COMMENTARY

Janus Henderson European Absolute Return Fund

Q3 2020 **For promotional purposes**

Fund Managers Names

Robert Schramm-Fuchs, John Bennett

Macro backdrop

September extended the volatile sideways movement in European equity markets into its fourth month. We think that markets are being held back by a confluence of economic, political and COVID-19-related factors at the moment, all of which should fade with a bit more time. Hence, we remain bullish in our mid and long-term outlook.

Fund performance and activity

Judging from the big macro indicators such as the purchasing managers' indices (PMIs), but also from the set of real-time alternative economic indicators, the summer slowdown in activity has given way to a modest reacceleration into autumn. The surge in US retail and housing demand has pushed inventories in these sectors to record lows. General manufacturing inventories are also falling rapidly and have reached quite low levels, though not yet historical extremes.

This leaves some uncertainty as to the exact timing of a major restocking cycle, but it cannot be too far away in our view. Our guess is on an individual corporate level, many management teams are right now struggling with a tug of war between tight balance sheet management for liquidity and year-end credit rating assessments, required re-stocking given the better near-term order outlook, and 'just in case' inventory building to keep operations running smoothly in case of renewed harsher anti-virus measures. When those micro level decisions are becoming clearer, we believe they are likely to combine to lead to the biggest restocking cycle on record.

As usual, the semiconductor cycle seems to run a bit ahead of the general industrial markets, and the signals we are getting are very encouraging indeed. Monthly shipment volumes are accelerating, distributor channels are being refilled and memory spot prices seem to have inflected upwards.

On the monetary front, the last few months have brought no incremental stimulus and central bank balance sheets have barely expanded. There are some well-publicised differences of opinion in the leadership of the US Federal Reserve (Fed) and the European Central Bank (ECB), but it seems likely to us that in the end the doves will win given the high under-employment rates and worsening headline inflation (or should we call it deflation?) data. This is particularly relevant for the eurozone data where core inflation is at its lowest-ever level and ECB staff projections already look outdated and too optimistic again.

In the US, there may have been an element of the Fed holding off for the time being so as to not influence the outcome of the elections. Fiscal stimulus is similarly in a holding pattern on both sides of the Atlantic plus China, though again time seems very likely to bring progress. In Europe, the European Recovery Fund agreement should happen in November at the EU level, after which it is possibly another six months before it is ratified by all the national parliaments. Thus, its impact will likely only be felt from the second quarter of next year. In the US, it seems increasingly unlikely that both parties will find a compromise on the new stimulus package before the elections. Once done, it has the potential to happen quicker than in Europe. In China, the 14th five-year plan is to be decided at the end of October, and reports indicate it will also be combined with a 2035 strategic vision.

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On the pandemic front, we acknowledge the Western world is faced with a second wave, but adjusted for the massively increased testing volume, the numbers are still much lower than in the spring. While backward looking, the hospitalisation rates, intensive care unit bed capacity utilisation levels and deaths are so far currently only a fraction of what we experienced in the first wave. We will have to learn to live with COVID-19 for a while. Although upcoming likely vaccine approvals by the FDA will create a lot of excitement, it does not change the world quickly. The hurdles for a vaccine are simply too low to have a clear picture to what extent these will really reduce morbidity, mortality, and limit onward transmission. Neither is it clear for how long the vaccines offer protection, and when it needs to be renewed, especially with a potentially mutating virus. Further, distribution and acceptance challenges could make it hard to declare reaching the herd immunity threshold throughout 2021. Hence, our politicians need to continuously update their learning for the many treatment progresses made. It is this element that is hardest to pin down, but again we are hopeful a point of maximum uncertainty will soon be reached. If hospitalisation rates, intensive care unit utilisations and death rates do not rise to the same extent as the new case rates over the coming weeks, this may sway public opinion. Thus, it should force politicians to better balance anti-COVID-19 measures with the vast negative economic impacts and the just as dire consequences on non-COVID-19 health care and wellbeing.

Source: Janus Henderson Investors, as at 30 September 2020

Janus Henderson European Absolute Return Fund

Fund information

Index	UK Base Interest Rate
Index usage	Target,Comparator

The UK Base Interest Rate is the interest rate set by the Bank of England. It is the performance target of the Fund and it provides a useful comparison against which the Fund's performance can be assessed over time.

Objective	The Fund aims to provide a positive (absolute) return, regardless of market conditions, over any 12 month period. A positive return is not guaranteed over this or any other time period, and particularly over the shorter term the Fund may experience periods of negative returns. Consequently your capital is at risk.
Performance target	To outperform the UK Base Interest Rate, after the deduction of charges, over any 3 year period.

Performance in (GBP)

Performance %	I (Net)	Index
1 month	2.7	0.0
YTD	4.9	0.2
1 year	11.1	0.4
3 years (annualised)	3.6	0.6
5 years (annualised)	3.1	0.5
10 years (annualised)	5.7	0.5
Since inception 29 Jan 2009 (annualised)	5.7	0.5

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
30 Sep 2019 to 30 Sep 2020	11.1	0.4
30 Sep 2018 to 30 Sep 2019	0.3	0.7
30 Sep 2017 to 30 Sep 2018	-0.3	0.5
30 Sep 2016 to 30 Sep 2017	8.1	0.2
30 Sep 2015 to 30 Sep 2016	-2.9	0.5

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.

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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