

Janus Henderson UK & Irish Smaller Companies Fund

Quarter 3 2019

For promotional purposes

Fund Manager Name: Neil Hermon

Macro backdrop

UK equity markets continued to rise in the third quarter. Boris Johnson won the Conservative Party leadership contest and was installed as Prime Minister. The government's main policy is to exit the EU by 31 October 2019 which was a driver in sterling's depreciation during the period. Elsewhere the US Federal Reserve cut base rates in what was deemed a "mid-cycle adjustment to policy" which dampened investor's hopes of a more aggressive cycle of monetary easing. Stalling trade negotiations between the US and China, in conjunction with deteriorating economic data and flattening yield curves, increased recessionary fears. Towards the period end an increase in bond yields sparked a rotation towards cyclical and value stocks and away from quality and growth stocks. The FT All Share (total return) Index rose 1.2%. Smaller companies underperformed their larger counterparts.

Fund performance and activity

The fund returned 0.2% over the quarter, compared to the Numis Sub-£1bn ex Investment Companies Index, which returned -1.7%, while the IA UK Smaller Companies peer group returned -1.4%.

Positive contributors to performance included Paragon, a lender operating in the buy-to-let and other specialist markets, which rose 11.7% as investor appetite for value stocks increased. Learning Technologies, an e-learning services and technologies company, rose 16.8%, as the shares benefited from a positive trading statement in July. Ultra Electronics, a defence electronic products group, rose 23.4%, after the company reported strong interim results which showed a return to positive organic sales growth.

On the negative side Smart Metering Systems, a provider of smart metering for the UK electricity and gas markets, fell 24.3% after the company reported that it had installed fewer than expected meters. Sanne, a provider of administration services for alternative asset managers, fell 22.2% due to an unexpected profits warning caused by increased costs and declining revenues in its smallest division, corporate and private client. The share price reaction was magnified by the fact that the company had only recently hosted a positive and upbeat capital markets day. Clinigen, a specialist pharmaceutical group, fell 14.2% due to a negative broker note and small downgrades at its full-year results despite an announcement in July that the board was confident of hitting expectations for the year.

In terms of activity, we initiated a position in Liontrust, a boutique asset management company. The company is seeing strong asset flows which we think will continue to benefit from structural trends in SRI investing, where the company has an established franchise. We also initiated a position in Volution, an international ventilation products business. The shares look very attractive after recent underperformance, and financial performance is set to improve with the benefit of recent acquisitions and efficiency improvements at its Reading factory. We initiated a position in Frontier Developments, a gaming software developer. The company is well placed to benefit from its growing list of successful titles and the predictions for its latest game, Planet Zoo, are promising.

We disposed of our investment in Xaar, a printing technology business, after the company announced that it could not find a buyer for its thin film business and would close the operation.

Janus Henderson UK & Irish Smaller Companies Fund

Outlook/strategy

The UK economy is flirting with recession. Brexit deliberations stumble on, with intermittent progress. There is clearly a range of outcomes but what deal, if any, the UK will end up with is, at this point, unclear. Extra complication is added by the weak position of the minority Conservative Party government and that Boris Johnson has replaced Theresa May as Prime Minister. This political uncertainty is likely to weigh on consumer and business confidence and delay and postpone investment and purchasing decisions, further dampening economic growth.

Outside the UK, economic conditions are robust, but slowing. Europe in particular is showing signs of economic slowdown. Escalating trade tensions are providing additional negative commentary and after what seemed to be good progress between the US and China, recent rhetoric and actions have seen an increase in the volatility of relations between the two countries. The rise in US interest rates in 2018 flagged to investors that loose global monetary conditions were reversing. However, commentary from the Federal Reserve has softened recently and the expectation is that there will be further cuts in US rates in 2019.

In the corporate sector, conditions are intrinsically stronger than they were during the financial crisis of 2008-2009. Balance sheets are more robust and dividends are growing. In addition, a large proportion of UK corporate earnings come from overseas, even among smaller companies, and should be boosted by the relative weakness of sterling.

In terms of valuations, the equity market is now trading below long-term averages. Merger and acquisition (M&A) activity remains a supportive feature for the smaller companies area. If corporate confidence does not deteriorate, M&A will likely increase, especially as little or no return can currently be generated from cash and the cost of debt is historically low. We have seen interest in UK corporates from abroad and from private equity, and given the relatively low valuation of UK equities and a weak currency, we expect this trend to continue. However, a return to a more vibrant M&A market depends on a Brexit resolution and clarity around the UK's trading position with Europe and the rest of the world.

Source: Janus Henderson Investors, as at 30 September 2019

Benchmark information

Index benchmark: Numis Sub-£1bn ex Investment Companies Index

Index benchmark usage: Comparator

The Numis Sub-£1bn ex Investment Companies Index is a measure of the combined performance of smaller companies (the bottom 10%) listed on the London Stock Exchange excluding investment companies and companies with a market capitalisation greater than £1bn. It provides a useful comparison against which the Fund's performance can be assessed over time.

Sector benchmark: IA UK 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	-6.1	-9.9	-7.1
30 Sep 2017 to 30 Sep 2018	3.2	3.1	10.5
30 Sep 2016 to 30 Sep 2017	19.3	21.4	25.2
30 Sep 2015 to 30 Sep 2016	0.6	9.5	8.1
30 Sep 2014 to 30 Sep 2015	5.4	6.2	11.8

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.

Janus Henderson UK & Irish Smaller Companies Fund

Important Information

This document is intended solely for the use of professionals, defined as Eligible Counterparties or Professional Clients, and is not for general public distribution. 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. Tax assumptions and reliefs depend upon an investor's particular circumstances and may change if those circumstances or the law change. If you invest through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially. Nothing in this document is intended to or should be construed as advice. This document is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment. Any investment application will be made solely on the basis of the information contained in the Prospectus (including all relevant covering documents), which will contain investment restrictions. This document is intended as a summary only and potential investors must read the prospectus, and where relevant, the key investor information document before investing. We may record telephone calls for our mutual protection, to improve customer service and for regulatory record keeping purposes.

The Custodian in Spain is BNP PARIBAS SECURITIES SERVICES S.C.A.

Issued in Europe by Janus Henderson Investors. Janus Henderson Investors is the name under which investment products and services are provided by Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), AlphaGen Capital Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no. 2606646), (each registered in England and Wales at 201 Bishopsgate, London EC2M 3AE and regulated by the Financial Conduct Authority) and Henderson Management S.A. (reg no. B22848 at 2 Rue de Bitbourg, L-1273, Luxembourg and regulated by the Commission de Surveillance du Secteur Financier).

[Janus Henderson, Janus, Henderson, Perkins, Intech, Alphagen, VelocityShares, Knowledge. Shared and Knowledge Labs] are trademarks of Janus Henderson Group plc or one of its subsidiaries. © Janus Henderson Group plc.