performance was adversely affected by a renewable energy short position and we have covered the position.

Key activity during the quarter included the introduction of Swedish telecom company Ericsson as a meeting with a significantly changed management team gave us confidence in its continuing restructuring following a wasted decade. We also added diversified international food, ingredients and retail group AB Foods following a meeting with its senior management. Sensible capital allocation is at the heart of what the company does, running the balance sheet conservatively to ensure it is able to invest and take advantage of any opportunities that arise. Finally, we established a position in media conglomerate Vivendi, a stock which has undervalued the underlying portfolio of assets. The main attraction is Universal Music Group, as the shift to a subscription-based model makes the industry less "hit" driven, decreases seasonality and increases visibility.

Further decreasing our exposure to the financials sector we exited our positions in ABN Amro, Intesa Sanpaolo, KBC and Svenska Handelsbanken. Indeed, we view the banking sector in general as searching for a sense of purpose. In common with some other sectors, we consider most European banks to be in run-off. An ongoing reduction in our exposure to the autos sector included the disposal of our holding in Michelin and Volkswagen and we sold E.ON, where we consider the outlook to be disappointing.

Outlook

Macroeconomic data has improved in recent weeks, in particular in Europe and China. The turn-around in global money creation is still nascent, but if it were to gather strength as indicated by the dovish communications of all major central banks it would further support the 2019 recovery after the 2018 growth scare. In such an environment, we would expect equity markets to rise. European markets in particular could rally given very light investor positioning.

Source: Janus Henderson Investors, as at 31 March 2019.

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

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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