COMMENTARY

Janus Henderson Horizon Pan European Equity Fund

April 2019

Fund manager names: Jamie Ross

Overview

April was yet another positive month for European equities (the fourth in a row). With European political leaders voting to grant the UK an extension for the implementation of Article 50, there was some welcome respite from politically-dominated news flow. In this environment, cyclical equities rallied strongly (led by banks, capital goods and technology), while some more defensive sectors (healthcare in particular) were left behind.

Performance and activity

The fund returned 3.4%* against an index return of 3.8%.

The best performing positions during April included SAP, Amundi and RELX. The worst performing positions included Novo Nordisk, Roche and Orange.

SAP announced in-line quarterly numbers during the month, but alongside this update the company revealed long-term margin targets that implied an improvement in long-term profitability far ahead of market expectations. This was accompanied with an announcement by the activist investor, Elliott, saying that they had taken a stake in the company and supported the long-term margin targets. The shares reacted very positively. Amundi announced solid quarterly results which highlighted an improvement in net flows into medium and long-term assets alongside industry-leading cost control. Finally, RELX has bounced back from a weak period for the shares which reflected an uptick in negative news flow concerning contract renegotiations in their journals business.

Novo Nordisk and Roche have both been impacted by negative sentiment surrounding potential changes to the US healthcare system and by the re-emergence of concerns around US drug pricing. As mentioned above, we see a risk that these topics continue to act as a drag on sector performance. Incidentally, both Roche and Novo Nordisk have announced strong quarterly results so far this year. Orange has also been a disappointing performer, held back by tough trading conditions in France and by concerns around the need for greater levels of capital expenditure.

During April we sold our positions in Novartis, the Swiss pharmaceutical company, and Alcon, the eye care business that spun off from Novartis at the start of April. Starting on Alcon, we see this business as exposed to attractive demographic trends, namely the growing incidence and diagnosis of eye conditions and the growth of the middle class spending power in underpenetrated emerging markets. We also see it as a company capable of some margin catch up versus peers; there is an easy argument to be made that the business has been starved of capital and focus under Novartis ownership and that independence will drive an improvement in performance. However, there is a price for everything and the implied valuation of Alcon after the spin looked materially too high to us and we sold the position immediately. Moving on to Novartis, again, we see this company as being well placed and well managed. However, we are becoming increasingly sensitive to valuation within the pharmaceutical sector given the strong performance over the past twelve months and given the increased attention that US drug pricing is likely to garner in the run up to the US Presidential elections in 2020. We have retained positions in Roche and Novo Nordisk, pharmaceutical companies in which we have greater conviction levels. We initiated no new positions during the month.

Outlook

We have had a decent start to the year and will continue to try to identify the best opportunities for investment in a disciplined and systematic way.

Source: Janus Henderson Investors, as at 30 April 2019

Janus Henderson
INVESTORS

*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.

Important information

Janus Henderson Investors (Singapore) Limited Company Registration No. 199700782N
Date of issue: May 2019

Janus Henderson
INVESTORS