

HORIZON PAN EUROPEAN SMALLER COMPANIES FUND

At a glance

Performance*

The Fund returned 1.38%, the Index returned 0.05% and the Sector returned 0.11%.

Contributors/detractors

The growing offshore wind sector meant positive contributions came from Van Lanschot Kempen and Criteo. We navigated challenges with Grenergy and ams-Osram by disposing of the latter.

Outlook

Inflation appears to be under control, with interest rates expected to fall this year, suggesting a likely economic 'soft landing'.

Portfolio management



Ollie Beckett



Rory Stokes, CFA



Julia Scheufler, CFA

Investment environment

- As large-cap equity markets reached unprecedented levels, driven predominantly by the surge in investments in artificial intelligence (AI) and sales of obesity medications, companies with smaller market capitalisations underperformed. Additionally, US data showed the world's largest economy is still going strong, contributing to investor optimism.
- Despite these positive results, persistent inflation remains an underlying concern. With the easing of supply-chain disruptions, rising labour costs have continued to be a factor sustaining inflation. Small-cap companies, which tend to be more labour-intensive, are particularly affected by wage inflation.
- Inflationary pressure has pushed back market expectations of the first interest rate cut by the European Central Bank (ECB) and its counterparts, potentially postponing any cuts until after the summer. This situation has led to small-cap stocks trading at significant discounts compared to large-cap stocks, and the discrepancy in performance and valuation between small- and large-cap stocks is now at near-record levels.

Portfolio review

We seek to capitalise on market trends by purchasing

stocks before their earnings forecasts improve. One such example is the offshore wind energy sector which we added to on weakness in the fourth quarter. Whilst higher rates and potential Trump policies are an overhang we think the growth runway is long, the UK is now the leading country for offshore wind capacity installations outside of mainland China for the second consecutive year and there is a similar picture elsewhere in Europe.

Several companies held in the portfolio are reaping the benefits of this trend and made positive contributions to performance over the past month. These include Nexans, which specialises in high-voltage cables essential for wind farms, Deme, a company that transports cargo necessary for the installation of offshore wind turbines, and Fugro, which focuses on collecting seabed data critical for setting up these installations.

Notably, Fugro is experiencing expansion not only in Europe but also in new markets such as the US - where it is involved in increasing capacity in New York - and the Asia-Pacific region. This month, the fund's top performer was Van Lanschot Kempen, a Dutch wealth management firm. Due to its good results and excess capital, the company plans to return capital to shareholders through share buybacks.

Currently, its dividend yield is nearly 12%, reflecting its strong balance sheet. Given this, we remain positive on the stock. Another key contributor to fund performance was

Marketing communication

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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.

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 begun to see positive outcomes from its strategy to cross-sell services. Looking forward, we are keeping a close eye on the potential effects of Google Chrome's upcoming deprecation of third-party cookies.

We are encouraged, nevertheless, by Criteo's adjustments to its business model in response to evolving privacy standards and regulations in the digital advertising space. The fund's largest detractor was ams-Osram, an Austrian company specialising in screen technology. During the month, 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. Another detractor was Grenergy, a Spanish company that produces renewable energy. Recently, Grenergy suffered due to declining power prices.

Investors have also expressed concerns about the company's capability to secure power purchase agreements (PPAs). PPAs are crucial long-term contracts (ranging from five to 20 years) that lock in the sale of electricity at predetermined prices and guarantees renewable energy for certain companies. Falling energy prices have made these agreements more difficult. Despite these challenges, Grenergy has some promising growth opportunities.

The company is actively expanding, with new solar projects underway and is also winning storage contracts (especially in Chile). This pipeline reinforces our positive outlook on the stock and our decision to maintain our investment. Regarding our recent activities, we took part in the initial public offering (IPO) of Renk, a German company specialising in defence manufacturing. We found the pricing of Renk's shares during the IPO to be appealing.

The company's portfolio includes a variety of products such as gearboxes, transmissions, and power-packs, catering to

both defence and civilian customers. In recent years private equity firms have often brought companies to the public market at aggressive valuations that resulted in a poor market debut and further weak returns.

We're hopeful that the Renk IPO is the start of a more sensible pricing approach, one that sees better performing IPOs and public markets remaining a willing exit strategy for private equity firms. Additionally, we have recently taken a small position in R&S Group, a company based in Switzerland that specialises in power distribution.

R&S Group focuses on manufacturing transformers essential for electrical grid infrastructure. This move comes at a time when the market for electrical grid infrastructure is experiencing a resurgence, driven by the shift towards renewable energy. After years of limited growth, the energy transition is revitalising the demand for advanced and efficient transformers.

In terms of disposals, we sold the position in Amadeus FiRe, a German staffing agency, allowing us to realise profits from our investment. We also sold the position in Plastic Omnium, an auto parts manufacturer. Our decision was based on the fact that there are more opportunities elsewhere in the electric vehicles sector.

Manager outlook

Inflation appears to be significantly under control (albeit persistent), and we expect interest rates to decrease throughout the year. Considering the current state of the market, we predict that a 'soft landing' is the most likely scenario as destocking eventually comes to an end. From here, the market will likely broaden. In this context, small-cap stocks have become exceptionally undervalued in our view.

Since the end of last year, the market has continued to show a narrow focus. However, we believe that a shift in the market is on the horizon, likely triggered by upward revisions in earnings forecasts. As investor confidence starts to rebound, our priority is to identify and invest in the most promising opportunities. Fortunately for us, they are currently available at remarkably low prices.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (27/08/93)
A2 EUR (Net)	1.38	6.61	0.10	-2.17	1.32	8.29	7.12	9.33
Index	0.05	6.12	-0.81	1.28	0.61	5.62	5.99	8.99
Sector	0.11	5.90	-0.72	-1.42	-2.04	4.87	5.86	8.70

12 month rolling

	Dec 2022- Dec 2023	Dec 2021- Dec 2022	Dec 2020- Dec 2021	Dec 2019- Dec 2020	Dec 2018- Dec 2019
A2 EUR (Net)	8.00	-15.19	21.17	13.97	34.27
Index	12.74	-22.60	22.93	7.32	28.65
Sector	7.08	-26.43	25.72	12.51	27.19

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 capital growth over the long term. Performance target: To outperform the MSCI Europe Small Cap Index, after 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	01 August 1993
Total net assets	775.89m
Asset class	Equities
Domicile	Luxembourg
Structure	SICAV
Base currency	EUR
Index	MSCI Europe Small Cap Index
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 benchmark changed from the EMIX Smaller European Companies Index to the MSCI Europe Small Cap Index, the Fund's investment policy and performance target also changed. Past performance shown before 25 February 2022 was achieved under circumstances that no longer apply. 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 75% of its assets in shares (equities) and equity-related securities of smaller companies, in any industry, in the EEA or the UK if not part of the EEA. Companies will have their registered office in the EEA or the UK if not part of the EEA. 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 forms the basis of the Fund's performance target and the level above which performance fees may be charged (if applicable). 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 companies which generally fall within the bottom 25% of their relevant market by way of size. 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. The Fund may incur a higher level of transaction costs as a result of investing in less actively traded or less developed markets compared to a fund that invests in more active/developed markets.

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

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