COMMENTARY

Janus Henderson Horizon Japan Opportunities Fund

Q2 2023

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

Fund Manager Name

Junichi Inoue

Investment environment

Global equity markets rose during the second quarter. Following the failure of two US regional banks and Credit Suisse, negative investor sentiment dominated the start of the quarter. However, with prompt measures taken by regulators, the impact on the financial system proved limited and risk appetite gradually improved as the market expected slowing Consumer Price Index (CPI) inflation to mean that interest rate hikes were coming to an end. Sentiment was also helped by positive results from technology companies, and equities rose towards the end of the quarter.

In Japan, the TOPIX Index returned 14% in yen terms and 5% in US dollar terms as the yen continued to weaken due to a widening interest-rate spread. Corporate governance reform remained a core theme after the Tokyo Stock Exchange highlighted concerns about companies trading below book value. Improvements in capital allocation under stronger corporate governance can have a big positive impact on share prices wherever operating cash flows are already strong, valuations might appear low and balance sheets are more solid.

In terms of sector performance, exporters such as automobiles and machinery performed strongly as the market became less worried about the risk of recession. The share prices of many financials stocks also exceeded their recent highs. On the back of higher-than-expected CPI in Japan, the market seems to have discounted the possibility of any change in monetary policy.

Portfolio review

The fund returned 5.2% in US dollar terms, versus the TOPIX Index which returned 5.4%. The Japan Large-Cap Equity - OE peer group returned 5.9%.

The majority of companies reported their full-year results for March 2023, registering mid-single-digit earnings-per-share (EPS) growth, which was better than once feared. While earnings guidance was conservative, based on our own research we believe there could be low- to mid-single-digit growth for this fiscal year. Given valuations seemed to have been very low, investors reacted positively to the improving macro outlook.

At the stock level, the fund's holding in Mitsubishi Corporation was the top positive contributor. We have been a long-term investor in the company as its capital management has continued to improve. The shares in Renesas Electronics rose further as sentiment for semiconductor-related activity improved. In contrast, Daiichi Sankyo and Olympus were the main detractors from fund performance, as the medical sector tends to underperform in a strong market.

In terms of trading activity, we trimmed a number of positions where the shares have had a strong run. We also divested the full position in TDK, as its share price reached our target price. We re-established a position in Softbank Group as the company successfully de-risked its portfolio and we believe its share price remained deeply undervalued.

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Manager outlook

Despite a strong run so far this year, we continue to believe the risk-reward balance is good for equities. Inflation appears to be passing its peak in major economies, and although a slowdown in the global economy remains a key concern, monetary policy can certainly be less restrictive if inflation falls. The outlook for corporate earnings has been improving thanks to a weaker yen and lower input costs, while companies have been successfully resetting margins through price hikes for the first time in decades.

Due to strong markets, share price valuations moved from what we considered to be very attractive levels to (still) attractive levels as the market's price-to-earnings (P/E) ratio shifted from 13 times to 15 times (for the full-year to March 2024). We believe this level of valuation can be justified without much EPS growth. The market does not seem to have been as selective, as P/E (based on full-year earnings-per-share) is within a very narrow range for companies operating in similar business. To us, this seems like a great opportunity for stock pickers. We think buy-and-hold type strategies such as ours have an advantage from this point on in the economic cycle.

We are also focusing on governance improvement as a key value driver of the portfolio, as we believe it will lead to better capital allocation decisions. We have strong confidence in the stocks we own and will continue to focus on stock picking, which we expect to be a key determinant of fund performance.

Source: Janus Henderson Investors, as at 30 June 2023

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Fund information (Investment policy is on the next page)

Index	Tokyo Stock Price Index (TOPIX)
Morningstar sector	Europe OE Japan Large-Cap Equity
Objective	The Fund aims to provide capital growth over the long term.
Performance target	To outperform the Tokyo Stock Price Index by 2% per annum, before the deduction of charges, over any 5 year period.

Performance in (USD)

Performance %	A2 (Net)	Index	Sector	A2 (Gross)	Target (Gross)
1 month	4.4	3.9	3.7	-	-
YTD	13.9	11.8	12.4	-	-
1 year	17.2	17.6	17.2	-	-
3 years (annualised)	4.2	5.2	5.0	-	-
5 years (annualised)	3.6	2.3	2.2	5.6	4.4
10 years (annualised)	5.5	5.3	5.1	7.6	7.4

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	13.9	11.8	12.4
2022	-20.2	-15.2	-17.8
2021	-1.4	0.8	1.1
2020	22.1	12.6	14.9
2019	25.2	18.8	19.3
2018	-17.2	-14.0	-15.6
2017	19.9	26.1	27.1
2016	8.9	3.1	3.4
2015	13.2	11.3	9.9
2014	-5.4	-3.7	-4.6
2013	30.1	27.3	29.0

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.

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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.
- This Fund may have a particularly concentrated portfolio relative to its investment universe or other funds in its sector. An adverse event impacting even a small number of holdings could create significant volatility or losses for the Fund.
- 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 80% of its assets in a concentrated portfolio of shares (equities) and equity-related securities of companies, of any size, in any industry, in Japan.

The Fund may also invest in other assets including cash and money market instruments.

The investment manager may use derivatives (complex financial instruments) to reduce risk or to manage the Fund more efficiently.

The Fund is actively managed with reference to the Tokyo Stock Price Index, which is broadly representative of the companies in which it may invest, as this forms the basis of the Fund's performance target and the level above which performance fees may be charged (if applicable). 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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