

EUROPEAN MID AND LARGE CAP FUND

At a glance

Performance*

The Fund returned 7.76%, the Index returned 6.85% and the Peer Group returned 6.44%.

Contributors/detractors

German defence company Renk provided the main positive performance contribution, while German sporting goods company Puma was the main detractor.

Outlook

While the underperformance of medium-sized companies has created challenging conditions for our approach, we remain confident that solid fundamentals will eventually shine through.

Portfolio management



Marc Scharz, CFA

Investment environment

- Equity markets rose throughout the quarter. The year started with low market participation, meaning only a small number of mega-cap stocks drove the market higher.
- European market breadth (the percentage of companies outperforming the index) stood at 40% at the end of February, which was the lowest since the dot-com bubble. While March saw some broadening, the first quarter remained noticeable for the sharp underperformance of mid-caps versus large-caps, with the tally amounting to 6%.
- On a similar note, growth-style stocks outperformed value-style stocks by the same magnitude, although there were some tentative signs of this changing during March.
- Solid economic data led to a moderation of expectations for the number of interest rate cuts to be implemented by central banks during the remainder of 2024. Autos and banks were the best performing sectors while utilities and basic resources were the main laggards.

Portfolio review

Among the main positive contributors were Renk, Spie and UCB.

In early February, we participated in the successful initial public offering (IPO) of Renk, the global leader in propulsion systems for military vehicles. Amid ever-growing geopolitical tensions, European defence spend appears to be at the start of a multi-year investment cycle that offers high growth visibility for the companies exposed to the sector. French electrical installation and maintenance company Spie has been a high-conviction holding in the fund for some time now, as we had identified the material value opportunity stemming from its transformation of a resilient but boring business into a core enabler of the green energy transition. During March, the company printed another set of quarterly results underpinning this thesis.

Belgian biopharmaceutical company UCB is currently undergoing a fundamental change with several new drugs being in the launch phase, most notably its potentially best-in class immunology drug Bimzelx. Some controversy around the US label for this drug created significant share price volatility in October and November last year, creating an opportunity for us to build a position in the fund. Given strong early launch data of Bimzelx in the US, we think

Marketing communication

Past performance does not predict future returns.

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*For benchmark/usage and peer group, 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.

these concerns now appear excessive and the shares have since rallied.

On the other hand, Puma, EDP and UPM were the main performance detractors. German sporting goods company Puma released disappointing 2024 projections in terms of growth and margins. EDP's share price weakness was mainly a reflection of the weak sector dynamics with concerns around the economic attractiveness of renewable investments in a world of sustained higher interest rates. UPM's performance was held back by underwhelming results, management turnover and strike actions in its Finnish home market.

Over the quarter we made a number of changes. We switched banking stocks, taking profits in Allied Irish and Danske Bank to finance a new position in Austrian lender Erste Bank. We also switched the position in mining equipment maker Metso for a position in peer FLSmidth. Besides the above-mentioned participation in the Renk IPO, we also re-initiated a position in German defence company Rheinmetall to increase the fund's position to the potential growth dynamics in European defence. We also initiated a position in Swiss industrial VAT, a dominant player in vacuum valve solutions, and TKH, the Dutch small-cap industrial conglomerate.

Elsewhere, we locked in profits in Danish biotech firm Zealand after the stock more than doubled over a year. While we remain optimistic about the company's weight loss drug pipeline, the risk/reward equation started to look less appealing to us after the exceptional share price move. We also closed the position in Grifols as a combination of high leverage and governance controversies translated

into a risk profile that felt too high for us. Finally, we sold out of Argenx due to pipeline failures late last year which undermined the investment case for us.

Manager outlook

It seems we are likely at the end of the interest rate hiking cycle, the main driver of the currently unfolding economic slowdown. While the debate around a 'hard landing' (recession) versus a 'soft landing' is difficult to call at this stage, rates have either topped out - or are close to topping out - which should help establish the conditions for economic uncertainty to gradually dissipate in the coming quarters.

We believe that the monetary tightening cycle and the uncertainties it brings were the main driver for the significant, and occasionally indiscriminate, underperformance of mid-caps, which has resulted in their material relative de-rating. This has created a challenging backdrop for our approach given the fund is biased towards medium-sized companies.

We think the likely end of monetary tightening policy should allow the solid fundamentals of medium-sized companies in general - and especially those we invest in - to shine through again. Hence, we feel this will create more benign conditions for our approach. Consistent with our core approach, the fund is set up in a balanced way in terms of factor/sector exposures, making relative performance not dependent on any specific macroeconomic development.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (20/07/01)
I Acc (Net)	3.57	7.76	7.76	12.12	8.97	9.94	9.16	9.60
Index	3.71	6.85	6.85	13.78	9.63	10.34	8.70	7.49
Peer Group	3.45	6.44	6.44	12.45	7.75	9.64	7.99	7.10

12 month rolling

	Mar 2023- Mar 2024	Mar 2022- Mar 2023	Mar 2021- Mar 2022	Mar 2020- Mar 2021	Mar 2019- Mar 2020
I Acc (Net)	12.12	9.35	5.54	38.33	-10.25
Index	13.78	8.73	6.51	34.86	-7.96
Peer Group	12.45	6.60	4.36	39.55	-9.23

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Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period. **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.** Source for target returns (where applicable) - Janus Henderson Investors. This is a representative share class for the fund, other share classes are available and may be more suitable for your investment needs.

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.

Investment objective

The Fund aims to provide capital growth over the long term. Performance target: To outperform the FTSE World Europe Ex UK Index, after 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	01 July 2001
Total net assets	806.00m
Asset class	Equities
Domicile	United Kingdom
Structure	OEIC
Base currency	GBP
Index	FTSE World Europe (Ex UK) Index
Peer group	IA Europe ex UK Equity

For benchmark/usage description, refer to Additional fund information on page 4.

Additional fund information

Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records are detailed on the specific KIID, fees and charges may vary and further information can be found in the fund's prospectus and KIID which must be reviewed before investing. Please consult your local sales representative if you have any further queries. From 10 November 2023 the Fund name changed from Janus Henderson European Growth to Janus Henderson European Mid and Large Cap Fund. 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.

The FTSE World Europe (Ex UK) Index is a measure of the combined performance of large and medium sized companies from developed and advanced emerging European stock markets excluding the UK. It is the performance target for the Fund and provides a useful comparison against which the Fund's performance can be assessed over time.

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The Fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Investment policy

The Fund invests at least 80% of its assets in shares (also known as equities) of companies, in any industry, in Europe (excluding UK). Companies will be incorporated, headquartered, listed on an exchange in, or deriving significant revenue from, this region. The Fund may invest in companies of any size, but will normally have a strong bias towards medium sized companies with the potential to grow into large sized companies. 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 FTSE World Europe Ex UK 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 Investment Manager has discretion to choose investments for the Fund with weightings different to the index or not in the index. As an additional means of assessing the performance of the Fund, the IA Europe ex UK sector average, which is based on a peer group of broadly similar funds, may also provide a useful comparator.

Investment strategy

The Investment Manager seeks to identify companies with hidden quality by focusing on company profitability and the efficiency with which capital is used. The Fund may invest in companies of any size, but will have a bias to medium sized companies as these often have attractive niches, potential to grow into large sized companies, or could be potential takeover targets in the future. The manager takes a long term view, looking beyond short term data, while the risk management process focuses on identifying risks specific to the companies and industries in which the Fund may be exposed rather than in relation to the wider market.

Fund specific risks

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.

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Source: Janus Henderson Investors, as at 31 March 2024, unless otherwise noted.

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