

Janus Henderson European Smaller Companies Fund

Quarter 3 2019

For promotional purposes

Fund Managers Names: Ollie Beckett & Rory Stokes, CFA

Macro backdrop

Markets were volatile during the third quarter as the trade war pendulum swung back and forth before finishing with optimism of a deal being agreed (or at least delays to further tariffs). The positive mood of markets in September also saw investors question the now extreme global inflation expectations and in turn the value style outperformed growth for the first time in many months. This was to the benefit of the fund which continues with its valuation-conscious approach to stock selection.

Fund performance and activity

Positive contributions included Varta, which continues to see high levels of demand for its coin batteries from the ever-growing headsets/earphones market, and BE Semiconductor, where there are early signs that destocking in the industry is reaching a nadir. On the negative side online gambling company Kindred lagged, with margins disappointing due to rising costs. Interroll, which produces smart warehouse machinery, was also a drag, while in a structural growth area the weakness in the end markets of their clients saw growth expectations reduced.

In terms of other activity, we bought Deutz which makes off-highway engines (agricultural and industrial generators). The shares have sold off due to macroeconomic concerns but with a bearish scenario factored into the valuation, a good position in electric vehicles (EV) and a potentially interesting joint venture in China, the risk reward profile seems to be in our favour. We also bought Aixtron. Although order and revenue trends in the first half of this year were lacklustre, Aixtron's long-term growth is expected to be driven by a number of exciting, high growth compound semiconductor applications, most of which are at the point of moving into early commercial revenue. These include 3D sensing, SiC-based power semiconductors, and microLED TVs among others. We sold JM and Forbo which now seem fully valued.

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Outlook/strategy

We believe that Europe and its small cap businesses are set for a period of better performance driven by improving M1 money supply, central bank easing, micro fundamentals looking robust and purchasing managers' indices (PMIs) reaching historic extremes. Couple this with the asset class being woefully out of favour with allocators and we believe the conditions are ripe for some mean reversion.

Source: Janus Henderson Investors, as at 30 September 2019

Benchmark information

Index benchmark: EMIX Smaller European Companies Ex UK Index

Index benchmark usage: Comparator

The EMIX Smaller European Companies (Ex UK) Index is a measure of the combined performance of over one thousand small and medium sized companies from developed European stock markets. It provides a useful comparison against which the Fund's performance can be assessed over time.

Sector benchmark: IA European Smaller Companies Equity

Sector 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.

Discrete year performance % change	I Acc	Index	Peer group
30 Sep 2018 to 30 Sep 2019	-2.2	-1.5	-5.2
30 Sep 2017 to 30 Sep 2018	2.9	3.4	4.3
30 Sep 2016 to 30 Sep 2017	42.8	25.3	24.3
30 Sep 2015 to 30 Sep 2016	28.1	30.2	23.2
30 Sep 2014 to 30 Sep 2015	14.2	6.9	13.5

Source: at 30 Sep 2019. © 2019 Morningstar. All rights reserved, performance is on a net of fees basis, with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

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