

Janus Henderson European Growth Fund

Q3 2020

For promotional purposes

Fund Managers Names

Simon Rowe, Marc Schartz, CFA

Macro backdrop

In the third quarter equities continued the recovery from the nadir seen in March, although the pace of recovery slowed considerably from the second quarter. With lockdowns easing over the summer months, the focus was now on how quickly companies (particularly cyclicals) could recover former levels of profitability - a point much discussed along with second quarter results; although sectors such as hospitality and travel will clearly be affected for much longer by the pandemic.

By the end of the quarter European equity indices were approaching pre-crisis levels - although some sectors such as technology had already far surpassed former levels. Quality compounders showing resilience have also been rerated upwards given the downward movement in interest rates and the likelihood that rates stay down for longer. The price of gold reached record nominal highs, partly as a safe-haven asset, partly as an inflation hedge and partly because the cost of holding gold (relative to bonds) eroded.

Fund performance and activity

The fund returned 3.8% compared with a gain of 1.4% from the FTSE World Europe ex UK Index, while the IA Europe ex UK peer group returned 2.7%.

Performance was largely driven by individual contributions, particularly some of our mid-cap holdings. For example, forklift specialist Jungheinrich, which we had repurchased in the previous quarter, rose almost 50% based on hopes of a quick recovery. Another second quarter purchase, metals processing group Metso, rose 22% while Software AG gained 17% in response to strong second quarter numbers. Kone, which we had purchased early in the crisis because of what we considered to be its likely resilience, gained 22% as the recovery in China gained pace. Other good contributions came from companies that we had held prior to the crisis but which bounced back strongly such as Volvo (up 19%) and Merck KGaA (up 21%).

These gains were partly offset by Bayer which fell back on its inability to resolve its legal problems, negative currency movements and challenges in agricultural end markets. KBC slipped with the banking sector due to interest rate woes, DCC retreated based on ESG concerns, while Zur Rose gave back some of its sharp gains from the previous quarter.

In terms of changes, we exited a number of holdings such as Philips and Evonik, which had largely recovered from the sell-off and where we felt we had stronger alternative options. For example, we repurchased a position in reinsurer Scor, which we sold much higher up at the start of the crisis and which had performed much worse than the other reinsurers. We also bought holdings in hearing aid maker Sonova, eye specialist Carl Zeiss, and Daimler, which is restructuring under new management, and even though we recognise the significant challenges of electrification.

Outlook/strategy

While the resurgence of COVID-19 cases in Europe is certainly a concern, we think a further lockdown along the lines of that seen in the spring is unlikely. Therefore we continue to focus on sectors that have been boosted during the pandemic, including companies that we think are well-positioned to take advantage of higher subsidies and government support for green spending in construction, transport and energy. While there are many uncertainties, not least from the US election, European equities, in our view, are in a relatively strong position compared with other asset classes, especially given the very low rates of returns from bonds. We continue to make changes to the portfolio to take advantage of the dislocation caused by the crisis. In particular, we look for companies that are taking advantage of opportunities thrown up by the pandemic either in terms of costs or merger and acquisition (M&A).

Source: Janus Henderson Investors, as at 30 September 2020

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Fund information

Index FTSE World Europe Ex UK Index
Index usage Target, Comparator

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.

Peer group benchmark IA Europe ex UK Equity
Peer group benchmark usage Comparator

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.

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.

Performance in (GBP)

Performance %	I (Net)	Index	Peer group	Quartile ranking
1 month	1.1	0.7	0.3	2nd
YTD	3.0	-0.5	0.6	2nd
1 year	4.3	0.4	3.2	2nd
3 years (annualised)	1.8	2.9	2.4	3rd
5 years (annualised)	10.2	10.1	9.3	2nd
10 years (annualised)	9.6	7.8	8.1	1st
Since inception 20 Jul 2001 (annualised)	9.5	6.7	6.5	-

Source: at 30 Sep 2020. © 2020 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.

Discrete year performance %	I (Net)	Index	Peer group
30 Sep 2019 to 30 Sep 2020	4.3	0.4	3.2
30 Sep 2018 to 30 Sep 2019	0.0	6.4	2.2
30 Sep 2017 to 30 Sep 2018	0.9	2.0	1.9
30 Sep 2016 to 30 Sep 2017	22.0	22.7	21.9
30 Sep 2015 to 30 Sep 2016	26.7	21.1	19.2

Source: at 30 Sep 2020. © 2020 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.

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.

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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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Important information

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