COMMENTARY

Janus Henderson Absolute Return Fund

Q2 2023

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

Fund Managers Names

Ben Wallace, Luke Newman

Investment environment

Macroeconomic volatility and dispersion between asset classes continued during the second quarter. This presented an improved environment for active stock pickers, and particularly for long/short investors such as ourselves. Technology stocks led global equity markets higher, while growth-style stocks generally outperformed value-style stocks, driven by a narrow cohort of companies expected to benefit from developments linked to artificial intelligence (AI). Meanwhile, weakness in sovereign bonds (higher yields) reflected hawkish messages from central banks amid persistently high inflation.

Portfolio review

Overall, the long book was positive for fund returns while the short book detracted marginally.

The emergence of AI as a theme within capital markets drove positive returns within both the fund's core and tactical book. Core long holdings in Microsoft and Oracle performed well, driven by expectations around growth in cloud infrastructure. A number of tactical long positions, including Nvidia and Palantir, also became immediate investment proxies for the AI theme. We also took advantage of share price weakness in some businesses perceived as being at risk from AI disruption. This included increasing the long position in professional data provider RELX, and its share price subsequently rebounded as investors began to recognise that Generative AI could in fact prove a tailwind to the company's earnings. In addition, UK-listed medical equipment manufacturer Smith & Nephew contributed positively as the company reported strong first quarter results and investor concerns eased over Chinese procurement changes within sports medicine. While we took some profit in the position, we continue to back the new CEO's turnaround plan to re-establish revenue growth. In the short book, the fund's UK REIT exposure contributed positively as the market digested the implications of the Bank of England (BoE)'s surprise 50 basis point (bps) interest rate hike.

Performance detractors included the fund's core long position in BP after the UK oil major slowed the rate of share buy-backs as oil prices declined given concerns about demand, particularly in China. We added to the position based on the share price weakness. Elsewhere, we opened a new short position in a global consumer technology business. This detracted as US growth remained more durable than anticipated. The fund's exposure to US building material companies was also negative, as US infrastructure activity remained resilient.

In terms of activity, the continuation of more logical stock dispersion led us to open a number of tactical trades across multiple sectors, including pair trades within the media, automotive and financial sectors. Overall net exposure to the latter increased, and in particular in insurers, which we believe are positioned to potentially benefit from a boost to profitability amid the higher-for-longer interest rate narrative. We re-established a long position in car and aero-engine manufacturer Rolls Royce. Here, the new management team continued to turnaround the business, while there was support from the continuing recovery in Asian travel. In addition, we increased the fund's long position in the industrials sector via new positions in Trane Technologies and Parker Hannifin. Trane is a leading manufacturer of climate control products for heating, ventilation, air conditioning and transport solutions benefiting from structural demand as companies invest to drive efficiency gains and meet environmental targets. Parker Hannifin is a manufacturer of value-add industrial components with a relentless focus on productivity gains.

Janus Henderson Absolute Return Fund

Manager outlook

The fund's gross exposure continued to rise. In our view, the investment environment is improving with greater, more rational dispersion between assets, particularly along valuation lines. This is consistent with our historical experience of higher discount rates. Meanwhile, the fund's net exposure remains lower, reflecting the balance of risks facing equity markets. Central banks are being clear that elevated interest rates will be required for a longer period than many expect, which creates a headwind to valuations (higher discount rate) as well as a higher cost of financing for many leveraged companies. However, we are optimistic that the changes in market structure suit our investment process and we expect the fund's gross exposure to rise further as our conviction levels increase.

Source: Janus Henderson Investors, as at 30 June 2023

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Fund information (Investment policy is on the next page)

Index	UK Base Interest Rate
Morningstar sector	Europe OE - Long/Short Equity - UK
Objective	The Fund aims to achieve a positive (absolute) return, regardless of market conditions, over any 12-month period. A positive return is not guaranteed over this or any 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 Bank of England Base Rate, after the deduction of charges, over any 3 year period.

Performance in (GBP)

Performance %	A2 (Net)	Index
1 month	0.4	0.4
YTD	3.1	2.1
1 year	5.8	3.3
3 years (annualised)	2.1	1.2
5 years (annualised)	1.5	1.0
10 years (annualised)	3.1	0.7

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
2023 to 30 Jun 2023	3.1	2.1
2022	-1.0	1.5
2021	3.5	0.1
2020	2.2	0.2
2019	3.5	0.7
2018	-3.3	0.6
2017	2.9	0.3
2016	1.2	0.4
2015	7.0	0.5
2014	4.4	0.5
2013	16.6	0.5

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.

From 3 August 2015 the Fund changed its investment policy. Past performance shown before 3 August 2015 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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Janus Henderson Absolute Return Fund

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 60% of the exposure to the long and short positions (in aggregate) will be to companies of any size, in any industry, in the UK. Companies may be incorporated or headquartered in the UK, deriving significant revenue from the UK, or listed on the London Stock Exchange. Up to 40% of the long and short exposure may be to non-UK companies. The Fund may also invest at the Investment Manager's discretion in other Transferable Securities, derivative instruments and collective investment schemes.

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 with reference to the Bank of England Base Rate as this forms the basis of the Fund's performance target and the level above which performance fees may be charged (if applicable). For currency hedged Share Classes, the central bank 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 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.

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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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