

# PAN EUROPEAN SMALL AND MID-CAP FUND

## At a glance

### Performance\*

The Fund returned 2.82%, the Index returned 3.49% and the Sector returned 1.93%.

### Contributors/detractors

This period has seen our funds underperform, marred by a few disappointing company announcements and less-than-stellar communication from some management teams.

### Outlook

Our optimism surrounding European small-cap companies remains intact, underscored by their significant valuation discount relative to large-cap counterparts - a disparity not seen in two decades.

## Portfolio management



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## Investment environment

The market has exhibited considerable strength, largely propelled by dominant themes such as advancements in artificial intelligence, GLP-1 obesity drugs and defence stocks. These sectors have overshadowed others, making it challenging for divergent themes to gain momentum. However, there is a prevailing sentiment that we are on the cusp of a 'soft landing,' which could herald a more inclusive market expansion. A pivotal moment may arise from an uplift in small-cap earnings forecasts, particularly absent in cyclical stocks currently but anticipated in the latter half of the year.

## Portfolio review

The last three months have seen the fund marginally underperform the benchmark. This was due to a combination of reasons: the size bias in the fund to smaller companies was a big drag; the fund was too pro-cyclically positioned in consumer discretionary and industrials, while the market worried about a recession that has yet to come; and some poor stock selection.

Large-cap stocks have outperformed mid-cap stocks, and mid-cap stocks have outperformed small-cap, while the larger end of the small-cap universe has outperformed the smaller end. While we are convinced of the merits of

investing at the lower end of the market cap universe, it has not aided returns over the last two years and at the start of 2024.

Alongside the fund's market cap skew, we saw disappointing returns from u-blox (Internet of Things). u-blox continues to struggle with the destocking impact from its customers, but its operational performance remained consistent with our expectations; as such, we continue to hold the stock.

We also had weak returns from ams-Osram, an Austrian company specialising in screen technology. ams-Osram shares suffered a large fall when a well-known US-based phone handset manufacturer abruptly cancelled a critical micro-LED project.

The market moved quickly to discount cash flows related to the project, as well as those linked to the technology more broadly. While the company remains confident in its product, there will likely be a long period where they are proving its commercial viability. We decided to sell our shares and move on.

On the positive side is Criteo, a French advertising and e-marketing platform. Despite facing challenges due to the industry-wide shift away from cookie-based tracking in online advertising, Criteo has started to see positive outcomes from its strategy to cross-sell services. Fugro

### Marketing communication

#### For professional investors only

#### Past performance does not predict future returns.

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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.

has also outperformed, buoyed by its dual exposure to oil, gas and the burgeoning offshore wind sector. The seismic mapping company is benefiting from the scarce capacity in seismic mapping vessels, specifically offshore vessels for locating sites for offshore wind turbines.

They also get paid early in the process, which is especially important in a period where some projects are delayed or scrapped altogether. Also on the positive side, we saw a bid for our holding in Kindred. This caused the shares to jump 40% during January. As debt markets stabilise and investors get further confirmation of the state of the global economy, we expect merger and acquisition (M&A) activity to increase materially in European small-caps due to their low relative valuations compared to history.

In terms of trading activity, we initiated new positions in Dürr (automotives paint shops) and Bakkafrøst (Faroese salmon farmer). Dürr has seen growing demand for its paint shops driven by planned new electric-vehicle car models, as well as the need for manufacturers to improve energy efficiency (current paint shops are very carbon intensive). In addition, Dürr owns a furniture manufacturing business, which appears to have reached a low in terms of end demand.

Bakkafrost gives the fund exposure to the salmon market, where we think conditions remain favourable, without having to deal with the punitive Norwegian resource tax

(Bakkafrost does not operate in Norway). Besides the attractiveness of the salmon industry in itself, Bakkafrøst offers high visibility on growth in its core Faroese assets, plus a turnaround story for its Scottish operations.

We have exited positions in Sinch and HelloFresh, citing competitive concerns and a post-Covid-19 normalisation, respectively. Notably, meal-kit demand in the US has waned, a trend not as pronounced in Europe. Conversely, we realised profits on our investment in Renk, a defence initi public offering, acknowledging its substantial gain but cognisant of its fully-valued status amid a market less sensitive to valuation metrics in this sector, all of a sudden.

## Manager outlook

Our optimism surrounding European small-cap companies remains intact, underscored by their significant valuation discount relative to large-cap counterparts - a disparity not seen in two decades. We anticipate that earnings upgrades will act as a catalyst for these stocks, potentially materialising as early as the second quarter.

With expectations of high-teens earnings growth in the small-cap sector, following years of underperformance relative to large caps, we foresee a broadening and revitalisation of the equity market landscape, moving away from its current narrow and homogenised state.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (24/03/05)
A2 EUR (Net)	3.25	2.82	2.82	4.90	-0.37	8.65	7.50	9.05
Index	4.33	3.49	3.49	10.20	0.49	6.38	6.47	7.73
Sector	2.66	1.93	1.93	3.98	-2.47	5.23	6.18	7.20

12 month rolling

	Mar 2023-Mar 2024	Mar 2022-Mar 2023	Mar 2021-Mar 2022	Mar 2020-Mar 2021	Mar 2019-Mar 2020
A2 EUR (Net)	4.90	-1.00	-4.78	102.23	-24.28
Index	10.20	-9.05	1.25	62.29	-17.26
Sector	3.98	-11.26	0.54	66.58	-16.49

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/03/24. © 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](http://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.

Investment objective

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

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	29 September 2000
Total net assets	61.54m
Asset class	Equities
Domicile	Luxembourg
Structure	SICAV
Base currency	EUR
Index	MSCI Europe Small Cap Index (EUR)
Morningstar sector	Europe Small-Cap Equity
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. 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 25 February 2022 the Fund's benchmark changed from the EMIX Smaller European Companies Index to the MSCI Europe Small Cap Index and the Fund's investment policy changed. Past performance shown before 25 February 2022 was achieved under circumstances that no longer apply. From 25 February 2022, the Janus Henderson Pan European Smaller Companies Fund changed its name to become the Janus Henderson Pan European Small and Mid-Cap Fund. From 31 January 2024, Rory Stokes, CFA and Julia Scheufler, CFA, also manage this fund. This is a Luxembourg SICAV Fund, regulated by the Commission de Surveillance du Secteur Financier (CSSF). 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. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.

### Investment policy

The Fund invests at least two-thirds of its assets in shares (equities) and equity-related securities of small and mid-cap companies, in any industry, in Europe (including UK). Companies will have their registered office in or do most of their business (directly or through subsidiaries) in this region. The Fund will invest in small and mid-cap companies with a market capitalisation that generally falls within the bottom 50% of the Pan European market. The Fund may also invest in other assets including companies of any size, in any region, 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 MSCI Europe Small Cap Index, which is broadly representative of the companies in which it may invest, as this can provide a useful comparator for assessing the Fund's performance. 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 focuses on meetings and calls with company management, along with the use of quantitative filters, to identify potential companies for investment. Emphasis is placed on the robustness of a company's business model, an analysis of what drives the business, what its competitive advantage is, and the sustainability of returns. The Fund maintains a well-diversified portfolio of smaller companies but will also hold some companies regarded as medium sized. The liquidity of the company (the degree to which shares can be quickly bought or sold in the market at a price reflecting its intrinsic value) is important in determining whether to invest and the size of the holding for the Fund.

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

Source: Janus Henderson Investors, as at 31 March 2024, unless otherwise noted.

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