Janus Henderson INVESTORS

GLOBAL TECHNOLOGY AND INNOVATION FUND

At a glance

Performance*
The Fund returned −4.39%, the Index returned 4.37% and the Sector returned −0.76%.

Contributors/detractors
Snowflake, Lumentum Holdings, and Arista Networks were relative contributors, while KLA, Microsoft, and Lam Research detracted from performance.

Outlook
While supply constraints have provided a tailwind to artificial intelligence (AI) infrastructure providers, we favour semiconductor, hyperscaler and software companies with potential across a range of outcomes.

Portfolio management



Denny Fish



Jonathan Cofsky, CFA

Investment environment

- Global technology stocks rose during the quarter, but not to the same degree as in the prior period, when shares of companies associated with the artificial intelligence (AI) build-out surged following material earnings upgrades.
- The composition of this past quarter's gains was different, with software stocks leading the sector higher and semiconductor capital equipment stocks giving back some ground.
- In software and internet services, stocks integral to AI infrastructure were among the strongest performers, while those considered exposed to disintermediation continued to face headwinds.

Portfolio review

In recent quarters, leadership in the technology sector has oscillated between stocks of companies within the broader semiconductor complex and software and internet infrastructure firms. Regardless of which segment is leading at any particular moment, the underlying driver has been the scramble to rapidly deploy AI across the global economy.

The relative "breather" that semiconductor capital equipment makers and chip companies took during the third quarter was understandable given their historic rally earlier in the year. While many investors may have felt that the significant upgrades to earnings estimates possibly left these stocks in line with their intrinsic value, the economic forces of constrained supply and robust demand suggest a sector benefiting from long-duration tailwinds that, in our view, are still not fully appreciated by the market.

Although chip makers and their hyperscaler clients are most closely associated with the AI enablement phase, the technical requirements to build and run advanced data centres are extending to an ever-widening swath of technology segments. Internet infrastructure company Snowflake (a relative contributor for the period) is being recognised for its CoCo product aimed at aggregating data from disparate systems into one cloud where AI agents can then access it. CoCo has led to a reacceleration of Snowflake's business, especially as the product allows dashboarding and analytics to be carried out through a natural language interface.

Two communications equipment companies that contributed were optics provider Lumentum and high-performance switch maker Arista Networks. Optical upgrades already have been occurring to transmit data across data centres as well as externally, but the next

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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.

generation of AI chips is expected to require optics within servers rather than legacy copper. The demand for optics to retool racks for advanced chips could, in our view, be multiplied by the current AI data centre build-out.

Similarly, Arista Networks provides high-performance switches essential for AI data centres. The company's products, which were originally designed to meet the needs of high-frequency traders and select hyperscalers, are designed to support data-heavy AI inference. Arista recently raised its guidance (forecasts), buoyed by greater access to supply, which may enable the company to meet demand from a growing AI-centric customer base.

The overweight position in semiconductor capital equipment makers, including KLA and Lam Research, detracted during the quarter. In addition to the pullback after the earlier share price rally, this segment was weighed down, in our view, by what we consider to be an apples-to-oranges comparison with other key AI inputs, such as optics and memory. Supply shortfalls in those segments have resulted in massive pricing power, upon which management teams eagerly capitalised. The capital equipment space is structured differently. Before its concentrated group of customers can ramp capacity, they must build cleanroom space, and that takes time. We think this natural governor likely extends the duration of the AI capital expenditure (capex) theme. We suspect that revenues will increase as capacity is added, but that it is more likely to be a 2028 occurrence. Furthermore, capital equipment makers have different relationships with their clients. These are long-term partnerships, and management teams may be less likely to maximise profits at the expense of customers' margins. However, they are not running charities. The combination of supply shortfalls and increasingly complex products could allow them to take some pricing, just not to the extent of memory and optics makers who (not coincidentally) could regret their strategy once the market turns.

Lastly, the underweight position in software giant and AI hyperscaler Microsoft modestly detracted. The shares generated strong returns during the quarter on the back of management guidance that suggested an anticipated acceleration in its Azure cloud business and its flagship Office suite, which has been benefiting from the Copilot AI tool being integrated into the platform. Perhaps the main driver of Microsoft's performance, though, is its capex cycle leading to increased capacity and, potentially, revenue growth. On a related note, Microsoft has the potential to boost future earnings as the contractual lives of compute capacity end and the company can capitalise on spot markets that are often more richly priced than expiring contracts. Making this possible is the convergence of voracious demand and chips – even those from a 2022 vintage or older – continuing to perform well.

Manager outlook

We believe that the story of the AI build-out for the remainder of the year and into 2027 may be one of capacity constraints. This is true across memory, optics, graphics processing units (GPUs), central processing units (CPUs), components, and power. With demand likely increasing as companies, sovereigns, and individuals uncover new ways to deploy AI, we believe this shortfall could persist through to the end of the decade. Consequently, this leads us to remain constructive on the AI complex. This optimism is not limited to the enablers. As we have discussed in recent quarters, AI enhancers and end users are now participating and are seeing measurable operational and financial contribution.

In AI infrastructure and software, we continue to favour companies that we believe should perform well under a wider range of outcomes. As discussed earlier, data racks must upgrade to optical connectivity independent of the rush to build data centres. In software and internet infrastructure, we favour companies whose products help usher in the era of AI agents and inference by storing large amounts of data and offering the tools to process it.

There are, of course, risks. AI has the potential to disintermediate legacy software segments, including creative applications and those, such as web design, where vibe coding may offer a viable alternative. Products that act as a system of record should be more insulated, as should those with deep vertical capabilities. Growth has decelerated in many of these areas, but that is largely due to AI absorbing a disproportionate share of technology budgets at the moment. Still, these software companies' unique expertise may buy them time as management teams seek to adapt their products to the AI era. The widening range of outcomes for such firms causes us to be very selective when considering them for investment.

As evidenced by the recent pullback in AI infrastructure stocks, investors perhaps understandably are mindful of a highly concentrated equities market. They may soon be able to observe a litmus test in the form of the anticipated initial public offerings (IPOs) of frontier model labs Anthropic and OpenAI. Should these offerings be well received, they could provide another tailwind for AI enablers. The additional liquidity could also, to a degree, alleviate concerns about the ability to meet the incremental financing required to continue the AI build-out. Furthering that aim would be one or both of the newly public companies achieving investment grade credit status.

Financing, on the other hand, does present one of the risks (albeit more remote) that could potentially slow down the broad AI theme. This year marks the point where AI-related financing needs exceed the operating cash flow of leading hyperscalers. Companies with massive cash engines, often derived from internet or advertising businesses, are likely to be less affected by jittery bond investors or higher interest rates. Companies with concentrated customer bases and meagre cash cushions could be tested should a deceleration in AI investment and deployment occur. This is a low-probability scenario in our view, but it illustrates the need for investors to not only gauge the financial position of big-spending hyperscalers, but also that of their customers.

Performance (%)

Returns	Cumulative				Annualised		
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
A2 USD (Net)	4.04	-4.39	30.88	31.94	34.11	15.15	20.67
Index	4.32	4.37	35.40	39.30	38.32	21.42	23.80
Sector	1.60	-0.76	28.37	29.04	30.93	12.12	16.49
A2 USD (Gross)	—	—	—	—	—	17.93	23.63
Target	—	—	—	—	—	23.85	26.27

Calendar year	YTD at Q3 2026	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
A2 USD (Net)	30.88	21.08	31.48	51.84	-38.21	15.66	48.69	42.61	-1.17	41.09	11.97
Index	35.40	26.37	31.59	51.02	-31.07	27.36	45.61	46.89	-5.81	41.77	12.20
Sector	28.37	26.42	19.54	37.26	-36.40	12.13	47.75	35.10	-9.50	37.77	7.51

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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.

Investment objective

The Fund aims to provide capital growth over the long term. Performance target: To outperform the MSCI ACWI Information Technology Index by at least 2% per annum, before 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	31 March 2000
Total net assets	877.08m
Asset class	Equities
Domicile	Ireland
Structure	Irish Investment Company
Base currency	USD
Index	MSCI ACWI Information Technology Index
Morningstar sector	Sector Equity Technology
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. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. 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. This is an Irish Investment Company regulated by the Central Bank of Ireland. A short-term trading fee may be applied upon exiting the fund as per the prospectus. 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 80% of its assets in a portfolio of shares (also known as equities) of companies, of any size, which are technology-related or derive profits from technology, in any country. Up to 20% may be invested in developing markets. The Fund may also invest in other assets including cash and money market instruments. The Sub-Investment Adviser may use derivatives (complex financial instruments) to reduce risk, to manage the Fund more efficiently, or to generate additional capital or income for the Fund. The Fund is actively managed with reference to the MSCI ACWI Information Technology Index, which is broadly representative of the companies in which it may invest, as this forms the basis of the Fund's performance target. The Sub-Investment Adviser has discretion to choose individual 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 Sub-Investment Adviser looks to identify growth companies by following a process of 'bottom-up' fundamental company analysis to invest in companies that typically have a strong competitive position and improving earnings. This approach rests on a belief that some companies have inherent strengths for creating shareholder value over time, have better prospects than their peer groups and should therefore outperform even in challenging industry and economic circumstances.

Fund specific risks

Shares 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. High exposure to a particular country or geographical region carries a higher level of risk than a more broadly diversified portfolio. 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. 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. seeks to mitigate exchange rate movements between the share/unit class currency and the base currency of the Fund), the value of your investment may be impacted by changes in exchange rates. Derivatives may be used to help achieve the investment objective. This can result in leverage (higher levels of debt), which can magnify an investment outcome. Gains or losses 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. 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. Securities 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. Losses could be incurred if a counterparty became 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.

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