COMMENTARY

Janus Henderson Horizon Sustainable Future Technologies Fund

Q2 2023

Marketing communication - For professional investors only
Past performance does not predict future returns

Fund Managers Names

Graeme Clark, Alison Porter, Richard Clode, CFA

Investment environment

The second quarter saw technology equities outperform broader market indices, and a marked positive divergence following stellar results from NVIDIA. This further fuelled the market appetite for stocks with exposure to artificial intelligence (AI), leading to semiconductor names being particularly strong. Talks about AI regulation and ethics intensified, with the EU parliament passing the Artificial Intelligence Act by an overwhelming majority. This introduces elements such as transparency, risk management, data quality, human oversight and accountability. Projected fines are material, at up to 6% of global income for non-compliance. The US launched several initiatives to assess responsible AI and to catalyse innovation. From The White House's AI Bill of Rights, to the AI Risk Management Framework from the US National Institute of Standards and Technology, to introducing seven new national AI research institutes.

Sustainability disclosure celebrated a milestone with the release of ISSB's IFRS S1 and S2, sustainability standards aligned to the TCFD framework. Off the back of this, the Hong Kong stock exchange is aiming to make climate-related disclosures mandatory, aligning to the ISSB standards. The EU Parliament also adopted the Corporate Sustainability Due Diligence Directive, making companies liable for human rights and environmental impacts across their value chain. Discussions around biodiversity, water and air intensified, as did discussions around data privacy and security. For example, a California-based law firm is launching a class-action lawsuit against OpenAI, alleging that ChatGPT massively violated the copyrights and privacy of countless people when it used data scraped from the internet to train its technology.

With a UN Sustainable Development Goals funding gap of $3.7 trillion, we believe our sustainable technology themes are necessary for long-term value creation and both environmental and social progress. However, ongoing stewardship of capital to create a more responsible and environmentally-friendly future remains top of mind as we navigate a difficult market environment. We believe AI can help with the UN SDG gap - by catalysing vast amounts of resource and productivity optimisation and enabling further digital democratisation. However, responsible and ethical AI, as well as better data, is needed to ensure we do not spark any unwanted consequences.

Portfolio review

The fund returned 7.1% versus the MSCI ACWI Information Technology NR Index benchmark which returned 13.7%.

The fund protected capital relatively well versus the broader technology market last year, given its focus on solutions to major problems versus more discretionary spend. However, this meant it lagged the broader technology sector rebound in the second quarter, particularly given it has less exposure to the mega caps. The outperformance of technology stocks overall remained largely concentrated in the mega-cap names given the strength of their balance sheets, higher exposure to AI and relatively low earnings expectations entering the quarter. By the end of the period their market capitalisation as a percentage of the S&P 500 Index had re-traced close to the peak levels seen in 2021.

Given the dual mandate of the fund, which aims to provide capital growth over the long term (five years or more) by investing in technology-related companies that contribute to the development of a sustainable global economy, the positive/negative screening criteria for the portfolio is constructed in a benchmark agnostic manner. Thus, the following commentary on fund performance contributors and detractors is on an absolute return basis rather than relative to the benchmark.

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Our low-carbon infrastructure theme featured several very strong performers this quarter. NVIDIA was a tailwind to performance thanks to the surge in demand for its graphics processing units (GPUs) that are fundamental to reducing energy usage, running generative AI models and are also becoming increasing important to meet the need for accelerated compute within data centres. Following a disappointing first quarter, Marvell rebounded as the market identified the firm as a key AI play, benefiting from near-term strong AI revenue growth through high-performance networking and custom silicon. Marvell is a leader in low-power datacentre and 5G connectivity and compute enabling lower carbon infrastructure. BESI benefited from an inflection in hybrid bonding as a solution to slowing Moore's Law, lowering energy usage, and increased use cases from AI.

Palo Alto Networks contributed strongly to performance thanks to the company's strong platform position across all major cyber security threat vectors. As a result, it is winning larger deals with customers seeking to consolidate vendors and it is seeing early momentum with its AI-driven security offerings. Inclusion in the S&P 500 Index also helped the stock.

Impinj, enabling the circular economy through RFID and a key contributor over the past year, was a headwind to performance this quarter after key customers pushed out significant projects. SolarEdge detracted from performance based on concerns surrounding orders and the macroeconomic backdrop for 2024 solar, as US residential becomes weaker, which is likely to reduce demand for the company's solar microinverters, batteries and monitoring solution. Lattice Semiconductor has experienced a number of near-term risks from weaker demand driven by macro, elevated customer inventory levels and tax rate increases.

In terms of activity, we exited a number of positions, several of which dragged on performance over the period. We exited several clean energy technology holdings given near-term weakness in the macroeconomic picture, especially around US residential solar (Shoals Tech, SolarEdge). We also shifted the fund's defensiveness exposure from telecommunication stocks to health care. Here, we initiated a position in Evolent Health, which uses its technology and services to help US health insurers and professionals deliver value-based care to some of the most complex and costly areas of health care (such as oncology and cardiology), and ultimately create better patient outcomes. We increased the fund's AI exposure by initiating a position in Lam Research, and divesting from NXP Semiconductor. Near-term weakness in networking drove us to exit positions in Ciena and Juniper Networks, while weaker conviction led us to sell out of Capgemini and Lattice Semiconductor.

Manager outlook

Technology is the science of solving problems, and the global challenges that we face require the innovation of the sector to provide solutions. Our eight sustainable technology themes are a positive force across both environmental and social issues. Looking ahead, we expect volatility to remain elevated as geopolitical tensions and balancing slowing inflation and economic growth create an overhang on near-term company earnings estimates. Following the market falls of last year, valuations across the technology sector have now returned to a premium to broader equities. However, as economic growth slows, with an unlikely return to extremely low borrowing costs, we continue to see vulnerability among the stocks with the weakest balance sheets, poor margins and most extended expectations and valuations. We see the next market cycle as returning to fundamentals and delineating between the 'haves' and 'have nots'. In our view, sustainable technologies supported by government regulation and subsidies offer more resilient growth opportunities in a tougher economic backdrop.

As technology fund managers we are excited by the potential for generative AI to underpin the next major technology wave, unlocking new sustainable investment opportunities. We remain focused on the global technology leaders of today and tomorrow. By investing in a low-carbon, technology-for-good portfolio we can naturally access what we see as the largest and longest potential growth markets. By navigating the hype cycle we can deliver our dual mandate.

Source: Janus Henderson Investors, as at 30 June 2023

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Fund information (Investment policy is on the next page)

Index	MSCI ACWI Information Technology Index
Morningstar sector	Europe OE Sector Equity Technology
Objective	The Fund aims to provide capital growth over the long term (5 years or more) by investing in technology-related companies that contribute to the development of a sustainable global economy.

Performance in (USD)

Performance %	A2 (Net)	Index	Sector
1 month	5.3	5.8	5.2
YTD	24.8	36.9	25.5
1 year	30.3	34.3	18.8
3 years (annualised)	-	-	-
5 years (annualised)	-	-	-
Since inception 03 Aug 2021 (annualised)	-5.7	1.6	-10.7

Source: at 30 Jun 2023. © 2023 Morningstar. All rights reserved, performance is with gross income reinvested. Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

Calendar year returns %	A2 (Net)	Index	Sector
2023 to 30 Jun 2023	24.8	36.9	25.5
2022	-31.7	-31.1	-36.4
2021 from 03 Aug 2021	5.0	9.2	1.0
2020	-	-	-
2019	-	-	-
2018	-	-	-
2017	-	-	-
2016	-	-	-
2015	-	-	-
2014	-	-	-
2013	-	-	-

Source: at 30 Jun 2023. © 2023 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the 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.

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 http://www.janushenderson.com.

Source for target returns (where applicable) – Janus Henderson. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. With effect from 1 January 2023, the Key Investor Information document (KIID) changed to the Key Information Document (KID), except in the UK where investors should continue to refer to the KIID. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records/scenarios are detailed within the fund's specific KIID/KID, fees and charges, and the respective risk rating may vary. Further information can be found in the fund's prospectus and KIID/KID which must be reviewed before investing. Please consult your local sales representative if you have any further queries.

Past performance does not predict future returns. 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.

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What are the risks specific to this fund?

- When the Fund, or a share/unit class, seeks to mitigate exchange rate movements of a currency relative to the base currency (hedge), the hedging strategy itself may positively or negatively impact the value of the Fund due to differences in short-term interest rates between the currencies.
- 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 is focused towards particular industries or investment themes and may be heavily impacted by factors such as changes in government regulation, increased price competition, technological advancements and other adverse events.
- The Fund follows a sustainable investment approach, which may cause it to be overweight and/or underweight in certain sectors and thus perform differently than funds that have a similar objective but which do not integrate sustainable investment criteria when selecting securities.
- 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.
- If the Fund holds assets in currencies other than the base currency of the Fund, or you invest in a share/unit class of a different currency to the Fund (unless hedged, i.e. mitigated by taking an offsetting position in a related security), the value of your investment may be impacted by changes in exchange rates.
- 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.

General risks

- Past performance does not predict future returns.
- 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.
- Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change.

Investment policy

The Fund invests at least 90% of its assets in shares (equities) or equity-related securities of technology-related companies, whose products and services are considered by the Investment Manager as contributing to positive environmental or social change, thereby having an impact on the development of a sustainable global economy. The Fund's investment universe is defined by technology-related companies that derive at least 50% of their current or future expected revenues from the sustainable technology themes identified by the Investment Manager (as further outlined in Investment Strategy section). The Fund will avoid investing in companies that the Investment Manager considers could contribute to significant environmental or societal harm.

The Fund may also invest in other assets including investment grade government bonds, cash and money market instruments.

The investment manager may use derivatives to reduce risk or to manage the Fund more efficiently.

The Fund is actively managed with reference to the MSCI ACWI Information Technology 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, but at times the Fund may hold investments similar to the index.

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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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Important information

In accordance with the Sustainable Finance Disclosure Regulation, the Fund is classified as Article 9 and has sustainability as its objective.

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