COMMENTARY

Janus Henderson US Forty Fund

Q4 2021

Marketing communication
For US Financial Professionals servicing non-US persons

Fund Managers Names

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Market environment

We have been encouraged by signs we may be returning to an environment in which investors reward profitable companies with high returns on invested capital. At the same time, we recognise that the tug-of-war between high-growth pandemic beneficiaries and real-world stocks could continue in the short term as investors await more clarity on such issues as the outlook for the pandemic and the timing of US Federal Reserve (Fed) interest rate moves.

We also recognise that the above-average market returns of the past few years may be hard to sustain in 2022. While interest rates remain low from a historic standpoint, they will likely move higher as the Fed withdraws its policy support. Companies face other sources of uncertainty, including supply chain bottlenecks, labour shortages and inflation pressures. International factors, including developments in China and tensions over Ukraine, could also impact the market.

Despite these sources of uncertainty, we believe we will continue to find attractive investment opportunities that meet our qualifications. We continue to seek out disciplined, well-managed and reasonably valued growth companies with track records of innovation and profitability. We also favour companies with established supplier relationships and strong competitive positioning that may help them pass along higher input costs without sacrificing profit margins. We believe these kinds of companies may be better able to navigate near-term market uncertainty while they capitalise on long-term trends.

Performance summary

The fund (class H2 US dollar shares) underperformed its Russell 1000® Growth Index benchmark for the quarter ended 31 December 2021.

Portfolio discussion

Cloud-based customer engagement platform Twilio was among the top relative detractors. Last year, the company saw demand for its core products grow swiftly as digital transformation efforts accelerated with the COVID-19 pandemic. However, most recently the stock has suffered from difficult year-over-year comparisons and lower growth expectations. We think this is short-sighted, as the company continued to build an end-to-end customer-centric ecosystem that we believe has long-term potential.

Disney was also among the top detractors. The company's stock suffered during the quarter as it reported lower-than-expected growth in new subscribers to its Disney+ online streaming service. The surge in COVID-19 cases as a result of the Delta and Omicron variants also hurt Disney's parks business during the period. Longer term, we like the potential for park visits and travel to rebound strongly once the health risks of COVID-19 subside and believe that significant new content releases in 2022 and 2023 could be a catalyst for new user growth for Disney+.

Nvidia, a leading producer of graphics processing units (GPUs), was among the top contributors, as the stock outperformed following another quarter of strong results. As large cloud platform providers expand investment in computing-intensive applications such as artificial intelligence and machine learning, demand for Nvidia's GPUs continued to grow.

Paint producer Sherwin-Williams was also among the top contributors. The company, which is a go-to provider for professional painters, has benefited from the strong fundamental backdrop for housing and demand for renovations. Sherwin-Williams has also maintained a high degree of pricing power as supply chain issues have impacted raw materials costs. We also like the company's exposure to both business-to-business home improvement activity and the industrial end-markets recovery.

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Manager outlook

The endemic phase of the COVID-19 pandemic has been following an unforecastable path. One of the central questions in 2022 is whether we will be in a "capital E" or "lowercase e" phase of the endemic, which will depend on how manageable the virus becomes in the months ahead. The spread of new variants, broadening supply chain disruptions and inflationary pressures have surely dampened growth to some extent, but we believe economic activity can continue to normalise in 2022 and expect a healthy year for earnings growth. That said, when economic normalisation happens, interest rate normalisation is also expected to occur – continuing the tug-of-war between rates and valuations that we have witnessed throughout the year. We would expect to continue to see bouts of market volatility as we did in 2021. Digital transformation, in our opinion, will be the primary driver of longer-term economic growth, and we believe investors would be wise to focus on this as we work through the ebb and flow of the pandemic.

As the US economy retrenches away from globalisation, we believe we are in the early innings of sustained lower-income wage inflation. We are beginning to see the "re-industrialisation" of the US economy. Our expectation is this secular repricing of low-end wages will create some headwinds on margins for companies without pricing power. However, this should be offset by higher levels of general spend within the economy as consumers now have more money in their pockets. We believe that regardless of the inflationary environment, one of the most important business attributes is pricing power.

While the threat of inflation from rising wages does exist, equities with free-cash-flow yields that are higher than other asset class yields, combined with the potential for significant free-cash-flow growth, appear attractive on a relative basis. We think that owning a portfolio of companies with attractive reinvestment opportunities, trusted relationships with their customers and some degree of pricing power can remain an effective strategy, regardless of whether we are investing in an inflationary or deflationary environment.

Source: Janus Henderson Investors, as at 31 December 2021

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Fund information

Index	Russell 1000 Growth
Morningstar sector	Europe OE U.S. Large-Cap Growth Equity
Objective	The Fund aims to provide capital growth over the long term.
Performance target	To outperform the Russell 1000 Growth Index by at least 2.5% per annum, before the deduction of charges, over any 5 year period.

Performance in (USD)

Performance %	H2 (Net)	Index	Sector	Quartile ranking	H2 (Gross)	Target (Gross)
1 month	0.8	2.1	1.5	3rd	-	-
YTD	23.0	27.6	20.9	2nd	-	-
1 year	23.0	27.6	20.9	2nd	-	-
3 years (annualised)	32.6	34.1	28.9	1st	-	-
5 years (annualised)	25.0	25.3	21.3	1st	26.1	28.5
10 years (annualised)	19.4	19.8	16.6	1st	20.5	22.8
Since inception 24 Dec 1998 (annualised)	8.9	8.5	8.1	-	9.9	11.2

Source: at 31 Dec 2021. , 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.

Calendar year returns %	H2 (Net)	Index	Sector	H2 (Gross)	Target (Gross)
2021	23.0	27.6	20.9	23.9	30.8
2020	39.2	38.5	34.0	40.3	42.0
2019	36.2	36.4	32.3	37.3	39.8
2018	1.0	-1.5	-3.8	2.0	1.0
2017	29.6	30.2	27.2	30.9	33.5

Source: at 31 Dec 2021. , 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.

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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The information in this commentary does not qualify as an investment recommendation.

Important information

The investments underlying this financial product (referred to as the Fund) do not take into account the EU criteria for environmentally sustainable economic activities. While the analysis of ESG factors is an integral component across the Investment Manager's investment capabilities, the Investment Manager does not maximise portfolio alignment with sustainability risks as a separate goal in its own right nor does it precisely attribute the impact of ESG factors on returns for the Fund. The Investment Manager does not consider the adverse impacts of investment decisions on sustainability factors as set out under SFDR with respect to the Fund because it is not classified under either Article 9 or Article 8 of Regulation (EU) 2019/2088.

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