

HORIZON PAN EUROPEAN ABSOLUTE RETURN FUND

At a glance

Performance*

The Fund returned 3.98%, the Index returned 1.00%

Contributors/detractors

The main positive contributors to performance were broadly split across many stocks in both the long and short books.

Outlook

Our outlook for 2024 is one of cautious optimism.

Portfolio management



Robert Schramm-Fuchs



John Bennett

Investment environment

Equity markets staged a significant rally in the last quarter of 2023. After a weak October, the upbeat mood in November and December mainly reflected that the ever-growing evidence on slowing inflation started to translate into more dovish tones by central banks. This narrative culminated with the US Federal Reserve (Fed)'s communication at its December meeting which the market interpreted as a signal that the monetary policy 'pivot' (the shift from raising interest rates to interest rate cuts) is around the corner. Against this backdrop, US and European yields compressed markedly. US 10-year Treasury yields fell from a 4.9% peak in October to 3.9% by the end of December, and German 10-year bund yields fell from 2.8% to 2.0%. Long duration sectors like technology and real estate led the market higher.

Portfolio review

Semiconductor equipment long positions in ASML, BEI, ASM International and Infineon continued to perform well. Aerospace engine company Rolls Royce also performed well, as the company's turnaround under its new management continued apace. We also had good returns from the long positions in Nemetschek and SAP. Many investors viewed Nemetschek sceptically, due to its exposure to the construction sector. We felt this to be unfair given its much higher share in infrastructure construction projects, which tend to be more resilient in a weaker macroeconomic environment. Moreover, the degree of digitalisation in the entire industry remains low, but pressure to transition is ever-rising. Key growth drivers for construction digitisation are the need to budget closer

to true cost, build more cost-efficiently and control deviations from budget more tightly, as well as energy efficiency mapping. Its new management is managing the transition from a licence to a subscription business very successfully and the company still has a lot of white space for international expansion. SAP has been benefiting from an ongoing client base migration from on-premise to the cloud and a product upgrade cycle.

The main detractor was the long position we had taken in French pharmaceutical stock Sanofi. The company shocked the market with an abrupt decision to significantly increase its research and development (R&D) spend by €1 billion. Previously, the equity story had been about the company being a relative safe-haven, its already promising development pipeline, and the optionality of a consumer business spin-off. Now, we think the investment case is much higher risk with more emphasis on binary pipeline outcomes. Its management have raised the stakes and while they may be proven right in the medium-term, the near-term financials are more questionable. We felt the explanations given were insufficient, and also note in hindsight the surprising change in its Head of R&D earlier this year. We stop-lossed the full position on the day of the announcement.

For the very near-term January trading, we assume ongoing higher volatility. US markets - and presumably European markets, but we only have reliable, transparent data for the US - entered into a put options-dominated, negative gamma market regime last week. Even with the rebound of late, this seems more like a neutral gamma market, but with quite elevated equity long positioning - in particular from the systematic hedge fund community,

Marketing communication

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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.

which could also be quickly unwound. In recent years (for which data exists), negative gamma positioning periods have typically yielded worse returns and exhibited higher realised volatility. As a consequence, we have shrunk the number of holdings and lowered the fund's net exposure. At the time of writing, we have 34 long and 25 short positions (versus the usual up to 40 and 25 respectively). We also have significant stock market index put spread overlay, plus we have put spreads on individual stocks in place to control net asset value (NAV) drawdown risk.

Our underlying book composition remains pro-cyclically oriented. Despite the rotation of the first few trading days in January - selling fourth quarter winners and buying 2023 losers - we feel little has changed in the fundamental picture and the greater scheme of things from a price action point of view. The list of stocks trading at 12-month relative highs versus the wider market in both Europe and the US remain dominated by cyclicals, in particular from technology, housebuilder, financials and consumer discretionary sectors. Examples in our long book in recent days (at the time of writing) include Pandora (budget jewellery), European banks (we own UBS and UniCredit) and above-mentioned Taylor Wimpey. On the other hand, those trading at 12-month relative lows continued to be dominated by more defensive names. In Europe, these were most notably stocks like LVMH and Campari (which we recently exited again after brief episodes of trying to bottom-fish in the long book) or Diageo (in the short book).

What has hurt the fund's performance most so far this year has been our semiconductor equipment long positions in ASML, ASM International and VAT Group. However, there have been no specific events or announcements for these companies. We think the prospects for a 'capex cycle' upswing continue to improve, given the dynamics of artificial intelligence (AI) - where the next step will be upgrading the AI capabilities to devices like PCs and smartphones (and which for the first time in a long while has the potential to drive a strong and meaningful product replacement cycle) - coupled with an ongoing rebound in the leading-edge memory segment. We are using the recent weakness to increase the fund's semiconductor equipment long exposures, while hedging with some put options structures on analogue semiconductor stocks, where there have been more profit warnings.

Historically, automotive semiconductors have been last into and last out of the contraction. This has also been the case this time around. At the other end of the spectrum, memory is usually first in and first out of the correction. So while memory prices are sharply off their bottom, we are now seeing profit-warnings in the late-cycle analogue space. In late November, Analog Devices lowered its outlook, while its peer, ON Semiconductor, significantly

reset guidance in late October. As we entered 2024, Mobileye and Microchip issued profit-warnings. Ultimately, the main difference is that our equipment holdings are world-leading oligopolists or quasi-monopolists, without whom the semiconductor world cannot continue to drive the significant leading-edge advances. They are the crucial arms dealers with unique intellectual property. Analogue semiconductor makers operate under much more competitive pressure, and in our view will face much more intense competition from China in the later years of this decade. But we believe that to tactically trade during this cycle upswing matters little right now. But already, it has a big influence on new peak and trough valuation multiples assigned to these stocks.

Outside of semiconductors, the fund's long positions are concentrated in the areas of 'always looking good', small-ticket consumer discretionary items, as we are seeing positive real wage growth for the first time after two years due to fading inflation. This includes some consumer-driven medical technology stocks such as Straumann, which historically have traded closely correlated to consumer confidence, and financial services firms such as brokerages and exchanges, where money is returning to the stock market from money market funds.

In the fund's short book we are chiefly targeting consumer staples, given that slow volume growth is putting firms at risk of having to give back the aggressive pricing taken over the last two years, along with the late-cycle de-stocking dynamics. The short book also includes health care stocks, due to the more challenged R&D pipeline, China procurement disruptions from an anti-corruption drive, and late-cycle destocking in consumables.

Manager outlook

Our outlook for 2024 is one of cautious optimism. Central banks are now openly talking about interest rate cuts and even an end to quantitative tightening. Real narrow money creation across the G-7 and even the E-7 economies has inflected up, and even though it remains in weak negative territory it is no longer getting worse. Market-based financial condition measures have clearly eased. It will likely take time for those factors to translate into an improving real economy, and thus we think it will remain a more tactical equities playing field. We see a significant opportunity set ahead of us to play idiosyncratic early-cycle winners versus stocks with a very high risk of profit-warning. We are particularly encouraged by the fund's second half of 2023 performance, and are optimistic that the fund will soon even out the wobble from the first week of January.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	
A2 EUR (Net)	1.18	3.98	4.71	4.71	2.22	4.33	2.43	
Index	0.34	1.00	3.30	3.30	0.99	0.59	0.48	
Target	—	—	—	—	1.61	0.96	0.67	

Calendar year	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A2 EUR (Net)	4.71	-4.55	6.88	5.24	9.95	-6.18	3.67	-2.66	2.05	6.42
Index	3.30	-0.01	-0.29	0.00	0.00	0.00	0.00	0.01	0.05	1.80

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 a positive (absolute) return, regardless of market conditions, over any 12 month period. A positive return is not guaranteed over this or any other 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 Euro Short Term Rate (€STR) by at least 1% per annum, after the deduction of charges, over any 3 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 December 2006
Total net assets	228.30m
Asset class	Alternatives
Domicile	Luxembourg
Structure	SICAV
Base currency	EUR
Index	Euro Short Term Rate
Morningstar sector	Long/Short Equity - Europe
SFDR category	Article 8

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.

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 1 July 2021, the benchmark changed from the Euro Main Refinancing Rate to the Euro Short Term Rate (€STR). The Fund's investment policy and performance target changed. Past performance shown before 1 July 2021 was achieved under circumstances that no longer apply. From 25 February 2022, the Fund changed its performance target. Past performance shown before 25 February 2022 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. These are the views of the author at the time of publication and may differ from the views of other individuals/teams at Janus Henderson Investors. Any securities, funds, sectors or indices mentioned within this article do not constitute or form part of any offer or solicitation to buy or sell them. The information in this commentary does not qualify as an investment recommendation. Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund. The ongoing charge is calculated using the PRIIP methodology. The PRIIP methodology differs to the UCITS ongoing charge methodology, as the PRIIP methodology captures additional recurring charges, including but not limited to: Interest paid on borrowing (e.g. bank interest); Any fees incurred in relation to stock-lending activity (i.e. the fee paid to the lending agent); Any costs associated with holding closed-ended vehicles. 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 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 two-thirds of the exposure to the long and short positions (in aggregate) will be to companies of any size, in any industry, in Europe (including UK). Companies may be located or do most of their business in this region. The balance of the long and short exposure may be to companies outside this region. The Fund may invest in other assets including bonds (including convertible bonds) and preference shares. 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 and makes reference to the Euro Short Term Rate (€STR) as this forms the basis of the Fund's performance target and the calculation of performance fees (if applicable). For currency hedged Share Classes, the 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.

Investment strategy

The investment manager targets long-term capital appreciation through exposure primarily to European equities. The manager selects stocks using a fundamental approach, blended with sector themes. The process results in a high-conviction portfolio with a bias towards long positions (where the manager believes the prospects for the companies are positive), complemented by 'short positions' (where prospects are less positive) and other market hedging securities.

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. 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.

FOR MORE INFORMATION PLEASE VISIT [JANUSHENDERSON.COM](https://www.janushenderson.com)

Janus Henderson
INVESTORS

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

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