

UK SMALLER COMPANIES FUND

At a glance

Performance*

The Fund returned 11.41%, the Index returned 8.28% and the Peer Group returned 6.78%.

Contributors/detractors

The largest positive contributor was Paragon, following better-than-expected results. The largest detractor was Team17, after the company issued a profit warning due to higher costs.

Outlook

Although uncertainty remains around short-term economic conditions, we believe the portfolio is well positioned to withstand an economic downturn and exploit any opportunities it presents.

Portfolio management



Neil Hermon

Investment environment

- The quarter started with investors in a risk-off mood, given the prospect of stubbornly high inflation leading to interest rates remaining higher for longer. However, from late-October onwards there was a strong rally in UK equities and risk assets more broadly, as declining inflation led investors to grow increasingly optimistic about an economic 'soft landing' for the global economy.
- In the UK, headline inflation reached a two-year low and enabled the Bank of England (BoE) to hold interest rates. This resulted in strong returns for the retail and housebuilding sectors, which had been among the hardest hit during the rate-hiking cycle. Oil prices fell following a strong run at the end of the summer, despite the conflict in the Middle East heightening geopolitical risks. Sterling rose against the US dollar, bringing it close to the post-Brexit average. The Numis Small Companies Index outperformed, returning 8.3% over the quarter versus the FTSE All-Share Index which rose 3.2%.

Portfolio review

The fund's biggest positive contributors to performance included Paragon Banking Group, Ascential and OSB Group. Shares in Paragon Banking Group, the specialist buy-to-let lender, rose following the announcement of a new share buy-back alongside a strong set of results which

beat both earnings and returns expectations. Shares in Ascential, the diversified media group, performed strongly following the announcement that its board had agreed sales of both its digital commerce and trend forecasting (WGSN) businesses, alongside news of a substantial cash return to shareholders - thus bringing the planned managed separation close to conclusion. Shares in OSB Group, the specialist buy-to-let lender, rallied following the announcement of a reassuring set of results following the profits warning in the summer, and optimism that falling bond yields would improve the outlook for mortgage loans.

The fund's biggest detractors from performance included Team 17, Pebble and Future. Despite reporting strong revenue growth, shares in Team 17, the video games publisher and developer, suffered following material earnings downgrades caused by poor cost control and non-cash write-downs of underperforming games. Pebble, the promotional products and software group, fell after a profits warning.

Corporate spend on promotional products is currently under pressure from budgetary constraints in more challenging economic times. While full-year results for Future, the specialist media group, came in consistent with expectations, the shares reacted negatively to the increased cost investment announced by the new CEO. Sentiment was further dampened by the news that the long-standing and well-respected CFO was stepping down.

In terms of activity, we initiated a new position in Bloomsbury Publishing, the specialist consumer and

Marketing communication

Past performance does not predict future returns.

*For benchmark/usage and peer group, if applicable, refer to Fund details on page 3. For relevant descriptions, risks and the Fund's investment policy statement, refer to Additional fund information on page 4.

educational publishing business. The business has been trading strongly, helped by the success of authors such as J K Rowling and Sarah J Mass and strong trading in consumer publishing. The level of new investment and a strong balance sheet bodes well for the company's future, in our view.

We added to the position in Genuit, the building materials group, as its new management have been materially improving the business. Although current market dynamics are tough, we believe the scope for profit recovery when conditions improve is significant. Elsewhere, we exited the fund's positions in Ergomed, a clinical trials provider, and Restaurant Group, the pub and restaurant operator, after both companies received agreed bids from private equity.

Manager outlook

Whilst inflation has fallen significantly over the last year, it remains elevated against official targets. Hence central banks, led by the US Federal Reserve (Fed), have retained their hawkish stance. However, it is clear we are at the end of the monetary policy tightening cycle and even the Chair of the Fed conceded that rate cuts were being debated by the committee. What is not clear is the timing of when rates might start to fall and the speed of any decreases. In the meantime, the delayed transmission mechanism of rising interest rates and their impact means that economic conditions are likely to remain difficult in the short term. Notwithstanding this, the prospect of a monetary easing cycle is likely to support global equity markets and allow valuation multiples to expand.

Geopolitics remain challenging with the ongoing conflicts in Ukraine and Gaza and heightened tensions between China and the US. The longer-term economic implications of this are material. There is an urgent need to reduce European dependence on Russian oil and gas supplies and a requirement to decrease China's influence on the global supply chain through investment in nearshoring capability. In addition, domestic politics are likely to be an area of volatility with up to half of the global population going to the

polls in the coming 12 months in key elections in UK, USA, India, Mexico, South Korea and the EU.

In the corporate sector we are encouraged by the fact that conditions are intrinsically stronger than they were during the Global Financial Crisis of 2008-2009. In particular, balance sheets are more robust. Dividends have recovered strongly and we are seeing an increasing number of companies buying back their own stock.

After an active 2021, the initial public offering (IPO) market has become considerably quieter as equity market confidence has diminished. There are no signs this is likely to change in the short-term. Merger and acquisition (M&A) activity has remained robust as acquirers, particularly private equity, looks to exploit opportunities thrown up by the recent equity market falls. We expect this to continue in the coming months as UK equity market valuations remain markedly depressed versus other developed markets.

In terms of valuations, the equity market is trading below long-term averages. In addition, smaller companies are trading at a historically high discount to their larger counterparts. A sharp rebound in corporate earnings following the pandemic induced shock in 2020 has now faded. Weak economic activity has led to subdued corporate earnings growth in 2023 compounded by rising interest costs and a higher corporate tax burden. These dynamics are unlikely to change in 2024. However, the view that the UK economy is entering a moderate recession is now consensual and the debate is now focused whether the trough will be deeper than expected.

Although uncertainty remains around short-term economic conditions, we think that the portfolio is well positioned to withstand an economic downturn and exploit any opportunities it presents. The movements in equity markets have thrown up some fantastic buying opportunities. However, it is important to be selective as the strength of franchise, market positioning and balance sheets will likely determine the winners from the losers.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (31/01/83)
I Acc (Net)	10.00	11.41	3.20	3.20	-3.55	4.25	5.73	10.03
Index	9.37	8.28	10.14	10.14	3.32	5.73	4.89	—
Peer Group	7.06	6.78	0.37	0.37	-3.43	3.87	5.21	10.20

12 month rolling

	Dec 2022- Dec 2023	Dec 2021- Dec 2022	Dec 2020- Dec 2021	Dec 2019- Dec 2020	Dec 2018- Dec 2019
I Acc (Net)	3.20	-29.20	22.80	4.01	31.91
Index	10.14	-17.87	21.92	-4.29	25.17
Peer Group	0.37	-25.61	20.64	7.00	25.44

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/12/23. © 2024 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance does not predict future returns.** Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period. **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.** Source for target returns (where applicable) - Janus Henderson Investors. This is a representative share class for the fund, other share classes are available and may be more suitable for your investment needs.

Fund charges will impact the value of your investment. In particular, the ongoing charges applicable to each fund will dilute investment performance, particularly over time. For further explanation of charges please visit our Fund Charges page at www.janushenderson.com.

Investment objective

The Fund aims to provide capital growth over the long term (5 years or more).

For the fund's investment policy, refer to the Additional fund information on page 4.

Past performance does not predict future returns.

Fund details

Inception date	20 January 1983
Total net assets	225.54m
Asset class	Equities
Domicile	United Kingdom
Structure	OEIC
Base currency	GBP
Index	Numis Smaller Companies ex Investment Companies Index
Peer group	IA UK Smaller Companies Equity

For benchmark/usage description, refer to Additional fund information on page 4.

Additional fund information

Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records are detailed on the specific KIID, fees and charges may vary and further information can be found in the fund's prospectus and KIID which must be reviewed before investing. Please consult your local sales representative if you have any further queries. From 18 March 2021, the Janus Henderson UK & Irish Smaller Companies Fund merged into the Janus Henderson UK Smaller Companies Fund. Note that any differences among portfolio securities currencies, share class currencies and costs to be paid or represented in currencies other than your home currency will expose you to currency risk. Costs and returns may increase or decrease as a result of currency and exchange rate fluctuations. Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund. References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned.

The Numis Smaller Companies Excluding Investment Companies Index is a measure of the combined performance of smaller companies (the bottom 10%) listed on the London Stock Exchange excluding investment companies. It provides a useful comparison against which the Fund's performance can be assessed over time.

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The Fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Investment policy

The Fund invests at least 80% of its assets in shares (also known as equities) of smaller companies, in any industry, in the UK. Companies will be incorporated, headquartered, or deriving significant revenue from, the UK. The Fund may also invest in other assets including cash and other shares. The investment manager may use derivatives (complex financial instruments) to reduce risk or to manage the Fund more efficiently. The Fund is actively managed with reference to the Numis Smaller Companies ex Investment Companies Index, which is broadly representative of the companies in which it may invest, as this can provide a useful comparator for assessing the Fund's performance. The investment manager has discretion to choose investments for the Fund with weightings different to the index or not in the index. As an additional means of assessing the performance of the Fund, the IA UK Smaller Companies sector average, which is based on a peer group of broadly similar funds, may also provide a useful comparator.

Investment strategy

The investment manager believes that investing in companies is about the future and taking a long term view. The investment process is grounded both in fundamental analysis, which aims to gain a clear understanding of individual companies and their markets, and in a strong valuation discipline. The universe of potential investments is reduced in stages using broad-based screening and ranking of companies, detailed profiling, meetings with management and the detailed analysis of financial data. The Fund has a well-diversified portfolio and normally avoids very small 'micro cap' companies due to the more difficult nature of buying and selling shares in these companies.

Fund specific risks

The Fund could lose money if a counterparty with which the Fund trades becomes unwilling or unable to meet its obligations, or as a result of failure or delay in operational processes or the failure of a third party provider. Shares/Units can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result. Shares of small and mid-size companies can be more volatile than shares of larger companies, and at times it may be difficult to value or to sell shares at desired times and prices, increasing the risk of losses. If a Fund has a high exposure to a particular country or geographical region it carries a higher level of risk than a Fund which is more broadly diversified. The Fund may use derivatives with the aim of reducing risk or managing the portfolio more efficiently. However this introduces other risks, in particular, that a derivative counterparty may not meet its contractual obligations. Securities within the Fund could become hard to value or to sell at a desired time and price, especially in extreme market conditions when asset prices may be falling, increasing the risk of investment losses.

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Source: Janus Henderson Investors, as at 31 December 2023, unless otherwise noted.

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