COMMENTARY

Janus Henderson Horizon Pan European Absolute Return Fund

Q2 2023

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

Fund Managers Names

Robert Schramm-Fuchs, John Bennett

Investment environment

The quarter ended well for the fund and provided some immediate validation for our positive, early-cycle view. As a reminder, we had argued that the stock market as a forward-looking discounting mechanism will front run an eventual easing in inflation-adjusted monetary conditions, and will be early in anticipating the end of widespread inventory de-stocking. We had suggested that equity bear markets usually end when the economy is still in recession, and that historically, markets on average had recouped half their peak-to-trough losses one month before the recession ends - but that now, just like with the post-Covid period, the retracement has happened faster. Back then it was about 90%. This time around we are again at this level and, to the consternation of the many stock markets bears still about, are threatening to make new all-time highs. It is unlikely to be a smooth ride given how tight global liquidity still is, but the direction of travel should remain positive from here in our view.

Portfolio review

While it is early days, we think we could observe some encouraging price action in the coming weeks. For instance, there were some prominent profit-warnings caused by sharper-than-expected de-stocking by cyclical stocks like DSM-Firmenich, Croda, Mayr Melnhof and Sartorius. Despite these warnings, the share prices seemed to stop falling and instead found what could be a bottom. We also had positive earnings announcements from other cyclical stocks including H&M, Inditex and Renault, which were all nicely rewarded by the stock market. The list of stocks with 3-month and even 12-month relative highs versus the wider European stock market is dominated by cyclical stocks from the consumer discretionary, early-cycle industrials, banks and technology sectors.

On the opposite end of relative lows compared to the wider European market, we mostly see defensive companies from sectors such as utilities, telecoms, staples and oil majors. In our view, the inflation picture is the biggest determinant for if that constructive price action will persist. The reason is that this has so far prevented the normal central bank reaction function to the widespread macroeconomic weakness.

As an aside, Germany, and in fact the eurozone, has now been confirmed to be in recession since October 2022. The latest data point regarding inflation was the headline eurozone Consumer Price Index (CPI), which came in at 5.5% year-over-year. This compares to a September 2022 peak of 10.7%, since when inflation has cooled by 520 basis points. This is one of the fastest disinflationary periods on record. Consider the case of Spain, which had led eurozone CPI on the way up. It experienced a peak of 10.7% in July 2022, and now headline inflation has fallen back inside the 2% target. Wow! Some may argue that the eurozone core CPI at 5.4% is still elevated, but it was a touch below consensus expectations.

Also, it is worth pointing out that it is not unusual for the core CPI rate to keep rising just a bit longer than the headline CPI. Moreover, the Producer Price Index (PPI) typically leads CPI at the peaks and troughs, and core PPI has collapsed globally. The next eurozone PPI reading will be released over the coming days, but consensus expects an outright deflationary print. Given how restrictive monetary policy has been over the past 12 months (and continues to be), we believe we will witness a complete inflation normalisation over the next four quarters. Policymakers may carry out one more rate hike, but we are increasingly confident that this will be the last hike of this cycle (if it indeed materialises), and that they will be cutting interest rates multiple times next year.

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Getting an exact handle on the degree of inventory destocking is difficult. But we can point out that the Global Manufacturing Purchasing Managers' Index (PMI) has been in contraction territory for nine straight months already. We can also point out that the Bank of America Truckload Diffusion Indicator - a survey of over 1,000 shipping managers on their demand expectations for the coming three months - has begun rising from levels that were historically consistent with a freight market recession. European freight-forwarding giants Kuehne & Nagel and DSV said in their pre-close statements that sea freight container volumes improved to something like minus 3-4% year-over-year versus around -6% in the first quarter. It is also worth highlighting that global pulp inventories started ticking down slightly last month. Encouragingly, memory chip spot pricing is inflecting up. We could also look at the second-largest European box maker, DS Smith, which in its recent earnings call said that volume trends improved over April compared to the first quarter, and that the improvement continued into May and June. Thus, there is growing anecdotal evidence of the inventory de-stocking slowly coming to an end.

Manager outlook

The fund's long book remains pro-cyclical in the selection of stocks from our pool of idiosyncratic ideas. Our largest sector long positions remain in short-cycle industrials, semiconductors and small-ticket consumer discretionary. On the short side, we continue selecting more from the defensive, less cyclical end of the spectrum of ideas. Our largest short exposures are in food and beverages, telecommunications, utilities, health care and tobacco.

In the long book, our investment process always starts with the key governance questions of "Who are we investing in?" and "Who are we investing with?". Thus, we are drawn to investment cases with demonstrable change for the better in the board and top management level. Previously badly managed companies - as opposed to bad businesses - may be neglected by investors, and are often 'lazy shorts' for market consensus. This may present opportunities where there is any change in management. Examples of this in the fund's long book are Danone, Deutsche Boerse, FLSmidth, Knorr-Bremse, Konecranes, and Kuehne & Nagel.

Despite all the above explanations about positioning more pro-cyclically at the moment, it is important to also highlight that we retain our style-agnostic approach. Our business is about the rate of change. Market phases change. At times, a high starting point for cash return on capital with little future change is rewarded more by markets, and at other times a lower starting point with a steep potential improvement yields better chances for share price gains. In our view, we are entering a phase more beneficial to the latter. And we believe this is a counter-consensual view.

Source: Janus Henderson Investors, as at 30 June 2023

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Fund information (Investment policy is on the next page)

Index	Euro Short Term Rate (€STR)
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	1.6	0.3
YTD	1.5	1.3
1 year	3.9	1.6
3 years (annualised)	4.2	0.3
5 years (annualised)	2.4	0.2
10 years (annualised)	3.0	1.0

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
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.

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.

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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 8 and promotes, among other characteristics, environmental and/or social characteristics, and invests in companies with good governance practices.

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