

Janus Henderson Horizon European Growth Fund

Q2 2019

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Fund manager names: Simon Rowe

Overview

The second quarter saw more strong performance from equities, although it was punctuated by a sharp sell-off in May. Coming on top of a robust first quarter, the first-half turned out to be one of the strongest for equity performance for 20 years. In May investors were spooked by renewed fears of a trade war between the US and China with further concerns about a technology cold war between the two major powers. But in June markets recovered partly because of hopes that US President Trump might soften his stance on China (not least after he climbed down over Mexico) and partly because of increased confidence that central banks would intervene to cut interest rates and restart bond-buying programmes. This resulted in a paradoxical situation of weakening economic indicators but rising equity markets. Much of the equity performance was driven by bond markets where US 10-year bond yields continued to fall, hitting 2% by the end of the month. The German 10-year bund yield slipped to -0.4% in early July, well below the previous low seen in 2016 in the aftermath of the Brexit vote. The further strength of the bond market gave added impetus to defensive equities, in particular staples and other so called "bond proxies".

Performance and activity

Against this backdrop the fund rose 4.1%, ahead of its benchmark which gained 4.8%.

There was solid performance from many of our holdings, in particular Swiss construction chemicals group Sika, which rose 34%. German outdoor media house Stoeer continued a sparkling run, ending the half up 56%. Defensive growth names such as Carlsberg, Wolters, Tele2 and Relx all performed well, helped by the developments in the bond market. Other good performers included outdoor equipment group Dometic which gained 27% on resilient first quarter numbers. Robust results also helped other holdings such as Rheinmetall, Knorr Bremse, Michelin and IMCD. Some of these gains were offset by sausage skin maker Viscofan which fell back on slightly dull numbers and concerns about the impact of Asian swine flu. Plant equipment specialist Andritz also slipped back on disappointing guidance – though we think the company is significantly undervalued. Auto chip specialist Infineon also retreated on fears about the impact of trade wars, weak auto markets and a poorly received acquisition.

In terms of portfolio changes, we sold our position in Nokian tyres because we were worried about deteriorating auto markets. We also sold our reduced position in Fuchs because it faces too many headwinds in the coming months and is in the middle of a huge investment programme which will likely depress returns in the near term. We replaced these with new positions in Infineon (which performed poorly) which we believe will benefit hugely from the shift to electric cars. We added two investments in healthcare: Diasorin, an Italy-based specialist in diagnostic tests with a strong record of innovation in niche areas, and UDG, an Ireland-based outsourcer that helps drug companies with marketing and packaging. We also purchased a holding in dairy group Danone which is showing signs of improved management and performance after many years of poor performance and capital discipline. It is also a leader in plant-based dairy substitutes.

Outlook

After such strong performance it is easy to be nervous about the outlook for the remainder of the year. We are about to enter the period of second quarter earnings results and some companies are likely to show the impact of uncertainty and disruption caused by the threats of trade wars. Also, whereas many commentators expected the Chinese car market to bounce back in the second half of the year, this looks increasingly questionable. A further source of instability could be Italy which is currently arguing with the EU about its budget and how to cope with its high debt level (with some Italians arguing for a financial instrument that resembles a parallel currency). Although the Italians appear to have given ground on this topic, the subject could easily resurface. Brexit lurks in the wings. That said, expectations of European economic performance are low, so in a more cautious scenario there may be fewer downside risks in Europe than elsewhere.

Source: Janus Henderson Investors, as at 30 June 2019

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