

Janus Henderson Horizon Asian Growth Fund

Q2 2019

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Fund manager names: Andrew Gillan and Mervyn Koh

Overview

After a strong start to the year, Asian equity markets were largely flat amid some volatility in the second quarter of 2019. There was a marked shift in interest rate expectations in the US during the initial weeks of the quarter – from a tightening stance to a relatively more accommodative one, boosting investor sentiment and appetite for emerging markets and Asian assets. However, with President Trump subsequently taking a hawkish stance in the trade war with China, risk assets including Asian equities underwent a correction, led by China related shares within the region - most notably the technology sector in China and Taiwan.

The G20 Summit held in Osaka at the end of June then took centre stage, and investors were surprised once again as President Trump and President Xi agreed to delay any additional tariffs indefinitely, though there would be no rollback of earlier measures. Other important outcomes from the Summit included China pledging to buy more agricultural products from the US going forward, while American companies would be allowed to sell products to Huawei, for now.

With the markets gradually coming to terms with the reality of the circumstances surrounding the trade war issue (ie. the only certainty is that of continuing uncertainty) Asia continues to be among the highest growth regions in the world, trade wars or not. While tariffs would definitely shave some growth off the Chinese economy, the high level of intra-Asia exports and the fast growing services sector should mitigate the adverse impacts caused by trade related issues.

Outside of China, the major news for the quarter had been the results of major elections in India and Indonesia. Thus, voters in two of the world's largest democracies gave incumbents Prime Minister Narendra Modi and President Joko Widodo another term in India and Indonesia respectively, with the former surpassing expectations when the Modi-led Bharatiya Janata Party won a clear majority and became the single largest party in the House. In terms of equity market performance, Southeast Asia and India generally outperformed during the quarter, as they are deemed to be less impacted by trade related issues, with China unsurprisingly the notable underperformer.

Performance and activity

The fund returned 0.6% while the index returned 0.7% during the quarter.

Our decision to retain an underweight position to China contributed the most from a country allocation perspective, while having an overweight position in Korea and an underweight to Australia detracted from performance. Stock selection was strongest in India, where our holdings in the private sector financial services companies and software services providers benefited the fund the most. Despite Hong Kong and China's relative underperformance, stock selection was positive as two of our holdings in the insurance sector and a power tools company contributed strongly. These were offset by negative stock selection in Korea, Australia and the Philippines, however.

From a positioning perspective, the fund remains constructive on India given our focus on businesses that have delivered consistent and superior return on equity over the long-term, hence our preference for private sector companies in the financials, IT services and consumer-related sectors. We also maintained positions in the internet services and technology sectors, gaining exposure through companies which have dominant franchises with strong innovation and execution capabilities across China, Taiwan and Korea. In terms of trading activities, we exited two positions during the quarter. The first was a Hong Kong bank where the investment thesis did not play out as expected. We also cut positions in Sri Lanka on a challenging outlook for both the economy and companies operating there. The fund retains a focused portfolio of less than 40 companies.

Outlook

As Asia has had a reasonably strong first half of the year, we remain cautious in the short term and do expect volatility in equity markets to remain heightened, given the tremendous noise surrounding trade tensions between the US and the rest of the world. While we remain positive on the outlook for the region given the long-term growth potential and the attractive relative valuation to developed markets, we would need to see corporate earnings growth or stronger economic data coming through for Asian equities to perform well. Any pullback in the markets though, should offer long-term investors good opportunities to gain exposure to one of the world's fastest growing regions.

Source: Janus Henderson Investors, as at 30 June 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.janushenderson.com.

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