

HORIZON JAPANESE SMALLER COMPANIES FUND

At a glance

Performance*

The Fund returned 11.06%, the Index returned 8.06% and the Sector returned 8.26%.

Contributors/detractors

Positive contributors were Jins Holdings, Benefit One and Demae-can, while negative contributors included Central Security Patrols, Daio Paper and Taiyo Yuden.

Outlook

We expect many Japanese small- and mid-caps to undergo drastic business transformations over the next five years, accelerated by stricter governance rules and pressure from shareholders.

Portfolio management



Yunyoung Lee, CFA

Investment environment

- Japanese equities surged in the fourth quarter as investors welcomed lower-than-expected US Consumer Price Index (CPI) inflation, less probability of further interest rate hikes from the Federal Reserve (Fed), and a decline in US long-term yields. The fact that some US economic indicators came in below the market's outlook lowered expectations for any further rate hikes by Fed.
- The overall trend of Japanese corporate quarterly earnings was favourable. Although preliminary third quarter 2023 GDP growth in Japan showed a contraction of 2.1% (well below the market forecast of -0.4%), inventory cycles for electrical parts - to which the Japanese economy is sensitive - seemed to bottom out. At the Bank of Japan (BoJ)'s monetary policy meeting in December, the BoJ maintained the status quo across all monetary policy parameters including yield curve control, asset purchase programs and forward guidance. Since November, growth-style stocks outperformed against the backdrop of a sharp decline in interest rates.
- Japan small-cap companies, which we believe are being underappreciated by investors, outperformed large-caps. This was boosted by growth-oriented small-cap stocks due to expectations for a decline in interest rates. In addition, better earnings outlooks for

small-caps for 2024 versus large-caps helped drive their outperformance.

Portfolio review

Positive contributors included Jins Holdings (eyewear), Benefit One (benefits packages), Demae-can (food delivery), Septeni Holdings (internet advertising) and Harmonic Drive Systems (factory automation). Shares in Jins Holdings rose thanks to better-than-expected monthly sales as demand for higher price glasses recovered after the pandemic. Shares in Benefit One also rose as Daiichi Life made a rival bid of 2,123 yen-per-share against M3, which offered to pay 1,600 yen-per-share for the company in November. Demae-can's share price was up due to expectations for an improvement in its profits while Septeni's share price rose driven by the announcement of an activist's share purchases and its sale of a loss-making subsidiary. Shares in Harmonic Drive rose as we saw the bottoming out of orders in its quarterly earnings results.

Negative contributors were Central Security Patrols (security), Daio Paper (paper), Taiyo Yuden (electrical parts), Denka (chemical) and Life (super market). Taiyo Yuden's share price fell due to convertible bonds issuance. Central Security Patrols saw its share price decrease after the announcement of disappointing shareholder returns, while Denka's shares fell due to a weak earnings outlook and a fall in its dividend forecast. Elsewhere, Life declined due to some profit-taking after the strong earnings results.

Marketing communication

For professional investors only

Past performance does not predict future returns.

*For benchmark and sector, if applicable, refer to Fund details on page 3. For relevant descriptions, risks and the Fund's investment policy statement, refer to Additional fund information on page 4.

In terms of activity, we increased the fund's positions in Cyberagent (internet advertising), Japan Steel Works (machinery), KH Neochem (chemicals), Nihon M&A Center Holdings (merger and acquisition agent), SG Holdings (transportation), Union Tool (semiconductors), Kato Denka Kogyo (chemicals), Koa (electrical parts) and Park 24 (parking lots). We initiated new positions in Central Glass (chemicals) and TRE Holdings (recycling services).

We decreased the positions in Asahi Intecc (health care devices), Life (supermarkets), Noritake (electrical materials), Oracle Japan (IT services), Sakata Inx (packaging inks), Daito Trust Construction (apartments), Benefit One (benefits packages), DKK (antennas for base stations), GMO Financial Holdings (online foreign exchange), Toyo Denki Seizo (electrical parts) and Yorozu (auto parts). We sold out of the fund's positions in Iida Group Holdings (houses), Ibiden (semiconductors), Taisho Pharmaceutical Holdings (drugs), Sumitomo Bakelite (electrical materials), Horiba (semiconductors), Tokyo Century (leases), Tsuruha Holdings (drug stores) and Nitto Boseki (electrical materials) given our revised conviction levels after management meetings.

Manager outlook

Japan is facing many challenges including an aging population, a low economic growth rate, competition with rapidly growing Asian companies, digitalisation, and ESG requirements. However, this also offers opportunities. Japanese small- and mid-cap firms are likely to undergo drastic business transformations in the years ahead, accelerated by stricter governance rules and pressure from shareholders. For example, in 2023 Taisho Pharmaceutical Holdings and Benesse Holdings announced management buy-outs to reform their businesses, while M3 and Daiichi Life's tender offer for Benefit One is a growth strategy aimed at coping with the more severe environment. As Japanese companies are expected to continue cutting strategic shares, management teams will have to listen to opinions from shareholders and look at ways to improve shareholder value. We think these dynamics will offer attractive investment opportunities. Hence, we believe active management is even more important for Japanese small-cap investing. Based on our strategy of an intensive company management interview program, we will continue to uncover opportunities via our bottom-up process.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (30/08/85)
A2 USD (Net)	6.39	11.06	12.85	12.85	0.72	8.22	7.30	7.20
Index	5.00	8.06	15.39	15.39	-0.36	4.21	5.91	6.30
Sector	5.32	8.26	10.83	10.83	-3.78	4.02	5.23	7.06
A2 USD (Gross)	—	—	—	—	—	10.54	9.49	9.23
Target	—	—	—	—	—	6.82	8.56	8.96

12 month rolling

	Dec 2022- Dec 2023	Dec 2021- Dec 2022	Dec 2020- Dec 2021	Dec 2019- Dec 2020	Dec 2018- Dec 2019
A2 USD (Net)	12.85	-10.97	1.71	9.08	33.15
Index	15.39	-11.78	-2.81	4.97	18.34
Sector	10.83	-18.61	-1.24	13.59	20.35

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/12/23. © 2024 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance does not predict future returns.**

Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period. **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.** Source for target returns (where applicable) - Janus Henderson Investors.

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 www.janushenderson.com.

Performance fees may be charged before the Fund's outperformance target is reached.

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 www.janushenderson.com.

Investment objective

The Fund aims to provide capital growth over the long term. Performance target: To outperform the Russell/Nomura Small Cap Index by 2.5% per annum, before the deduction of charges, over any 5 year period.

For the fund's investment policy, refer to the Additional fund information on page 4.

Past performance does not predict future returns.

Fund details

Inception date	01 August 1985
Total net assets	43.86bn
Asset class	Equities
Domicile	Luxembourg
Structure	SICAV
Base currency	JPY
Index	Russell/Nomura Small Cap Index
Morningstar sector	Japan Small/Mid-Cap Equity

Additional fund information

Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change. 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 and/or financial adviser if you have any queries. From 17 November 2014, the base currency of the fund changed from USD to JPY. From 1 November 2015, the Fund changed its benchmark from Tokyo SE Second Section Index to the Russell/Nomura Small Cap Index. The benchmark shown is a composite of the two. Past performance shown before 17 November 2015 was achieved under circumstances that no longer apply. 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. Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund. References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned.

Investment policy

The Fund invests at least two-thirds of its assets in a concentrated portfolio of shares (equities) and equity-related securities of smaller companies, in any industry, in Japan. The Fund may also invest in other assets including companies of any size, 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 Russell/Nomura Small Cap 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.

Investment strategy

The investment manager believes in-depth stock analysis, coupled with superior stock picking are the main drivers of superior long-term performance in Japanese smaller companies. The Fund is designed to capture the undervalued growth potential of Japanese smaller companies by typically investing in the smallest 25% of listed Japanese companies by market capitalisation using a, disciplined, pragmatic and risk-aware investment process. The investment approach focuses on stock valuation, investment catalysts and long-term structural growth to drive earnings and returns.

Fund specific risks

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. Shares of small and mid-size companies can be more volatile than shares of larger companies, and at times it may be difficult to value or to sell shares at desired times and prices, increasing the risk of losses. 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.

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Source: Janus Henderson Investors, as at 31 December 2023, unless otherwise noted.

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