

Janus Henderson Pan European Smaller Companies Fund

Q3 2019

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For professional investors only

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Overview

Markets were volatile during the third quarter as the trade war pendulum swung back and forth before finishing with optimism of a deal being agreed (or at least delays to further tariffs). The positive mood of markets in September also saw investors question the now extreme global inflation expectations and in turn the value style outperformed growth for the first time in many months. This was to the benefit of the fund which continues with its valuation-conscious approach to stock selection.

Performance and activity

Positive contributions included recipe and meal box company Hellofresh which has now reached profitability and continues to see user growth. We also had good returns from UK outsourcer Capita which bucked the trend in the UK and announced decent results, as well as Varta, which continues to see high levels of demand for its coin batteries from the ever-growing headsets/earphones market.

On the negative side our holding in Burford Capital was subject of a short attack where the seller highlighted governance issues and accused the company of misleading investors on profitability in historical litigation cases. The company quickly produced a detailed rebuttal that addressed most of the areas of concern. In addition to the rebuttal the company has been forced to rectify some governance issues that we have pressed it on for some time. Namely, the CFO is now independent (previously it was the CEO's wife) and the company is seeking an additional listing in New York (currently a junior UK listing) which will require greater disclosure to investors. We believe the company remains well placed in an immature and growing industry but seems unlikely to attract a premium valuation again in the near term. Once all of these factors are considered we decided to proceed with a smaller position size. Another detractor was flooring company Tarkett which has struggled to pass on raw material cost increases (a rising oil price) to its customers in the form of price hikes. The low valuation keeps us as holders. A position in online gambling company Kindred also lagged, with margins disappointing due to rising costs.

In terms of other activity, we bought Avast which has built a 435 million user base driven by its free anti-virus software. The company is looking to increasingly monetise that user base and it is also moving into mobile security. A placing offered us a good liquidity event to enter the shares. We also added Trigano, a manufacturer of recreational vehicles. The company announced supply chain issues and delays, and although these seem likely to persist we decided to add the stock on the share price weakness as the company remains in a dominant market position and seems likely to benefit from demographic tailwinds and has more cash than debt on the balance sheet. Sales mainly involved profit taking in Stroer, an out-of-home media solutions/advertising firm, and JM, the Swedish housebuilder.

Outlook

We believe that Europe and its small cap businesses are set for a period of better performance driven by improving M1 money supply, central bank easing, micro fundamentals looking robust and purchasing managers' indices (PMIs) reaching historic extremes. Couple this with the asset class being woefully out of favour with allocators and we believe the conditions are ripe for some mean reversion.

Source: Janus Henderson Investors, as at 30 September 2019

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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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