

HORIZON PAN EUROPEAN ABSOLUTE RETURN FUND

At a glance

Performance*

The Fund returned 2.73%, the Index returned 0.32%

Contributors/detractors

Top positive contributors included long positions in Rolls Royce, Rheinmetall, Besi, Unicredit and a short in a UK household products supplier. The main detractor was a long position in Aixtron.

Outlook

We maintain high net exposure but closely monitor market risks, with tight stop-loss levels for stocks and indices. We stand ready to reduce exposure should signs of trouble emerge.

Portfolio management



Robert Schramm-Fuchs



John Bennett

Investment environment

- We were pleased with fund performance in February in both absolute terms and also relative to the wider European equity market.
- It was encouraging that the main drivers were diverse and not dependent upon a single sector or theme, given how narrow market breadth is generally being criticised. Holding a broader set of winners over a month in which earnings were being reported also gives us more conviction in the sustainability of good performance.

Portfolio review

Key positive contributors included long positions in civil aerospace supplier Rolls Royce, defence equipment maker Rheinmetall, semiconductor equipment vendor Besi, medical technology company Carl Zeiss Meditec, Unicredit bank, budget jewellery chain Pandora, and heavy-duty truck maker Volvo. Two other semiconductor equipment vendors, ASM International and VAT Group, also did well, as did a short position in a well-known UK household, toiletry, health and food product supplier. Each of these positions contributed more than 30 basis points (bps) of positive gross performance.

On the negative side, there was only one holding - another semiconductor company, Aixtron - that detracted more

than 30 bps from fund performance. The long positions in DSV and Vonovia cost the fund around 20 bps of performance. Despite steady to rising equity markets, and heavy gross exposure in the fund to maximise the impact of our stock selection convictions, we managed to keep index hedging costs quite moderate.

The fund enters March with a largely unchanged book. We exited positions in some of February's losers such as Aixtron, DSV and Vonovia, but the winners continue to form a large part of our deployed capital. In addition to the above-mentioned names, prominent exposures in the long book still include Danone, our long-standing top pick in consumer staples, our favourite oil major stock Total Energies, and analytics and software and tools provider Relx.

During the month we also increased the fund's exposure to stocks with high revenue share in either European defence spending, or to the domestic US economy and potential corporate tax cuts there. The reason is that the chances of former US President Donald Trump regaining office have clearly risen, and we expect the stock market to increasingly trade accordingly.

Back in the 2016 election (which Donald Trump went on to win) there was a clear and pronounced outperformance and underperformance from what were considered to be potential winner and loser stocks from around spring onwards. In the 2020 election (when voting outcomes were

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*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.

a lot less clear) there was no such discernible performance difference between areas.

In the short book, we added a new entrant in the civil aerospace area where there seems to be a clear bifurcation between winning and losing types of turbine, and where the company in question surprisingly (and without much explanation) cut its dividend guidance for the coming three years. We believe that more bad news could emerge.

Another new short position is one of the major companies where the German government holds a significant shareholding. We had seen a massive placing by the German state in DHL Deutsche Post during February, which was not well digested by the market. It is clear that budgetary pressures in Germany remain given the explicitly stated need to further ramp up defence spending, while the German Federal Supreme Court curbed the government's favourite funding mechanism of issuing debt under special crisis budgets. Placings of holdings are an easy way to bridge the budget gap.

We also added a short position in a Spanish engineering and contracting company. The company operates as a conglomerate encompassing a number of infrastructure and construction subsidiaries. It is financially levered at the holding company and the subsidiary level, with quite

complex cash flow accounting. One of the main subsidiaries also received a very negative Spanish Supreme Court ruling on its long-standing traffic guarantee dispute, which would have reinforced the ability to upstream dividends to the holding company and pursue growth.

Manager outlook

We stand ready to significantly reduce the fund's net exposure should signs of trouble emerge. We have tight trailing stop-losses in mind for single stock and index levels, and scrutinise main market index gamma levels closely to evaluate any loss of market positioning safety buffers.

The very big quarterly options and futures expiry is imminent, and historic patterns suggest more stabilising positive gamma to form. US non-farm payroll and US Consumer Price Index (CPI) releases both have the potential to cause market upset and we are prepared with our stop-loss positions. Implied volatility levels are very low, which keeps hedging costs attractively low for us. Thus, the currently high net exposure of the fund should not be interpreted as a lack of a usual safety net, but more a sign that current market stability is high.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	
A2 EUR (Net)	2.73	3.43	2.22	5.38	1.98	4.08	2.09	
Index	0.32	0.99	0.65	3.62	1.21	0.72	0.40	
Target	—	—	—	—	1.88	1.13	0.60	

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 29/02/24. © 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.

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.

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	213.11m
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. 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. This is a Luxembourg SICAV Fund, regulated by the Commission de Surveillance du Secteur Financier (CSSF). Ongoing charge represents the ongoing costs to the fund, which includes the AMC and other charges for services such as keeping a register of investors, calculating the price of the fund's units or shares and keeping the fund's assets safe. 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. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.

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 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.

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Source: Janus Henderson Investors, as at 29 February 2024, unless otherwise noted.

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Horizon Pan European Absolute Return Fund (as at 29/02/24)

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