

Janus Henderson Horizon Pan European Smaller Companies Fund

August 2019

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Overview

Markets fell sharply in August following the latest failure in trade negotiations between the US and China. Investors have quickly moved to price stocks for a prolonged trade war and recession. The falls were most acute in the more cyclical and industrial areas of the market.

Performance and activity

Fund performance tends to suffer in this type of market environment as it has greater exposure to the cycle due to its lower than average market cap exposure (smaller companies are perceived to be more reliant on economic growth) and a desire not to overpay for stocks (lowly valued stocks often are more cyclical in nature). Being valuation conscious in recent years has been a poor strategy but we believe it will once again emerge as an important factor in achieving long-term capital growth.

Cyclically exposed stocks that acted as a drag in August included TKH (Dutch industrial conglomerate transitioning to higher tech/higher margin areas), AMG (speciality metals producer that has suffered with lower lithium prices) and B&S (food and beverage distribution). In addition, our holding in Burford capital was subject of a short attack where the seller highlighted governance issues and accused the company of misleading investors on profitability in historical litigation cases. The company quickly produced a detailed rebuttal that addressed most of the areas of concern. In addition to the rebuttal the company has been forced to rectify some governance issues that we have pressed them on for some time. Namely, the CFO is now independent (previously it was the CEO's wife) and the company is seeking an additional listing in New York (currently a junior UK listing) which will require greater disclosure to investors. We believe the company remains well placed in an immature and growing industry but seems unlikely to attract a premium valuation again in the near term. Once all of these factors are considered we decided to proceed with a 0.4% weight in the fund.

Positive contributions included recipe and meal box company Hellofresh which has now reached profitability and continues to see user growth. UK outsourcer Capita bucked the trend in the UK and announced decent results.

Purchases tended to focus on increasing existing positions, most notably in pulp and paper machinery company Valmet where it appeared that the negative reaction to second quarter results were an overreaction. We also added to our holding in Swiss technology company Comet where we think the new management team has a good plan to realise the value in its impressive technology in electron sterilisation.

Outlook

In contrast to general investor sentiment our market view has become incrementally more bullish. Purchasing managers' indices (PMIs) are negative but we learned from the past that direction of travel is normally more important than absolute levels. The latest tick has been positive, positioning in bonds and 'defensive/quality' equities has reached extraordinary levels and the trade war looks unlikely to go away immediately but as we enter an election year in the US it seems very unlikely that Trump will allow it to drag on the economy for a prolonged period. The pain trade is buy equities, buy value equities and buy small cap. We keep our cyclical/value stance.

Source: Janus Henderson Investors, as at 31 August 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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