COMMENTARY

Janus Henderson Horizon Global Sustainable Equity Fund

Q2 2023

Marketing communication - For professional investors only
Past performance does not predict future returns

Fund Manager Name

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Investment environment

The second quarter of 2023 demonstrated what can happen when fearful sentiment collides with not-so-bad news. The US economy continued to fend off recessionary fears, which paved the way for equities to move higher. Valuations were supported further by the eventual agreement to extend the US's debt ceiling and the Federal Reserve pausing its rate-hiking cycle in June. The above, combined with the outperformance of technology shares, caused US equities to dominate returns in the global index. The MSCI World Index returned 4.1% over the period, compared to a 0.5% return if we exclude US companies.

Mega-cap growth stocks led the way, helped by optimism regarding artificial intelligence (AI) and resilient earnings from companies including Microsoft and Apple. Technology stocks were especially strong and helped the Nasdaq 100 Index to its best first half of a year in 40 years. Much of this was due to the continued boom in stocks with exposure to artificial intelligence (AI). For example, semiconductor stocks performed well after Nvidia's large upgrade to revenue guidance suggested a step change in demand. By contrast, energy and materials shares lagged as weak Chinese manufacturing data weighed on commodity prices.

On the sustainability front, the G7 nations reaffirmed their goal to decarbonise most power generation by 2035, and the International Energy Agency predicted that new renewable energy capacity would grow by a third in 2023. The growth runway for renewable energy is huge. Not only is it backed strongly by governments across the globe, but the pace of investment in clean technologies is much faster than many have anticipated. As such, we expect to see a continued shift from fossil fuel-based to renewable industries in the next decade.

We are conscious that excitement surrounding new investment trends often extends into hyperbole. Our focus remains on investing in companies on the right side of these important changes in our society, like decarbonisation and increased automation through technologies, including AI. We aim to do this while also ensuring we invest in businesses with strong balance sheets, healthy cash generation and resilient business models.

Portfolio review

The fund returned 6.1% over the quarter, compared with a 6.8% return from the MSCI World Index (measured in US dollar terms).

Within the index, information technology (IT), consumer discretionary and communication services were the strongest sectors. By contrast, energy, utilities, and materials fared worst.

Much of the fund's relative underperformance came from its lack of exposure in mega-cap growth stocks. In consumer discretionary, the fund has no exposure to Amazon and Tesla, which both outperformed. In information technology (IT), the fund's overweight position was beneficial, primarily through its semiconductor holdings. However, the fund's zero weight to Apple more than offset any positive contribution to relative performance. It was a similar story in communication services, with Meta, Alphabet and Netflix all outperforming. The fund was invested in a number of companies which performed well in each of these sectors, including Adidas, Nvidia, Lam Research, Cadence Design Systems and Nintendo, but there were offsetting weaker relative performers such as Aptiv, Shimano, Murata, Keyence and T-Mobile.

On the positive side, the fund's stock selection in industrials added to relative performance with Advanced Drainage Systems, Knorr Bremse and Schneider Electric all outperforming. The fund's stock selection in health care was beneficial through Encompass Health and Icon. The fund's underweight position to consumer staples, health care, energy and materials also helped, where several industries within these sectors fail our exclusionary criteria.

At the stock level, top performers included computer chip manufacturer Nvidia, rehabilitative care provider Encompass Health and Microsoft.

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Nvidia's quarterly earnings beat estimates and its management's full-year revenue guidance was far above expectations. This added to the excitement surrounding Nvidia's growth opportunities in AI, where the company's graphic processing units, developer tools and partnerships set the standard. Nvidia's long-term growth opportunities continue to excite us, given the array of applications that its technologies enable. The CEO recently highlighted energy efficiency as a significant driver of demand for its graphics processing units in data centres, a trend we have been watching for a while and which is helping Nvidia to drive significant positive environmental impact.

Microsoft shares also benefited from growing investor expectations for the impact of AI. Microsoft has a significant investment in OpenAI, the creator of ChatGPT, and is using OpenAI's tools to improve existing products such as Office and Bing search. Microsoft also released better-than-expected quarterly results in late April, helped by robust growth in its cloud business. Microsoft's software and services are used in many ways for the benefit of the environment and society. Over 1.2 billion people use Microsoft's products across sectors including education, energy, water, agriculture, the built environment and transportation. Historically, Microsoft has shown a very high level of recurring revenues, a strong balance sheet and significant levels of free cash flow.

Encompass Health shares rose after The Centers for Medicare & Medicaid Services proposed a 3% rise in reimbursement rates for inpatient rehabilitative facilities. Encompass also posted a good quarter with adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) beating estimates, and the company raised its guidance. We continue to like Encompass's exposure to the ageing population trend, which could entail a greater need for rehabilitation treatment facilities. Encompass offers better patient outcomes and lower costs than senior nursing facilities by using electronic medical records which help to identify best patient practices.

Notable detractors included health insurer Humana, property and casualty insurer Progressive and renewable energy company Boralex.

Humana fell with several other US health insurers after the company and its peer UnitedHealth said that the number of elective surgery procedures has increased in recent months, leading to concerns that insurers could see increasing medical costs and lower profits. Despite this, Humana's business continued to demonstrate strength. The firm's first-quarter earnings showed an 11% increase in sales and higher-than-expected profits. Humana also raised forward guidance to reflect strong growth and retention rates in its Medicare Advantage (MA) business. As the dominant provider of MA plans, Humana is well exposed to the ageing population in the US. The firm is a pioneer in integrated care and aims to lower costs by encouraging healthy choices that prevent future medical problems.

Progressive's share price fell after the company reported an operating loss for the first quarter due to a higher combined ratio. Progressive, along with other auto insurers, is seeking to increase insurance rates in response to rising vehicle replacement costs and an increase in claims. Progressive's superior analytics technology has delivered excellent underwriting results over a long period of time. In turn, this has allowed Progressive to offer essential financial protection at lower prices while encouraging safer driving habits. This has historically led to impressive market share gains and strong free cash flow generation.

Boralex underperformed with other utility firms as higher interest rates weighed on valuations and defensive sectors lagged the broader market. As a leading developer and operator of renewable energy assets, we think Boralex stands to benefit from the global energy transition and supportive renewables legislation. We think policy incentives, including the US Inflation Reduction Act and the EU's Green Deal, should drive new business and could lead to better project economics. Boralex has a healthy balance sheet and a highly advantaged geographic profile, with strong positions in markets with tight supply and clear demand growth.

No positions were initiated or closed during the quarter. We added to the holding in railway locomotive and components manufacturer Wabtec due to its exposure to much higher levels of investment spend in rail infrastructure. We trimmed the holding in Nvidia as the firm's valuation rose significantly during the quarter. We also trimmed the position in Microchip due to concerns regarding the company's relatively higher amount of gross debt, refinancing risk and lengthening inventory days. The latter suggests to us that its management could be pushing the business too aggressively in this uncertain environment.

Manager outlook

We are mindful that we are facing the most anticipated recession in recent memory, with many forecasters predicting this slowdown "within the next six months". There are several reasons to support this recession thesis, including inverted yield curves, a history of it taking between 18 and 24 months from the start of Fed monetary tightening to truly impact the economy, US regional bank instability and tightening lending standards, dwindling excess consumer savings and problematic office property loans just to name a few.

Despite these predictions, the Nasdaq 100 Index put up the best first-half performance in its history, with a return of roughly 39%. This fact should be a reminder for investors to stay humble and to focus on their zones of competence. We will never drive significant outperformance by more accurately predicting macroeconomic events than the market. We believe that our zone of competence is bottom-up stock selection and building a portfolio of resilient and diverse companies that we think should compound above-market free cash flow growth over the medium to long term.

We remain excited about the prospects for the companies we hold, as they help address key challenges that have recently arisen, such as labour shortages and the need to diversify supply chains. A good example of this is Keyence, a leading company providing sensors and consulting for factory automation. Keyence's products have a short payback period for clients and we think should see increased demand as new factories are built closer to company end markets.

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Should predictions of a recession finally come to fruition, we believe our portfolio should fare relatively well. The companies in our portfolio have lower average balance sheet leverage than the market, which should enhance their performance's resiliency while allowing those same companies to reinvest in their businesses to enhance their competitive positions further.

Source: Janus Henderson Investors, as at 30 June 2023

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Fund information (Investment policy is on the next page)

Index	MSCI World Index
Morningstar sector	Europe Global Large-Cap Growth Equity –OE
Objective	The Fund aims to provide capital growth over the long term (5 years or more) by investing in companies whose products and services are considered by the investment manager as contributing to positive environmental or social change and thereby have an impact on the development of a sustainable global economy.

Performance in (USD)

Performance %	A2 (Net)	Index	Sector
1 month	5.5	6.0	4.8
YTD	16.3	15.1	15.5
1 year	19.3	18.5	17.1
3 years (annualised)	9.2	12.2	6.5
5 years (annualised)	-	-	-
Since inception 29 May 2019 (annualised)	12.0	11.0	8.6

Source: at 30 Jun 2023. © 2023 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.

Calendar year returns %	A2 (Net)	Index	Sector
2023 to 30 Jun 2023	16.3	15.1	15.5
2022	-25.6	-18.1	-26.7
2021	15.7	21.8	13.6
2020	36.6	15.9	27.2
2019 from 29 May 2019	16.5	15.3	14.3
2018	-	-	-
2017	-	-	-
2016	-	-	-
2015	-	-	-
2014	-	-	-
2013	-	-	-

Source: at 30 Jun 2023. © 2023 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.

Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund.

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.

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 http://www.janushenderson.com.

Source for target returns (where applicable) – Janus Henderson. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. With effect from 1 January 2023, the Key Investor Information document (KIID) changed to the Key Information Document (KID), except in the UK where investors should continue to refer to the KIID. 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 if you have any further queries.

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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.

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What are the risks specific to this fund?

- 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.
- The Fund follows a sustainable investment approach, which may cause it to be overweight and/or underweight in certain sectors and thus perform differently than funds that have a similar objective but which do not integrate sustainable investment criteria when selecting securities.
- 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.

General risks

- 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.
- Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change.

Investment policy

The Fund invests at least 80% of its assets in shares (also known as equities) of companies, of any size, in any industry, in any country. The Fund will avoid investing in companies that the investment manager considers to potentially have a negative impact on the development of a sustainable global economy.

The Fund may also invest in other assets including 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 World 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.

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com.

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Important information

In accordance with the Sustainable Finance Disclosure Regulation, the Fund is classified as Article 9 and has sustainability as its objective.

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