COMMENTARY

Janus Henderson Emerging Markets Opportunities Fund

Q2 2021 **For promotional purposes**

Fund Manager Name

Daniel J. Graña, CFA

Macro backdrop

Emerging market stocks returned strong positive performance in the second quarter as Covid-19 vaccine roll-outs accelerated in a number of countries, leading to hopes for stronger global economic growth. Health care and industrial stocks led the market, as an improved global outlook fuelled a broad-based equity rally, while real estate stocks underperformed, due in part to expectations that stronger global economic growth could lead to higher interest rates.

Fund performance and activity

The fund returned 6.8% and outperformed its benchmark, the MSCI Emerging Markets Index, which returned 5.0%, while the Global Emerging Markets Equity peer group returned 4.7%.

Stock selection was a notable contributor to the fund's relative performance as we continued to follow several global trends that we believe are creating attractive long-term investment opportunities. One trend we continue to follow is the long-term move toward decarbonisation, especially in China where President Xi Jinping has laid out ambitious plans to reach carbon neutrality by 2060. This aggressive timeline will necessitate significant investments in renewables and electric vehicles, and we have identified what we see as a number of well-managed, well-positioned companies that operate in this ecosystem. These include Li Auto, which we see as a differentiated innovator in the global race to produce electric vehicles. In our view, electric vehicles are the future in China as well as globally, and we have been encouraged by Li Auto's strong technology background, positive customer acceptance trends and quality "China-centric" design. Further down the supplier chain, we are invested in Yunnan Energy New Material, a producer of separators for lithium batteries that are a key component in many green energy applications. Both holdings were strong performers for the quarter, as their businesses continued to grow rapidly on the back of accelerating electric vehicle demand and market share gains. The construction of electric vehicle and solar arrays also requires large amounts of copper. This led us to invest in Ivanhoe Mines, a well-managed company that is ramping up to become a major global copper producer. The stock was another strong performer for the quarter, supported by strong year-to-date trends for copper demand and its achievement of commissioning at key mine Kamoa-Kakula.

We continued to see opportunity in China's technology sector, especially tied to the digitisation of its economy. As more transactions and content move to the cloud, we believe the expansion in computing power will require tremendous investments in secure, climate-controlled data centre space where technology companies can store their servers. Our interest in this space led us to 21Vianet, one of the leading data centre companies in China. While we continue to see long-term opportunity for data centres, short-term overcapacity issues have pressured recent pricing trends. 21Vianet has also faced uncertainty due to the Chinese government's heightened regulation of large technology companies. As a result, the stock was a detractor for the quarter. Despite these pressures, we believed the company's fundamentals remained strong. We used the pull-back in the stock to add to our investment.

Regulatory uncertainty in China also pressured stock performance for Naspers. This South Africa-based internet and communication company is a major investor in Chinese Internet company Tencent, and Tencent's fortunes often drive stock performance for Naspers. Tencent has faced headwinds recently as the Chinese government has increased its regulatory scrutiny of large technology companies, and this also pressured stock performance for Naspers. Despite this near-term uncertainty, we remain invested in Naspers, given its diversified portfolio of investments in leading internet, electronics payments and ecommerce companies.

We were less reassured on prospects for Chinese insurance company Ping An, another detractor for the period. Ping An has historically maintained a reputation for one of the strongest corporate governance structures in the Chinese financials market. Recently, however, the company announced its acquisition of a troubled asset that we view to be a form of national service. This move shook our confidence in the company's independence and governance. As a result, the company fell out of the intersection of strong company, strong governance and strong macro backdrop that we seek with our investments. We liquidated our investment.

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Outlook/strategy

Our investment strategy remains guided by our multi-lens approach that considers company fundamentals and corporate governance as well as the macro and policy landscape. On the macro side, we see reasons for optimism with the availability of COVID-19 vaccines and other therapeutics that may help address the pandemic and lead to a broadening of emerging market opportunities. At the same time, we see divergence in how individual countries are dealing with the crisis. While some governments have been proactive in distributing vaccines and addressing outbreaks, others have struggled with logistics challenges, new variants and reduced vaccine efficacy. We believe these challenges could create different trajectories for emerging market countries. Those that succeed in combating the pandemic may return more quickly to normal levels of economic activity. Countries that are slow to roll-out vaccines or address uncontrolled viral spread may face longer-term health, economic and fiscal repercussions. India in particular has been very hard hit by the virus, and its weak fiscal position limits the government's ability to support the economy. Given our concerns over the macro outlook, the fund remains underweight in India and other countries still struggling with the virus. Instead, we continue to look to countries in north Asia, particularly China, Taiwan and Korea, that have made more progress in addressing the pandemic. Nonetheless, we caution that the pandemic is far from over, and new variants and additional waves of the virus remain sources of near-term uncertainty, both for the global economy and for the fiscal conditions of many emerging markets.

Source: Janus Henderson Investors, as at 30 June 2021

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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	6.3	3.1	3.2	1st	-	-
YTD	8.9	6.5	6.6	1st	-	-
1 year	29.4	26.4	28.3	2nd	-	-
3 years (annualised)	9.9	10.0	9.6	2nd	-	-
5 years (annualised)	10.1	12.7	11.7	4th	11.1	14.9
10 years (annualised)	5.5	6.2	5.7	3rd	6.5	8.4
Since inception 27 Feb 1987 (annualised)	7.5	-	-	-	8.4	-

Source: at 30 Jun 2021. © 2021 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 2020 to 30 Jun 2021	29.4	26.4	28.3	30.6	29.0
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

Source: at 30 Jun 2021. © 2021 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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