

# Janus Henderson Horizon Pan European Absolute Return Fund

August 2023

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

## Fund Managers Names

Robert Schramm-Fuchs, John Bennett

## Investment environment

August was a disappointing month for the fund as it finished slightly down. In particular, this is because it had held up well in the face of a rather sharp market correction until mid-August, but then failed to participate in the smaller rebound towards the end of the month. The interim European market correction had reached around 5%, during which the fund proved its low volatility and downside protection attributes.

## Portfolio review

The fund returned -0.9%.

Our stock-specific short book performed well during August, whereas the long book suffered. Our hedge book lost money due to the market rebound and continuously low market volatility. Taking these in turn, the gains on the short side were led by a bet against a prominent European payments stock which issued a dramatic profit warning. Unfortunately, as the shares had screened as a crowded short into the quarterly reporting event, we had reduced the position size just prior to the profit warning from a maximum short to a medium short position. We had approached sizing from a risk management perspective due to the share price already having fallen coming into the catalyst event, and due to perceived short crowding among the hedge fund community (which can often lead to painful share price squeezes).

Another successful short position was on a leading European clean energy utility stock that also issued a hefty profit warning. It had been a long-standing short position which we had on over parts of 2022 and most of 2023 already. Our fundamental thesis of squeezed off-shore wind project returns from significantly higher funding costs and construction cost inflation, combined with increasingly uncomfortable financial leverage, came to fruition.

Lastly, we had a very profitable short position on a German automobile original equipment manufacturer (OEM) in light of the ongoing China market price war, rising incentives in the US market, and overall stagnating volumes. We have subsequently closed out all three of the above very successful short positions. The remainder of the short book developed well, but overall contributed somewhat less than the top three ideas.

The stock-specific long book was led by pharmaceutical stocks Novo Nordisk and Eli Lilly. Both stocks benefited nicely from Novo Nordisk's Wegovy SELECT trial read-out which showed a best-case outcome with regards to cardiovascular risk reduction. There was a significant degree of uncertainty associated with this as cardiovascular trials are huge and frequently fail due to trial design or pockets of patient enrolment issues. Also, the interim analysis of that trial had not quite hit expectations at the time. Consequently, ahead of the binary event of the read-out we had partially switched the long stock position into an options construct as a stock replacement, which offered a fixed maximum loss in addition to upside participation. Additionally, we had temporarily switched some of our Novo Nordisk long position into peer Eli Lilly, which would have been seen as big beneficiary had the Wegovy SELECT trial ended unconvincingly. Helpfully, Eli Lilly also beat its second quarter consensus and raised guidance.

Otherwise, there was a notable absence of stock-specific winners in the long book, not least due to the negative development across equity markets. Among the losers in the long book, semiconductor stock Infineon stands out. Infineon was a maximum long position for us coming into the month, and it reported a moderate low single-digit miss versus consensus estimates for its fiscal third quarter of 2023. Guidance was also slightly below consensus. The market also got scared by the high investment announced to expand its silicon carbide production capacities in Malaysia. Finally, the stock remained under pressure during the month as a number of peers also gave at best in-line to slightly disappointing updates. At the time of writing, the share price is still around the same levels and has not recovered yet. Our position size has been reduced to a medium long position.

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The hedge book as always chiefly consisted of put spreads that offered a fixed maximum loss of 1.0x up-front net premium paid, and a fixed maximum return which is usually in a 5-10x range of the up-front premium. These structures tend to work best when there is a sustained uplift in market volatility, as in the interim time prior to option expiry this will lift the value of the options over and above the simple price delta. There was only a very brief pop in volatility, and only from a low-teens level to high teens for a few days. Disappointingly, this quickly reverted back down to low teens before the end of the month. European stock markets have continued their correction into September now, but again so far volatility is only in the mid-teens. Given this kind of environment has now persisted since the second quarter of 2022, we have to accept that this may be the market regime until proven otherwise. As a result, it seems more cost-efficient to keep options positions smaller and possibly forgo some upside via covered call writing to help fund more of the up-front premium.

## Manager outlook

To conclude with some general market outlook, it seems less likely to us that the stock market will quickly rise to new highs given the persisting tight global liquidity situation, a global economy that is clearly weakening, and inflation that is not declining quite as fast as hoped anymore. The recent energy price recovery is not helpful in this regard. At the time of writing, the fund's biggest long positions are lower-volatility, quality large-cap names such as Safran, Compass, Novo Nordisk, Shell and SAP. Our largest shorts come from the semiconductor, food & beverage staples and basic materials sectors. Outside of these top positions, most of our stock positions are medium size only. Given a number of catalysts ahead, such as the European Central Bank (ECB) meeting, options expiry and the US Federal Reserve (Fed) meeting, we have deployed our usual put spread strategy to significantly cushion any break-down below clear support lines that the European equity markets are presently testing.

Source: Janus Henderson Investors, as at 31 August 2023

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## Fund information (Investment policy is on the next page)

Index	Euro Short Term Rate
Morningstar sector	Europe OE Alt - Long/Short Equity - Europe
Objective	The Fund aims to provide a positive (absolute) return, regardless of market conditions, over any 12 month period. A positive return is not guaranteed over this or any other time period and, particularly over the shorter term, the Fund may experience periods of negative returns. Consequently, your capital is at risk.
Performance target	To outperform the Euro Short Term Rate (€STR) by at least 1% per annum, after the deduction of charges, over any 3 year period.

## Performance in (EUR)

Performance %	A2 (Net)	Index
1 month	-0.9	0.3
YTD	0.2	2.0
1 year	0.1	2.3
3 years (annualised)	2.1	0.5
5 years (annualised)	2.2	0.3
10 years (annualised)	2.8	0.9

Source: at 31 Aug 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
2023 to 30 Jun 2023	1.5	1.3
2022	-4.5	0.0
2021	6.9	-0.3
2020	5.2	0.0
2019	9.9	0.0
2018	-6.2	0.0
2017	3.7	0.0
2016	-2.7	0.0
2015	2.1	0.1
2014	6.4	1.8
2013	20.3	10.0

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.

Please note that as of 01 July 2021, the benchmark changed from the Euro Main Refinancing Rate to the Euro Short Term Rate (€STR). The Fund's investment policy, reference benchmark and performance target changed. Past performance shown before 01 July 2021 was achieved under circumstances that no longer apply. From 25 February 2022 the Fund changed its performance target. Past performance shown before 25 February 2022 was achieved under circumstances that no longer apply.

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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.

Performance fees are charged separately as a way of rewarding the investment manager for superior returns or for outperforming specified targets. A Performance Fee is accrued where the NAV outperforms the relevant Hurdle NAV (subject to a High Water Mark). For further explanation of the performance fee calculation methodology please see the relevant prospectus, available at <http://www.janushenderson.com>.

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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.
- 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 to help achieve its investment objective. This can result in leverage (higher levels of debt), which can magnify an investment outcome. Gains or losses to the Fund may therefore be greater than the cost of the derivative. Derivatives also introduce 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.
- The Fund involves a high level of buying and selling activity and as such will incur a higher level of transaction costs than a fund that trades less frequently. These transaction costs are in addition to the Fund's Ongoing Charges.

## 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 in shares and makes extensive use of derivatives (complex financial instruments) to take both 'long' and 'short' positions in companies the investment manager believes will either rise in value (long positions) or fall in value (short positions) meaning that the Fund may benefit from either scenario.

The Fund will hold a significant proportion of its assets in cash and money market instruments as a result of holding derivatives and for when the investment manager wishes to take a defensive stance. Conversely, the Fund may also employ 'leverage' (so that the Fund can invest a greater amount than its actual value) when the investment manager has greater confidence in the opportunities available.

Typically, at least two-thirds of the exposure to the long and short positions (in aggregate) will be to companies of any size, in any industry, in Europe (including UK). Companies may be located or do most of their business in this region. The balance of the long and short exposure may be to companies outside this region.

The Fund may invest in other assets including bonds (including convertible bonds) and preference shares. The investment manager may also use derivatives (complex financial instruments) to reduce risk or to manage the Fund more efficiently.

The Fund is actively managed and makes reference to the Euro Short Term Rate (€STR) as this forms the basis of the Fund's performance target and the calculation of performance fees (if applicable). For currency hedged Share Classes, the rate that corresponds with the relevant Share Class currency is used as the basis of the performance comparison and for calculating performance fees. The investment manager has complete discretion to choose investments for the Fund and is not constrained by a benchmark.

# Janus Henderson Horizon Pan European Absolute Return Fund

For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: [www.janushenderson.com](http://www.janushenderson.com).

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## Important information

**In accordance with the Sustainable Finance Disclosure Regulation, the Fund is classified as Article 8 and promotes, among other characteristics, environmental and/or social characteristics, and invests in companies with good governance practices.**

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