COMMENTARY

Janus Henderson Emerging Markets Fund

Q4 2020

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Fund Manager Name

Daniel J. Graña, CFA

Macro backdrop

Emerging market stocks posted strong performance in the fourth quarter, outpacing broader global equities. Emerging Asia generally led the market as these countries appeared to be further along in addressing the COVID-19 pandemic. The information technology sector was a strong driver of returns, aided by digitisation and a resurgence in the semiconductor market. Real estate stocks lagged, due in part to the underperformance of the Chinese property sector.

Fund performance and activity

The fund delivered 14.7% for the quarter while its benchmark, the MSCI Emerging Markets Index, returned 14.7%.

Allocation decisions helped to offset negative stock selection. Our country and sector allocations reflect our emphasis on viewing emerging market equities through multiple lenses that include the macro and policy landscape as well as company fundamentals. As we look at this intersection we have been closely following policy shifts in China. One notable theme is China's planned transition away from carbon fuels. President Xi has laid out ambitious plans to target peak emissions in 2030 and carbon neutrality by 2060, an aggressive timeline that will necessitate significant investments in renewables and electric vehicles. We believe this transition will have powerful ripple effects globally, benefiting companies in the renewable and environmental protection infrastructures while challenging fossil fuel-producing companies and countries. We have positioned ourselves for this shift with our investments in China Longyuan Power, the leading wind farm operator in China, and Ivanhoe Mines, a major global producer of the copper needed for electric vehicles and solar arrays. Both stocks contributed strongly to performance over the quarter.

We have also been monitoring China's increased regulation of large technology companies, especially around their moves to disintermediate the financial sector. Chinese tech giant Alibaba Group found itself in the crosshairs of this heightened regulatory scrutiny, as the Chinese government blocked the planned spin-off of its financial technology subsidiary Ant Group, which would have been the largest initial public offering (IPO) in history. We entered the quarter with an overweight position in Alibaba because of our positive view on its cloud computing and finance businesses. However, we remain concerned about competitive challenges to its ecommerce business, and we believe these market share losses will be harder to address in an unfriendly regulatory environment. As a result, we moved rapidly to a notable underweight in the company, and this positioning aided results as the stock declined.

Policies around China's property sector may also be in flux. As trade pressures and the pandemic depressed global trade, Chinese authorities leaned heavily on other levers of economic growth, especially real estate and infrastructure. To that end, they maintained accommodative monetary policy and incentives for the property sector through most of 2020. As the global export market has started to improve, authorities have signalled they may ease up on those levers, moving to neutral or even incrementally tighter monetary policy in 2021. These signals led to a fourth quarter decline in stocks with ties to China's property market, including real estate developer Shimaeo Group Holdings and China Lesso, a pipe and fittings supplier that has benefited from infrastructure investment. Both were notable detractors for the quarter.

Brazilian medical education company AFYA was another detractor as the stock gave back ground after solid performance year-to-date. The company was quick to respond to the pandemic by moving online and its business trends have been resilient. Because of its more defensive business model, it was less appealing to investors positioning themselves for a potential normalisation of the economy in 2021. Despite the recent profit-taking, our positive thesis on the stock has not changed.

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Outlook/strategy

Emerging markets are facing dual challenges from the pandemic and a shift away from globalisation, which has made it harder for countries to export their way to prosperity. Despite these challenges we see reasons for optimism with the development of several COVID-19 vaccines that may help address the pandemic and lead to a broadening of emerging market opportunities in the coming year. While we continue to find attractive investments tied to innovation in north Asia, we believe this region's outperformance relative to the rest of the emerging markets may narrow in 2021 as the vaccine becomes more widespread and investors focus again on valuations differences.

That said, we believe that failure to contain the pandemic in 2020 will have lasting consequences, especially for countries such as South Africa, Brazil and India that were already on fragile economic trajectories. We also believe that differences in the abilities of countries to respond to the pandemic, especially given constraints on additional fiscal and monetary measures, could lead to a bipolar world.

Countries that can manage the virus will return more quickly to normal levels of economic activity. Those that don't will face continued health, economic and fiscal repercussions. We anticipate this divergence will lead to fragmented end markets and shortened supply chains. Trade policy may continue to complicate these trends. While a Biden victory has changed the US political landscape, it will be difficult to easily reverse the changes set into motion with tariffs and technology export bans. As we look to navigate these crosscurrents, we remain committed to seeking a combination of good companies, good governance and good countries - a strategy we believe should lead to favourable investment outcomes over the longer term.

Source: Janus Henderson Investors, as at 31 December 2020

Janus Henderson Emerging Markets Fund

Fund information

Index	MSCI Emerging Markets Index
Morningstar sector	Europe OE Global Emerging Markets Equity
Objective	The Fund aims to provide a return, from a combination of capital growth and income over the long term.
Performance target	To outperform the MSCI Emerging Markets Index by 2% per annum, before the deduction of charges, over any 5 year period.

Performance in (EUR)

Performance %	R€ (Net)	Index	Sector	Quartile ranking	R€ (Gross)	Target (Gross)
1 month	4.8	4.9	4.7	3rd	-	-
YTD	11.4	8.5	7.2	2nd	-	-
1 year	11.4	8.5	7.2	2nd	-	-
3 years (annualised)	1.8	5.5	4.4	4th	-	-
5 years (annualised)	6.4	10.2	8.7	4th	8.2	12.4
10 years (annualised)	2.5	4.8	3.8	3rd	4.4	6.9
Since inception 29 Sep 2000 (annualised)	4.8	7.2	6.2	-	6.7	9.3

Source: at 31 Dec 2020. 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 %	R€ (Net)	Index	Sector	R€ (Gross)	Target (Gross)
31 Dec 2019 to 31 Dec 2020	11.4	8.5	7.2	13.4	10.7
31 Dec 2018 to 31 Dec 2019	9.7	20.6	21.0	11.7	23.0
31 Dec 2017 to 31 Dec 2018	-13.7	-10.3	-12.3	-12.2	-8.5
31 Dec 2016 to 31 Dec 2017	13.4	20.6	18.6	15.4	23.0
31 Dec 2015 to 31 Dec 2016	13.8	14.5	12.6	15.8	16.8

Source: at 31 Dec 2020. 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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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com.

Benelux
Janus Henderson Investors
Tel: +31 20 675 0146
Fax: +31 20 675 7197
Email: info.nederlands@janushenderson.com

France/Monaco
Janus Henderson Investors
Tel: +33 1 53 05 41 30
Fax: +33 1 44 51 94 22
Email: info.europe.francophone@janushenderson.com

Germany/Austria
Janus Henderson Investors
Tel: +49 69 86 003 0
Fax: +49 69 86 003 355
Email: info.germany@janushenderson.com

Dubai
Janus Henderson Investors
Tel: +9714 401 9565
Fax: +9714 401 9564
Email: JanusHenderson-MEACA@janushenderson.com

Hong Kong
Janus Henderson Investors
Tel: +852 2905 5188
Fax: +852 2905 5138
Email: marketing.asia@janushenderson.com

Italy
Janus Henderson Investors
Tel: +39 02 72 14 731
Fax: +39 02 72 14 7350
Email: info.italy@janushenderson.com

Latin America
Janus Henderson Investors
Tel: +44 20 7818 6458
Fax: +44 20 7818 7458
Email: sales.support@janushenderson.com

Nordics
Janus Henderson Investors
United Kingdom
Tel: +44 20 7818 4397
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

Singapore
Janus Henderson Investors
Tel: +65 6836 3900
Fax: +65 6221 0039
Email: marketing.asia@janushenderson.com

Spain/Portugal/Andorra
Janus Henderson Investors
Tel: +34 91 562 6172
Fax: +34 91 564 6225
Email: info.iberia@janushenderson.com

Switzerland
Janus Henderson Investors
Tel: +41 43 888 62 62 (Zurich office)
Tel: +41 22 810 82 89 (Geneva office)
Email: info.switzerland@janushenderson.com

United Kingdom
Janus Henderson Investors
Tel: +44 20 7818 1818
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

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