COMMENTARY

Janus Henderson Horizon Pan European Smaller Companies Fund

August 2023

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

Fund Managers Names

Ollie Beckett, Rory Stokes, CFA

Investment environment

Although stocks regained ground in the final days of the month, August was mainly negative with the MSCI Europe Small Cap Index falling almost 3%. The disappointing month was chiefly driven by persisting concerns surrounding the destocking cycle, a slowing economy and overly tight monetary policy. This negative sentiment caused equities to underperform, small caps to underperform large caps, and in many instances significant overreactions to individual company news in the small cap universe, which increased trading volumes in August. Despite these issues, we still believe that a soft landing for the economy is still the most likely outcome. We remain focused on identifying companies throughout the corporate life cycle that are demonstrating a track record of good cash flow and have strong balance sheets.

Portfolio review

u-blox was the fund's top negative detractor over the month. The Swiss Internet-of-Things company issued a profit warning as a result of destocking at its customers and revised its guidance downwards. The company also conceded that it can (and will) improve its internal reporting capabilities to manage inventory and communication more affectively. Elsewhere, cable company TKH announced disappointing results, attributed to customer destocking mainly in its vision and smart connectivity systems. We believe that investors overreacted to this news and subsequently added to the position. Dutch bank Van Lanschot Kempen also saw weak performance. We largely saw the move as an overreaction due to poor communication between its management and sell-side analysts and we remain holders. Crest Nicholson, the British homebuilder, also issued a profit warning given a deterioration in sales, which have been markedly affected by higher mortgage rates. Even in a diminishing profit environment, we think the builder has the balance sheet to see it through this cyclical downswing.

Pump and valve manufacturer KSB was the top positive contributor to fund performance. After its restructuring, the company has seen an expanded order intake and increased sales revenue. Analysts raised their forecast on the stock as a result. The German meal kit business HelloFresh was another positive contributor as some hedge funds were forced to cover short positions. HelloFresh's operating efficiency has improved gross margins, despite rising ingredient costs, while its new ready-to-eat vertical, Factor, is generating investor optimism. Ionos, Verallia and Iveco were also positive contributors as they each benefited from investor optimism over increased sales in their respective businesses. These three companies (web hosting, glass manufacturing, automobiles) are seeing tailwinds surrounding improved business processes and increased productivity with their use of artificial or augmented intelligence. We think this technology will continue to have an impact as these companies build improved services and inventories, ultimately benefiting their customers.

In terms of activity, we initiated a new position in Swiss industrial Daetwyler, a leading supplier of critical packaging components to health care, food and beverage and automotive clients. The stock has been under pressure for the last 18 months as its Covid-related business (sealings to vaccines) unravelled. With these challenges having been played out, Daetwyler is now focusing on growth opportunities in packaging solutions for one of the largest pharmaceutical stories in the European market - obesity drugs. We also bought a position in Merlin Properties, a Spanish real estate company, as Spanish inflation has come down relative to other Western European economies. We think this is beneficial to its office sector, which may see a reduction in vacancy rates. The company is also in the process of building out its data centres which we think should see an income contribution to its portfolios beginning next year. Disposals included Belgian screen manufacturer Barco, which we sold due to demand decline across its divisions and concerns within its enterprise division including ClickShare (its agnostic video platform which has seen margin headwinds). We also sold the Danish homebuilder Huscompagniet on valuation grounds.

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Manager outlook

We understand the general concerns facing small cap stocks, including liquidity issues and access to capital, as the economy slows down. We believe these problems are mostly short-term in nature and are cautiously optimistic, especially looking at valuation levels and the risk versus reward that history might imply. We also think inflation will remain stubbornly high and many analysts are yet to adjust their low discount rates to account for this, in our view overstating growth rates at certain companies. If indeed our hypothesis of a soft landing does play out, labour markets should not see wholesale changes to their current cooling from record tight conditions. We think European small-mid cap stocks are well positioned for a return to economic growth as these core problems fade and the market begins to ask what the recovery will look like.

Source: Janus Henderson Investors, as at 31 August 2023

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Fund information (Investment policy is on the next page)

Index	MSCI Europe Small Cap Index (EUR)
Morningstar sector	Europe OE Europe Small-Cap Equity
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.

Performance in (EUR)

Performance %	A2 (Net)	Index	Sector
1 month	-4.7	-2.9	-3.3
YTD	2.8	6.0	2.8
1 year	4.3	4.8	0.8
3 years (annualised)	8.8	5.8	3.6
5 years (annualised)	5.2	3.2	1.9
10 years (annualised)	8.7	7.7	7.5

Source: at 31 Aug 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	5.7	5.7	4.5
2022	-15.2	-22.6	-26.4
2021	21.2	22.9	25.7
2020	14.0	7.3	12.5
2019	34.3	28.6	27.2
2018	-23.2	-14.5	-18.6
2017	25.5	17.2	21.7
2016	5.7	2.4	1.5
2015	22.9	21.7	26.5
2014	-0.2	5.1	5.2
2013	37.8	32.2	29.5

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.

Please note that as of 25 February 2022 the benchmark changed from the EMIX Smaller European Companies Ex UK Index to the MSCI Europe ex UK Small Cap Index. The Fund's investment policy and reference benchmark have changed. Past performance shown before 25 February 2022 was achieved under circumstances that no longer apply.

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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.

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 http://www.janushenderson.com.

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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.
- 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. These transaction costs are in addition to the Fund's Ongoing Charges.

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 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.

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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 8 and promotes, among other characteristics, environmental and/or social characteristics, and invests in companies with good governance practices.

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