COMMENTARY

Janus Henderson Pan European Fund

October 2019

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For professional investors only

Fund manager names: John Bennett

Overview

Our thesis of poor current macroeconomic conditions but upwards-inflecting lead indicators received confirmation this past month. The US manufacturing purchasing managers' index (PMI) new orders series rose for the second consecutive month and China's Caixin manufacturing PMI new orders improved to the highest level since January 2013. In the eurozone, the PMI new orders to inventories series topped 1.0x for the first time in a year. There is a clear positive leading relationship between eurozone M1 money growth and the PMI, with the former leading by nine months. This curve points to an imminent rebound in PMIs. Positive money creation surprises also came from the US and China over the last few weeks. Further, there is a good historic positive relation between Chinese new export orders and the eurozone PMI with the former leading by three months, again implying a rise in PMIs in the near-term. The global PMI inventory series has been declining since early 2018 and sharply accelerated its fall in 2019. The level reached now suggests that an end to de-stocking should be dead ahead. Should the present trade truce between the US and China hold and Brexit turn out soft (ie. the economy be left to its own devices), we believe it will do just fine climbing out of the hole of the industrial recession of the past year.

This top-down view is backed up on the company-specific level from our numerous interactions with top managements within our portfolio of company holdings. We see far advanced inventory de-stocking dynamics across the semiconductor value chain, pulp and packaging, short cycle industrial consumables, auto parts and even steel. Notably, fewer cyclical companies surprised negatively during the third quarter reporting season – not just fewer than in prior quarters, but far fewer than the stock market was positioned for. Cyclical stocks are in the re-rating phase. Their earnings expectations will likely eventually turn upwards too, but as usual they are a lagging indicator.

Consequently, we continue to bullishly position the fund towards the cyclical end. The ideas driving this positioning are our highest conviction idiosyncratic stock picks. The common trait of all these investment cases is strong management teams demonstrating unwavering focus on shareholder value creation, backed by strong balance sheet sheets. We firmly believe that meeting with the management teams of these companies is among the best uses of our time. During October, we had very good meetings with a number of our largest ideas, among them LafargeHolcim, UPM-Kymmene, STMicroelectronics and Dometic.

Performance and activity

The fund rose by 1.5% over the month compared with a rise of 0.9% in the benchmark index, MSCI Europe.

On the positive side the fund benefited from its information technology allocation. STMicroelectronics's optimism on its third quarter earnings call was supportive for the entire semiconductors space but also highlighted the company's strong specific investment case. From the same sector SAP was also among the top contributors. We increased our position in both names. Kion, the largest manufacturer of industrial trucks in Europe and a global leader in automation technology, was also among the top positive contributors as it reported solid results. Encouragingly, order strength was not just warehouse automation but forklift trucks on account of the company's often-ignored defensive nature. Full-year 2019 guidance was confirmed and we expect more to come in 2020. In spite of major headwinds (US recreational vehicle demand and Chinese import tariffs) Swedish manufacturer of equipment for recreational vehicles and boats Dometic performed well as the ongoing restructuring programme offset both the cycle and the tariff headwinds.

Poor performers included health technology company Philips which issued a third quarter profit warning on margins and we trimmed our position. Mid cap Italian engineer Interpump also lagged, not immune to the cycle and the sharp deterioration of its end markets.

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Activity included the introduction of DIY group Kingfisher. While the 'big box' DIY concept is under pressure in both its major markets – the UK and France – the new management team has an opportunity to extract value from its bloated inventory position, freehold assets, renegotiation of its leasehold liabilities and repairing the substantial self-harm inflicted in France through the failed project management of the 'One Kingfisher' plan under previous management. Following a meeting with its management we took a position in Volvo based on its attractive quality near the bottom of the cycle, strong management and potential for structural improvement. We also added Swedish industrial Sandvik as the stock is trading at big discount to the capital goods sector despite continuing improved resilience to the cycle and we believe the stock should re-rate to quality cap goods levels. To make way for these purchases we sold mining names BHP and Rio Tinto and disposed of Pernod Ricard and AB Foods following disappointing performance.

Outlook

As ever, our emphasis remains on stock selection based on bottom-up analysis.

Source: Janus Henderson Investors, as at 31 October 2019

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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.

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