

Janus Henderson Horizon Sustainable Future Technologies Fund

Q3 2023

Marketing communication

Fund managers

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Investment environment

Long-dated US Treasury yields hitting 10-year highs, negative US GDP revisions and weakening manufacturing data created an overhang on equity markets during the period. Technology equities underperformed broader market indices, digesting very robust outperformance over the year to date. Thematically, low carbon infrastructure performed well as the strength around artificial intelligence (AI) continued, and the shift to a low-carbon, highly connected cloud continued, with enterprise spending pivoting and exhibiting stronger-than-expected resilience. Sustainable transport showed weakness as interest rates increased, the UK pushed out its internal combustion engine vehicles ban, fears arose around the potential impact of the United Auto Workers strike, and the European Commission started to probe into Chinese subsidies. Clean energy technology struggled despite the G20 committing to tripling renewable energy capacity by 2030; US debt fears continued; and, a year on from its initial announcement, worries started to emerge on the lack of momentum around the US Inflation Reduction Act.

Portfolio review

Given the dual mandate of the fund, which aims to provide capital growth over the long term (five years or more) by investing in technology-related companies that contribute to the development of a sustainable global economy, the positive/negative screening criteria for the portfolio is constructed in a benchmark agnostic manner. Thus, the following commentary on fund performance contributors and detractors is on an absolute return basis rather than relative to the benchmark.

While the quarter was weaker, over the year to date, performance remains solid. The outperformance of technology stocks overall remained largely concentrated in mega-cap names because of their balance sheet strength, higher exposure to AI and ability to beat expectations. This meant that the fund has lagged the broader technology sector rebound this year, as many mega-caps do not pass our positive screening threshold.

Jabil is a global electronics manufacturer focussed on improving ESG and sustainability. Jabil contributed to performance after its investor day outlined how the company is levered to higher margin growth from electric vehicles (EVs), digital healthcare and AI datacentre infrastructure, while the divestment of its lower margin mobility business funds a material share buyback. Intuit beat estimates and provided solid guidance, driven by strong execution in the small business segment, helping customers become financially intelligent and empowered. The Innovation and Analyst Day showed the company to be an early mover in AI. NVIDIA once again contributed as demand accelerated for its graphics processing units that are fundamental for generative AI, contributing to solving some of the world's biggest ESG questions.

Ambarella, a leader in low-power computer vision, detracted from performance because of ongoing inventory correction and weak demand. Impinj, which provides low energy tracking and embedding of information through radio-frequency identification, also detracted from performance because of inventory digestion and the slow ramp of large projects. Infineon, a leader in power semiconductors used in EVs and renewables, detracted as concerns emerged that margins may have peaked after pressures in its automotive segment.

We initiated positions in AMD and Pure Storage, benefiting from next-generation infrastructure spend. We added positions in Veeva, which provides cloud software for the healthcare sector, Universal Display, which develops low energy, organic light emitting diode screens, NEXTracker, which optimises solar panel positioning, Keysight, a leader in electronics test and measurement equipment and software, and Flex, a reshoring play providing greener manufacturing for sustainable thematic end-markets.

We exited Zebra Technologies, which is experiencing macroeconomic challenges, as well as Adyen, as we see better risk-reward opportunities elsewhere.

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Manager outlook

Technology is the science of solving problems, and the global challenges that we face require the innovation of the sector to provide solutions. Our eight sustainable technology themes are a positive force across both environmental and social issues. Looking ahead, we expect volatility to remain elevated as geopolitical tensions and balancing slowing inflation and economic growth create an overhang on near-term company earnings estimates. Following the market falls of last year, valuations across the technology sector have now returned to a premium to broader equities. However, as economic growth slows, with an unlikely return to extremely low borrowing costs, we continue to see vulnerability among the stocks with the weakest balance sheets, poor margins and most extended expectations and valuations. We see the next market cycle as returning to fundamentals and delineating between the 'haves' and 'have nots'. In our view, sustainable technologies supported by government regulation and subsidies offer more resilient growth opportunities in a tougher economic backdrop.

As technology fund managers, we are excited by the potential for generative AI to underpin the next major technology wave, unlocking new sustainable investment opportunities. We are also well exposed to next-generation infrastructure names that should benefit here. We continue to focus on the global technology leaders of today and tomorrow. By investing in a low-carbon, technology-for-good portfolio, we can naturally access what we see as the largest and longest potential growth markets. By navigating the hype cycle, we can deliver our dual mandate. Ongoing stewardship of capital to create a more responsible and environmentally friendly future remains top of mind as we navigate a difficult market environment.

Source: Janus Henderson Investors, as at 30 September 2023

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For further information on the Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com

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