INVESTMENT PROCESS

Janus Henderson Horizon Euroland Fund

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Key differentiators

Regional emphasis: A focused portfolio of larger European companies which the manager believes are undervalued, and which are based in countries that have adopted the euro as their currency.

Focus on quality: Superior companies with established track records that are priced at a level that does not reflect their intrinsic value or future prospects.

Seasoned value strategy: The investment process, developed since 1989, is designed to eliminate market noise to help identify stocks offering the biggest discount to fair value. Entry price is crucial.

Methodical process: Bottom-up stock level analysis, with a qualitative overview that helps the manager to control risk while seeking to maximise performance.

Overview

The Henderson Horizon Euroland Fund is an actively managed strategy that aims to deliver capital growth by investing at least three-quarters of its net assets in companies operating in European countries that use the euro as their currency (the Euroland). This is a long-term, value biased and bottom-up strategy looking to identify good quality, but potentially undervalued stocks, driven by the belief that the level of real returns delivered depends on the initial price paid.

Investment philosophy

The manager believes that companies offering real value for investors are rare, given the volume of data in the marketplace. By identifying those businesses that have been incorrectly valued, he believes that it is possible to outperform the market over the long term.

The philosophy behind the process is summarised here:

Management team

Nick Sheridan, who has managed the fund since 8 November 2011, has been running investment strategies based on his process since 1989. He is supported by Janus Henderson's broader UK-based Pan European Equity Team, bringing together a broad range of experience and skillsets.

The team approach is based on collaboration, sharing research, discussing potential investment ideas and participation in company meetings. Individual managers, however, retain ownership of their investment process and portfolio decisions.

Investor misinterpretation	The strategy is based on the belief that stock mis-pricing comes from the way that investors interpret publicly available company information and market news.
Fundamental analysis	By removing sentiment and following a disciplined process that incorporates analysis of meaningful measures, the manager believes it is possible to identify those undervalued stocks that are best placed to outperform.
Flexible approach to value	The manager looks to gauge the worth of any potential growth within stocks as a measure of potentially untapped value. This is a major feature that differentiates the strategies from conventional value-biased strategies.

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Investment process

The fund manager uses a proprietary analytical model to provide theoretical values for each stock in the investment universe, and then ranks the stock according to its discount or premium. He assembles a portfolio of between 40 and 50 stocks from among those companies with the biggest discounts to fair value. In other words, those stocks that he believes offer the best potential.

The investment process uses a model that seeks to estimate future returns by calculating the net present value of dividends and adding this to the future value of operations, taking into account the individual company's financing and any achievable growth. This affects the portfolio in two ways:

- The portfolio has a natural value bias that strips out fashionable growth ideas. This should help the fund to invest in undervalued growth opportunities and avoid stocks that have been buoyed up by unproven or inflated expectations.
- Companies in the portfolio are likely to be durable, well-established names with experience of trading through varied economic and business conditions. This should give extra robustness to the portfolio's earnings profile.

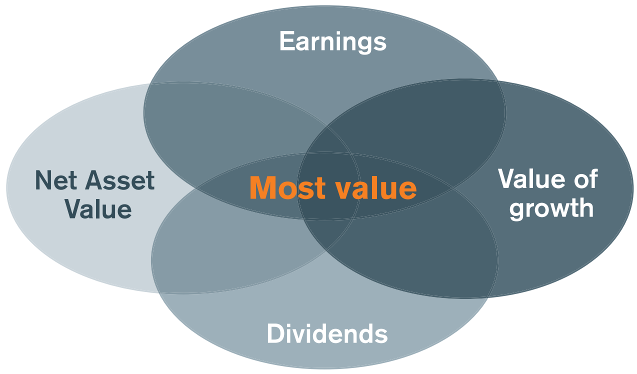
The process follows three key stages:

1) Assessing individual stocks

The starting point for the model is to identify the universe to be screened, then pulling through for each index constituent the historical fundamental data and consensus forecasts. The screening tool looks at four key company characteristics to provide theoretical values for each stock under consideration. These are:

- **Earnings:** Analysis to ascertain the sustainable earnings power of a company can help to create a useful estimate as to its implied future growth rate.
- **Net asset value:** The most certain of all valuations, but which needs to be adjusted to reflect economic reality. When buying a stock at a perceived discount to market value, having a figure to indicate intrinsic worth can provide a margin of safety.
- **Dividends:** An attractive well-covered yield increases the certainty of an investor's return. Dividends therefore play an important part in stock selection.
- **Value of growth:** The manager values growth conservatively and checks carefully to assess whether or not a company generates a positive return on its expenditure.

Together, these characteristics help the fund manager to establish those stocks with the most value:



The fund manager pays particular attention to cash generation, as this measures a company's ability to invest in future growth, borrow against cash flow and finance takeovers. A strong balance sheet, therefore, helps to dictate the pace of a firm's growth.

2) Assessing valuation risk

Stocks that pass through the screening tool are ranked according to their discount to underlying value. Those with the biggest discounts to fair value are taken forward for further validation. The fund manager challenges the investment rationale for each stock to assess the degree of valuation risk. These challenges come in three categories:

Implied Growth Valuation

1) How is growth financed and what is the cost?
2) Is growth sustainable?
3) How much is this growth worth?
4) Is competition increasing?

Earnings Power Valuation

1) How stable are these earnings?
2) Are they defensible?
3) How are they utilised, distributed or retained?
4) Is the distribution policy sustainable?
5) Are the earnings backed by cash?

Asset Value Valuation

1) How much would it cost to reproduce these assets?
2) How are the assets financed?
3) Could the assets be worth more if broken up or sold?
4) Does the company have any unrecognised assets?
5) Is competition decreasing?
6) Is there any catalyst that could create value?

3) Validation/portfolio construction

At the final stage, the fund manager validates his findings with further analysis of each company's finances, industrial positioning, management incentives and investment opportunities. He will also look to meet management if he believes he needs to improve his understanding of a business. From there, he constructs a focused portfolio of between 40 and 50 'best ideas', reviewing the balance in more detail to ensure that the key risk contributors are aligned with client expectations and the manager's own convictions.

The screening tool aims to identify where the best potential value lies, so sector weightings and country exposure generally find a natural level that reflects opportunities in the market. Country selection is the result of stock selection. As the screening tool aims to identify where potential value lies within sectors, this will also to a large extent determine sector weightings. The manager does, however, adopt a prudent approach in making sure there are no extreme overweight positions. That said, he is not constrained by benchmark weightings.

The manager is confident of the reliability of his analytical tool but he can override the system if he disagrees fundamentally with its output. This may be because analysts have not reported a new development, such as an adjustment in a company's accounting policy, which would change the results of the model. The qualitative overlay therefore plays an important role in helping to verify a stock's place in the portfolio.

Typical portfolio characteristics

Informal guides are used to ensure adequate diversification and help maintain the fund's disciplined investment strategy. Please note that these indicative ranges may vary over time and should be used for illustrative purposes only. Portfolio characteristics as at 31 March 2018:

Number of stocks	40–50
Country allocation	No country constraints; however, a minimum of 75% of the fund must be invested in companies incorporated in – or with their principle business activities in – the Euroland.
Sector allocation	No sector constraints
Maximum stock weight	10%

Derivatives

While the fund is authorised to use derivatives to reduce risk or improve efficiency, the fund manager does not utilise them as part of his investment strategy.

Currency hedging

The fund does not hedge currency exposure.

Cash

The fund manager looks to be fully invested at all times. Cash levels are kept to a minimum, which typically ranges between 0–5%.

Sell discipline

The investment process does not employ automatic sell criteria or a stop-loss discipline and there are no set price targets for holdings in the portfolio. The fund manager will adjust exposure in response to continual portfolio monitoring and ongoing stock analysis.

Janus Henderson Horizon Euroland Fund

Independent risk monitoring

The risk management division at Janus Henderson is independent from the portfolio managers. The teams work closely together to ensure all risk taken accurately reflects the managers' core views.

The risk team monitors portfolio positioning to check that the key contributors are aligned with client expectations and the fund managers' convictions. Multi-factor risk models (for example UBS Delta and Barra for equities) are employed. Liquidity analysis is also conducted on a daily basis.

Style research is used on a monthly basis in order to accurately compare the fund to the benchmark or market (value and/or growth biases, momentum tilts, size exposures, etc), and to create a longer term risk model. The risk team measures exposures and risk levels across key representative funds on a daily basis.

Portfolio Managers

Nick Sheridan

Portfolio Manager

Nick Sheridan is a Portfolio Manager of European equities at Janus Henderson Investors, a position he has held since 2009. Nick joined Henderson in 2009 following the acquisition of New Star, where he was a fund manager for two years. Before New Star he was a director of European equities at Tilney for six years. He began his fund management career at BWD Rensburg in 1990, having entered the industry as a buy-side analyst at Ashton Tod McLaren in 1986. Nick graduated with a BA (Hons) in politics from Liverpool University, and has the Securities Institute Diploma. He has 32 years of financial industry experience.

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.

Glossary

Please see HGi.co/glossary for a glossary of financial terms used in this document.

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