Janus Henderson INVESTORS

JANUS HENDERSON CAPITAL FUNDS PLC - JANUS HENDERSON GLOBAL LIFE SCIENCES FUND

A2 USD ISIN IE0009355771

At a glance

Performance
The Fund returned 1.56%, the Index returned 2.35% and the Sector returned 1.46%.

Contributors/detractors
Positioning in biotechnology weighed on relative performance, while stock selection in pharmaceuticals aided returns.

Outlook
We believe attractive valuations, mergers and acquisitions (M&As) and accelerating innovation could propel the sector in 2024.

Portfolio management

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Investment environment

- Health care stocks continued their strong start to the year, delivering another month of gains along with the broader market. Ongoing excitement around new GLP-1 weight-loss drugs and a first quarter pick-up in capital markets activity helped power the sector's surge.
- Gains were shared across sub-sectors, with biotechnology and health care services only slightly edging out medical devices and pharmaceuticals.
- Health care providers performed well thanks to rising utilisation by patients, which drove demand for services. However, the demand increased costs for insurers, which also face lower reimbursement rates in Medicare Advantage plans.

Portfolio review

Looking at individual holdings, Ardelyx weighed on relative performance, with the stock pulling back on what appears to be profit-taking following a strong run. In October, the US Food and Drug Administration (FDA) granted expanded approval for tenapanor (brand name Xphozah) for the control of serum phosphate in kidney dialysis patients with an inadequate response to standard of care phosphate binders.

The stock then continued to rise as Ardelyx provided additional visibility into the commercial prospects for tenapanor's original indication, Ibsrela, for irritable bowel syndrome with constipation. Ibsrela recorded $80 million in revenues for its first calendar year in market, and Ardelyx now says it expects sales to peak at more than $1 billion annually. Xphozah (also off to a strong start) could provide additional potential.

Zai Lab was another detractor. The China-based biotech firm was impacted by weakness in the Chinese equity market during the period. Even so, Zai Lab has seen double-digit revenue growth thanks to strong commercial franchises in China, and recently launched Vyvgart, a treatment for adults with generalised myasthenia gravis.

Zai Lab licenses the drug for sale in China, and in December Vyvgart was added to China's National Reimbursement Drug List, dramatically widening the therapy's addressable market in the country. Vyvgart -

which first launched in the US as an intravenous version in late 2021, then as a subcutaneous (under the skin) therapy in mid-2023 - has already achieved over $1 billion annual sales in the US.

Avadel Pharmaceuticals contributed positively to performance. The biotech firm is in the early stages of rolling out narcolepsy drug, Lumryz, which the FDA approved last year. Another company, Jazz Pharmaceuticals, has claimed patent infringement of its drug, Xyrem, which shares the same active ingredient as Lumryz. Jazz sued for a royalty payment of 27%, but was granted the equivalent of less than 1%. Lumryz is viewed as a major improvement over Xyrem, which requires patients to wake for a second dose during the night. Lumryz, on the other hand, is taken once at bedtime, and early signs suggest the drug's launch is off to a strong start.

An underweight to Johnson & Johnson (J&J) also aided performance. The stock declined due to uncertainty around the company's liability from ongoing talcum-powder lawsuits. In addition, during the month J&J's med-tech Abiomed division was hit with a recall for select models of its miniaturised heart pump. This followed other recalls issued in 2023. J&J offers a robust balance sheet and strong free cash flow, but given these headwinds we retain an underweight position in the stock.

Manager outlook

After falling out of favour with investors in 2023, health care stocks have started to rebound thanks to low valuations, innovation, and recent drug launches. Sales of new GLP-1 obesity and diabetes drugs, for example, topped $20 billion globally in 2023 and are expected to continue growing rapidly.

Meanwhile, the FDA approved a record number of novel medicines last year, and these drugs - some with blockbuster potential (sales of $1 billion or more annually) - are now beginning revenue cycles of 10 years or longer. Merger and acquisition (M&A) activity has been another boon, as large biopharmaceutical firms seek to offset patent expirations with promising new technologies, such as antibody-drug conjugates, radiopharmaceuticals and cell therapies. Given discounted valuations and innovation, the deal-making is expected to continue throughout the year.

Not all areas of the sector have been as positive. Managed care companies have lagged given concerns about rising medical costs and regulation, including lower reimbursement rates for Medicare Advantage (MA), the privately administered health plan for the elderly. Furthermore, increased government scrutiny of M&A could put some insurers in the spotlight during the US election. Sales of COVID-19 products also continue to decline, while supply imbalances for tools and services firms caused by the pandemic may take until mid-year to get sorted out.

With these factors in mind, we remain overweight small- and mid-cap biotechs with newly launching products or exciting late-stage pipelines. Many of these stocks trade at a discount following a three-year pullback in biotech - a drawdown we think could be ending now that rate hikes in the US have most likely concluded. While managed care faces near-term headwinds, we believe these companies still have a strong long-term outlook given their ability to reprice services annually and now discounted valuations. They also retain important defensive qualities should economic growth slow amid today's tighter financial conditions.

In the end, though, we think health care's many medical advances and long-term growth trends will be the dominant story in 2024. In our view, these opportunities, along with still-attractive valuations, could help support the sector throughout the year.

Performance (%)

Returns	Cumulative 1 Month	3 Month	YTD	1 Year	Annualised 3 Year	5 Year	10 Year
A2 USD (Net) with sales charge	-3.52	2.67	2.67	10.19	3.89	8.45	8.94
Index	2.35	7.47	7.47	13.32	7.85	10.33	9.18
Sector	1.46	4.28	4.28	7.23	-0.28	5.60	6.23
A2 USD (Net)	1.56	8.07	8.07	15.99	5.68	9.56	9.50

Calendar year	YTD at Q1 2024	2023	2022	2021	2020	2019
A2 USD (Net)	8.07	5.44	-4.35	4.72	23.41	27.06
Index	7.47	3.76	-5.41	19.80	13.52	23.24
Sector	4.27	2.67	-13.91	7.12	20.53	21.80

Performance is on a net of fees basis, with gross income reinvested. Source: at 31/03/24. **Past performance does not predict future returns. 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.** Please note index returns are net of tax.

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.

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Fund details

Inception date	31 March 2000
Total net assets	$4.08bn
Asset class	Equities
Domicile	Ireland
Structure	Irish Investment Company
Base currency	USD
Index	MSCI World Health Care Index
Morningstar sector	Sector Equity Healthcare
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.

Investment objective

The Fund aims to provide capital growth over the long term. The Fund invests at least 80% of its assets in shares (also known as equities) selected for their growth potential and with a life sciences orientation. The Fund may invest in companies of any size, in any country.

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 is focused towards particular industries or investment themes and may be heavily impacted by factors such as changes in government regulation, increased price competition, technological advancements and other adverse events. 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 March 2024, unless otherwise noted.