

Janus Henderson UK & Irish Smaller Companies Fund

Q4 2020

For promotional purposes

Fund Manager Name

Neil Hermon

Macro backdrop

UK and global equities rallied sharply in the fourth quarter. COVID-19 virus caseloads increased during the period and towards the end an increase in the rate of infection was attributed to a mutant and more contagious strain of the virus which was discovered in the UK. Consequently, stricter measures including national lockdowns were imposed across Europe. However, news in November that three separate vaccine trials had passed the first efficacy and safety hurdles marked a turning point in the world's fight against COVID-19.

Value stocks rallied at the expense of growth stocks and oil and commodity prices rose. After a protracted vote count in the US Joe Biden was proclaimed the winner of the presidential election which raised hopes of further fiscal stimulus. An additional US stimulus package was agreed at the end of the quarter after weeks of political wrangling. In Europe, after taking talks to the brink the Brexit impasse was broken and the UK and EU finally agreed a trade deal, averting the much feared no-deal scenario. Sterling strengthened as a result. Smaller companies outperformed their larger counterparts with the Numis Smaller Companies ex-Investment Companies Index up 20.0% against a rise in the FT All-Share of 12.6%.

Fund performance and activity

The fund rose 26.0% in the quarter compared to the Numis sub-£1bn ex Investment Companies Index, which returned 25.4%, while the IA UK Small Companies peer group returned 21.7%.

Positive contributors to performance included Codemasters, Mitchells and Butlers and OSB. Codemasters, a video games company, rose 79.2% after it received competing bids from Take-Two Interactive and EA. Mitchells and Butler, a pub operator, rose 77.8% as investors became more confident about future earnings as trading restrictions are expected to ease later in 2021. OSB, a specialist lender, rose 51.8% following earnings upgrades driven by lower than expected impairments. The shares were also a big beneficiary of the clarity brought by the Brexit trade deal and the rotation away from growth stocks into value stocks.

On the negative side, Future, a specialist consumer media group, fell 10.5% after the company announced the acquisition of GoCo, the price comparison website business. Initial reaction was mixed to this deal but we were confident it has strong strategic and financial merit. RWS, a specialist translation company, fell 5.0% due to technical pressure caused by its all share acquisition of SDL and the rotation away from growth and into value stocks. Clinigen, a speciality pharmaceutical services and products business, fell 3.2% following the news of filing delays for one its customer's (Iovance) tumour infiltrating therapies which will impact the timing of the potential product approval and sales of Clinigen's Proleukin drug which is used in the therapy.

In terms of activity, we initiated a position in Gresham House, an alternative assets fund manager. We think the company is well placed as investors look to diversify their traditional equity and bond portfolios. We initiated a position in Pebble Group, a provider of marketing material and software to the corporate sector. The company is proving more resilient than expected during the COVID-19 crisis and we bought at what we thought was a very attractive entry price. We also initiated a position in Bytes Technology, a UK information technology (IT) reseller with just a 3% market share and plenty of white space to penetrate. It specialises in software sales to both the public and private market and has benefited from robust demand in IT spending. Cash conversion and generation has been strong and the board is committed to returning cash to shareholders. We invested at the initial public offering (IPO) as we believed these strong fundamentals were not reflected in the valuation being ascribed to the business at the time.

To finance these purchases we sold our position in Tekmar, a provider of products to the offshore wind and oil and gas industries. We became increasingly concerned by the outlook and the poor corporate governance in the company. We also sold our positions in AA, the roadside assistance group, and Urban and Civic, a land investment company and housebuilder after both companies received agreed bids from private equity and Wellcome Trust respectively.

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Outlook/strategy

The coronavirus outbreak has dramatically changed expectations for global economic growth. The lockdown measures we have seen across the globe are having a profound effect on economic growth and have caused an unprecedented demand shock. Government actions to protect consumers and businesses from the worst impact of the shock will soften the blow but ultimately can only be short term in nature given the scale of the bail-out required.

We think the virus will pass and that the global economy should recover. However, the shape and magnitude of the recovery are at this point uncertain. In the UK social distancing measures and national lockdown had an initial positive impact on infection and death rates but a second wave of infections has seen restrictions tighten again. The positive vaccine news announced in November has raised the very real possibility that life may return to some sort of 'normal' during 2021 with a consequent sharp rebound in economic activity.

Outside of COVID-19 there has been positive progress on other key matters. The EU and the UK have finally agreed on a trade deal, removing the threat of the damaging implications of a no-deal Brexit. The US election outcome was closer than expected but a definitive resolution has now been reached. Hopefully a Biden presidency should see a more conciliatory and pragmatic approach to US foreign and trade policy.

In the corporate sector, conditions are intrinsically stronger than they were during the Global Financial Crisis of 2008-2009. Balance sheets are, in particular, more robust. However, the scale of economic shock means that this 'strength' will be severely tested and key questions for investors today revolve around a company's available liquidity, leverage, bank covenants and ability to see through the economic downturn. On the whole, so far, the UK corporate sector has performed well during the crisis and most companies have been beating their initial earnings and cash expectations during the pandemic.

In terms of valuations, the equity market is now trading below long-term averages if we apply historic earnings. However, corporate earnings will be sharply down in 2020 and the extent of recovery in 2021 and beyond is uncertain. Additionally, a significant proportion of corporates have suspended or cancelled dividends, preserving cash to shore up their balance sheets.

Although much uncertainty remains around short-term economic conditions we expect to see a recovery. The movements in equity markets have thrown up some fantastic buying opportunities and we expect many listed companies to emerge stronger from the downturn. However, we believe it is important to be selective as any recovery will likely be uneven and strength of franchise, market positioning and balance sheet will determine the winners from the losers.

Source: Janus Henderson Investors, as at 31 December 2020

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Fund information

Index Numis Sub-£1bn ex Investment Companies Index
Index usage Comparator

The Numis Sub-£1bn ex Investment Companies Index is a measure of the combined performance of smaller companies (the bottom 10%) listed on the London Stock Exchange excluding investment companies and companies with a market capitalisation greater than £1bn. It provides a useful comparison against which the Fund's performance can be assessed over time.

Peer group benchmark IA UK Smaller Companies Equity
Peer group benchmark usage Comparator

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The Fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Objective The Fund aims to provide a return, from a combination of capital growth and income over the long term (5 years or more).

Performance in (GBP)

Performance %	I (Net)	Index	Peer group	Quartile ranking
1 month	8.4	9.6	7.5	2nd
YTD	2.7	10.7	7.0	3rd
1 year	2.7	10.7	7.0	3rd
3 years (annualised)	2.6	3.4	5.8	4th
5 years (annualised)	6.4	8.5	10.3	4th
10 years (annualised)	7.4	10.2	11.0	4th
Since inception 30 Dec 1994 (annualised)	11.1	7.5	10.1	-

Source: at 31 Dec 2020. © 2021 Morningstar. All rights reserved, performance is with gross income reinvested. Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

Discrete year performance %	I (Net)	Index	Peer group
31 Dec 2019 to 31 Dec 2020	2.7	10.7	7.0
31 Dec 2018 to 31 Dec 2019	29.7	18.8	25.4
31 Dec 2017 to 31 Dec 2018	-19.0	-16.0	-11.8
31 Dec 2016 to 31 Dec 2017	20.1	21.0	27.1
31 Dec 2015 to 31 Dec 2016	5.1	12.6	8.5

Source: at 31 Dec 2020. © 2021 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Source for target returns (where applicable) – Janus Henderson. Where quartiles are shown, 1st quartile means the share class is ranked in the top 25% of share classes in its sector.

Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective.

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Past performance is not a guide to future performance. 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.

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Important information

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