QUARTERLY COMMENTARY | Q4 2023

Janus Henderson INVESTORS

US SMALL-MID CAP VALUE FUND

At a glance

Performance*
The Fund returned 13.63%, the Index returned 13.76% and the Sector returned 12.61%.

Contributors/detractors
Stock selection in the consumer discretionary sector contributed positively to relative performance, while stock selection in the industrials sector detracted.

Outlook
We believe the portfolio remains well positioned for both long-term investment opportunities and defending against market volatility.

Portfolio management

Kevin Preloger

Justin Tugman, CFA

Investment environment

- Equities sold off in October but rallied strongly in November and December. Investor expectations shifted from fears of additional interest rate hikes to expectations that slowing inflation would persuade the US Federal Reserve (Fed) to reduce interest rates in 2024. The 10-year Treasury yield fell to 3.88% by quarter end, after reaching nearly 5% in mid-October.
- Market gains were widespread. Led by the financials sector, 10 of the 11 sectors of the Russell 2500 Value Index posted positive returns. Energy stocks declined, as crude oil prices retreated from their third-quarter highs.
- The fourth-quarter rally was led by lower-quality companies with higher debt levels and either no earnings or lower historical returns, rather than by the higher-quality companies with less debt and higher historical returns (it is the latter that we tend to own in the fund).

Portfolio review

We were pleased with the fund's relative outperformance and the degree to which it participated in the fourth quarter rally, despite its defensive positioning. As seen by the portfolio's performance during the market sell-off in October, our disciplined approach to managing downside risk proved beneficial.

Relative performance was boosted by several regional bank investments, including FB Financial and Synovus Financial. We own a geographically diverse group of banks that possess strong balance sheets and healthy capital levels. Given potential economic headwinds, we continue to pay close attention to the quality of loan portfolios.

Consumer-related names were positive contributors, supported by resilient consumer spending trends. These included discount retailer Burlington Stores, which reported better-than-expected earnings as consumers "traded down" in the apparel space.

After strong third quarter performance, several energy holdings detracted amid a sell-off in energy shares, including Magnolia Oil & Gas, Marathon Oil, and oilfield services provider ChampionX, which reported disappointing revenue growth due to slower-than-expected drilling and well completions. We believe free-cash-flow yields remain strong, valuations are undemanding, and management teams continue to be disciplined. Given recent events in the Middle East, we believe there is little to nominal risk premium (the sum of the real risk premium

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.

and the inflation risk premium) reflected in current commodity prices.

We remain on the lookout for opportunities to use volatility to our advantage as we identify new investment opportunities with attractive valuations. In particular, we added exposure to companies at the lower end of our market capitalisation range given attractive reward/risk ratios, as smaller-cap stocks are trading at historically low relative valuations relative to larger-cap companies.

The portfolio ended the quarter with overweight allocations to the materials, industrials, health care, information technology, energy and real estate sectors and underweight allocations to the consumer discretionary, communication services, utilities, consumer staples and financials sectors.

Manager outlook

We believe the recent rally was driven more by euphoria than fundamentals, as expectations shifted from fears of imminent recession to an apparent belief that nothing can go wrong in 2024. We have seen some positive developments on the fundamentals side which include resilient consumer spending, manufacturing activity showing signs of bottoming, and solid economic growth. In addition, we believe we have seen the peak of interest rates for this cycle. We see potential for rate cuts, although likely at a more gradual pace than the market is expecting. We would caution that equities historically have struggled during periods of Fed rate cuts, which usually come in response to a recession or other negative surprises. There is potential for increased volatility if the outlook proves less rosy than investors anticipate, especially if the economy decelerates more than expected or if unemployment increases meaningfully. Earnings forecasts for 2024 have declined in recent months, indicating that companies continue to see risks for 2024. Moreover, elevated geopolitical uncertainty does not appear to be reflected in equity or commodity prices.

Despite these uncertainties, we continue to see attractive reward/risk for smaller-cap stocks, which are trading at attractive valuations despite their recent outperformance. Lower interest rates could create a more favourable funding environment for smaller companies, leading to a wider range of investment opportunities. An increase in merger and acquisition (M&A) activity may also provide a boost to equities. Looking ahead, we believe our portfolio is well positioned both for pursuing long-term investment opportunities and defending against downside market volatility. Our focus remains on well-managed companies with earnings, strong free cash flow, and low debt levels that can help them navigate economic challenges.

Performance (%)

Returns	Cumulative 1 Month	Cumulative 3 Month	Cumulative YTD	Cumulative 1 Year	Annualised 3 Year	Annualised 5 Year	Annualised 10 Year
A2 USD (Net)	9.35	13.63	13.46	13.46	6.87	9.60	6.65
Index	10.49	13.76	15.98	15.98	7.72	10.18	7.95
Sector	7.47	12.61	20.34	20.34	3.37	10.92	7.33
A2 USD (Gross)	—	—	—	—	—	11.72	8.86
Target	—	—	—	—	—	12.93	10.65

Calendar year	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A2 USD (Net)	13.46	-10.27	19.87	2.77	26.04	-9.25	12.29	14.47	-4.33	7.85
Index	15.98	-13.08	23.99	2.87	26.26	-8.58	13.19	18.40	-4.13	12.70
Sector	20.34	-22.74	18.79	20.00	26.67	-8.93	19.01	8.45	-4.02	7.09

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.

Investment objective

The Fund aims to provide capital growth over the long term. Performance target: To outperform the Russell 2500 Value Index by at least 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	30 November 2000
Total net assets	160.93m
Asset class	Equities
Domicile	Ireland
Structure	Irish Investment Company
Base currency	USD
Index	Russell 2500™ Value Index
Morningstar sector	US Flex-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 30 September 2021, the Fund name changed from Janus Henderson US Strategic Value Fund to Janus Henderson US Small-Mid Value Fund. The benchmark also changed from Russell 3000® Value Index to Russell 2500® Value Index. The Fund's investment objective and performance target also changed. The Fund Manager has also changed from Ted Thorne to Justin Preloger & Justin Tugman. Past performance before 30 September 2021 were 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. 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 at least 80% of its assets in a concentrated portfolio of shares (also known as equities) of small and medium sized companies in any industry, in the United States. Companies will be incorporated, headquartered, listed on an exchange in, or deriving significant revenue from, the United States. The Fund may also invest in other assets including companies outside the United States, cash and money market instruments. The investment manager may use derivatives (complex financial instruments) to reduce risk, to manage the Fund more efficiently, or to generate additional capital or income for the Fund. The Fund is actively managed with reference to the Russell 2500 Value Index, which is broadly representative of the companies in which it may invest, as this forms the basis of the Fund's performance target. The investment manager has discretion to choose individual 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 follows a "value" approach to investing which emphasises investments in companies the investment manager believes are undervalued relative to their intrinsic worth. Value is measured as a function of price/earnings (P/E) ratios and price/free cash flow. The investment manager will typically seek attractively valued companies that are improving their free cash flow and improving their returns on invested capital. These companies may also include special situations companies that are experiencing management changes and/or are temporarily out of favour.

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. The Fund invests in real estate investment trusts (REITs) and other companies or funds engaged in property investment, which involve risks above those associated with investing directly in property. In particular, REITs may be subject to less strict regulation than the Fund itself and may experience greater volatility than their underlying assets. 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.

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

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