

Janus Henderson Pan European Smaller Companies Fund

July 2019

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For professional investors only

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Overview

The global economy continues to disappoint as a consequence of trade wars, what was arguably too rapid monetary tightening in 2018, and general political uncertainty. We had hoped to see signs of improvement for the third quarter but this now seems unlikely given the escalation in US-Sino trade/currency wars. While this is a source of frustration, we believe it is important to remember that much of the bad news is already reflected in European valuations/expectations, with global asset allocators having increasingly shunned the region over the last 18 months.

Performance and activity

The biggest positive contribution came from mining equipment supplier Outotec. Regular readers would note that it has been among our biggest detractors over the last 12 months due to a troublesome project in Saudi Arabia. In July the company announced strong results, as well as a proposed merger with Metso Minerals. The deal values Outotec favourably, and investors have been reassured that provisions for the problematic Saudi contract are sufficient and offer high levels of both cost and revenue synergies. We added to our holding following the news.

Other positive contributions came from BE Semiconductor, where there are early signs that destocking in the industry is reaching a nadir, and Varta, which continues to see high levels of demand for its coin batteries from the ever-growing headsets/earphones market.

The main detractor was flooring company Tarkett which has struggled to pass on raw material cost increases (a rising oil price) to their customers in the form of price hikes. The low valuation means we maintain the holding. A position in online gambling company Kindred also lagged, with margins disappointing due to rising costs.

We added a new position in Rockwool, a leader in stone wool insulation for residential and non-residential properties. The company's exposure to a weak construction market has allowed us an attractive entry price to a company that will benefit from long-term trends toward energy efficiency. In addition, we added to an existing holding in Fagron, a supplier of pharmaceutical raw materials. The share price has been weak following a stock placing, which offered us an opportunity to increase our stake. In our view, Fagron stands to benefit from an ageing population, rising drug shortages and tightening regulations.

Disposals included real estate developer Kojamo, as the share price reached our estimate for fair value, AT&S, where we are concerned about the mobile phone supply chain (given weak smartphone demand), and Subsea 7, as we prefer other names in the oil services sector.

Outlook

We continue to deploy a bottom-up, valuation conscious approach to small cap investing.

Source: Janus Henderson Investors, as at 31 July 2019

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: www.janus Henderson.com.

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