COMMENTARY

Janus Henderson Emerging Markets Opportunities Fund

Q2 2020

For promotional purposes

Fund Manager Name

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Macro backdrop

Emerging market stocks rebounded as equities benefited from the large-scale fiscal and monetary responses to the COVID-19 pandemic. China, Taiwan and South Korea were responsible for much of the benchmark's gains as these countries are further along the path of managing the virus. Other countries including Brazil and India still do not have adequate control of the pandemic, resulting in an unclear - but likely deteriorating - economic trajectory. Companies exposed to long-duration, technology-related themes performed well as the crisis - and society's reaction to it - was viewed as an accelerant for these trends.

Fund performance and activity

The fund returned 24.7% and outperformed its benchmark, the MSCI Emerging Markets Index, which returned 18.6%, and the IA Global Emerging Markets peer group, which returned 20.1%.

Despite the market welcoming fiscal and monetary policy, stock selection was responsible for nearly all of the fund's outperformance. We attribute this to the three lenses through which we view stocks for potential portfolio inclusion. With global economic growth suspect as several countries struggle to contain COVID-19, and with governance a possible concern should companies be called to perform national service, we emphasised the third lens of our strategy which is a focus on company fundamentals powered by long-duration themes. Accordingly, we hold a number of companies that are exposed to the themes we believe will drive emerging market earnings growth over the coming years: value-added technologies and higher levels of personal consumption. As we are style agnostic, we can tilt the strategy to better align with economic realities, and in the absence of accelerating GDP growth our bias is currently toward growth-oriented firms.

COVID-19 has accelerated some secular trends and this is perhaps best exemplified by Mercadolibre, the period's top individual contributor to fund performance. Stay-at-home orders have boosted ecommerce engagement, including in demographic groups that had been slow to adopt online shopping. The company's digital payments platform has also been an important tool during the shutdowns, resulting in rapid growth. Given that ecommerce penetration in Latin America is roughly half of that in the US and one-quarter of China's, we believe there is potential for significant growth in the region as it closes this digital gap.

While we do not expect the broad economic growth necessary to boost GDP-sensitive sectors, our company-focused process helps us gauge the risks and benefits of specific stocks where dislocations may have occurred. Ivanhoe Mines is an example in our view. Not only have supply disruptions been supportive of copper prices, but on the demand side we believe China - the world's largest copper consumer - is taking aggressive steps to support its economy to solidify its leading position in recovering from the depths of the slowdown.

A weak economy can also act as a headwind to financials and while our underweight position to the sector aided relative performance, two of the fund's leading individual detractors were financial companies. Although Ping An Insurance generated positive returns, it lagged the index as investors saw the company's face-to-face business model - typically considered a strength - as a near-term liability. Similarly, AIA Group trailed the benchmark as both the pandemic and social unrest limited the number of visitors to Hong Kong from mainland China. As the policies purchased by these visitors represent an important revenue stream for the company, investors treated the stock with caution.

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Outlook/strategy

Emerging markets presently find themselves in two camps with respect to the pandemic. China, along with other eastern Asian countries, have shown progress in containment, allowing a path for economic recovery. India, Indonesia and Brazil, however, could face deteriorating situations. When coupled with developed market weakness, we see few signs of sustained economic growth. For this reason, we approach GDP-sensitive sectors with an eye toward idiosyncratic dislocations where we believe attractive fundamentals have been overwhelmed by macro concerns.

We have further increased our exposure to the technology and consumer themes that we believe will drive longer-term emerging market earnings growth. Despite the strong performance of technology stocks, we believe the market still underappreciates the duration of these firms' growth trajectories. Of special interest are companies and countries that are forging their own intellectual property and brands. We believe Vietnam is well positioned to be among the next countries to deliver on these fronts.

Conversely, we see economic uncertainty weighing on banks and commodities producers. Through our lens of corporate governance, we are also wary of several emerging market-based companies being called into "national service" to help support economies recover from the pandemic.

Part of the policy prescription to combat economic contraction has been leverage. Many regions have likely reached the point where the marginal productivity of debt has been maximised, with additional leverage weighing on productivity growth. This development comes at a poor time given that the sun appears to be setting on the golden age of globalisation, thus robbing the economy of a decades-long tailwind.

Source: Janus Henderson Investors, as at 30 June 2020

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Fund information

Index MSCI Emerging Markets Index
Index usage Target,Comparator

The MSCI Emerging Markets Index is a measure of the combined performance of large and medium sized companies from emerging stock markets. It forms the basis of the Fund's performance target and provides a useful comparison against which the Fund's performance can be assessed over time.

Peer group benchmark IA Global Emerging Markets 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 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 (GBP)

Performance %	I (Net)	Index	Peer group	Quartile ranking	I (Gross)	Target (Gross)
1 month	12.3	7.5	7.8	1st	-	-
YTD	0.1	-3.2	-5.6	1st	-	-
1 year	-1.7	-0.1	-3.3	2nd	-	-
3 years (annualised)	1.2	4.0	2.2	3rd	-	-
5 years (annualised)	7.1	8.3	7.4	3rd	8.1	10.5
10 years (annualised)	4.7	5.6	4.8	3rd	5.6	7.7
Since inception (annualised)	6.9	-	-	-	7.8	-

Source: at 30 Jun 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	I (Gross)	Target (Gross)
30 Jun 2019 to 30 Jun 2020	-1.7	-0.1	-3.3	-0.8	1.9
30 Jun 2018 to 30 Jun 2019	4.4	5.4	6.1	5.3	7.5
30 Jun 2017 to 30 Jun 2018	1.0	6.8	4.1	1.9	9.0
30 Jun 2016 to 30 Jun 2017	20.6	27.8	27.0	21.7	30.3
30 Jun 2015 to 30 Jun 2016	12.8	3.9	5.3	13.9	5.9

Source: at 30 Jun 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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Important information

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