COMMENTARY

Janus Henderson Global Technology Leaders Fund

Q3 2021 **For promotional purposes**

Fund Managers Names

Graeme Clark, Alison Porter, Richard Clode, CFA

Macro backdrop

The third quarter saw another strong earnings season in the technology sector. The Covid-19 Delta variant raised questions around the timing of economic re-openings around the world and added to supply chain concerns across the global economy. A rise in the US 10-year Treasury yield (meaning falling prices) adversely impacted higher valuation and longer duration companies within the technology sector and drove a rotation towards what were perceived to be more reasonably valued names in the sector. Meanwhile, a broad and severe regulatory crackdown by the Chinese government had a material impact on valuations of companies in that market.

Fund performance and activity

The fund returned 0.4% over the month compared with 2.1% in the composite MSCI ACWI Information Technology Index and MSCI ACWI Communication Services Index, and 1.2% in the IA Technology and Telecommunications peer group benchmark.

At the stock level, our exit from Tencent earlier in the year continued to benefit relative fund performance given the ongoing underperformance of the Chinese internet sector due to renewed regulatory concerns. Ambarella also contributed positively to performance as the company's computer vision traction continued to build, notably in automotive, leading to very strong results that were welcomed by the market. ASMI also contributed positively to performance as it headed into its inaugural investor day - the company's strong atomic layer deposition outlook and franchise was being increasingly appreciated by investors.

Alibaba continued to underperform given renewed regulatory concerns, a slowing Chinese economy and fears that Evergrande's problems would spread to the wider financial system. Despite strong memory pricing and results, Hynix detracted from performance as memory stocks underperformed given concerns around weaker future demand and customer inventory builds exacerbated by other component shortages. GDS also adversely impacted performance during the quarter as its shares participated in the broader sell-off of Chinese American depositary receipts (ADRs) in response to the Chinese government's broad regulatory crackdown.

We initiated a number of new positions in the quarter including Tencent, where we reinitiated a position given the significant fall in its share price and our assertion that the business model and franchise of the company will not be overly impacted by the latest rounds of regulation. We also initiated new positions in Ericsson, where the company has established a lead in 5G radio access technology as the deployment of 5G radio equipment is inflecting around the world. We also initiated a position in Vertiv, which provides power management tools for data centres and cloud hyperscalers. Vertiv provides intelligent products that can ease the transition to renewable energy use. We also initiated a position in SolarEdge, a micro inverter company that has been enabling the shift to renewable for both consumer and commercial settings, where recent share price deviation created what we saw as an attractive relative valuation opportunity.

We exited several positions during the quarter including Activision, as rising ESG concerns and poor engagement led to us exiting the stock - with the State of California lawsuit being the final straw. We also exited our positions in GDS as we sought to mitigate exposure to China in the face of an unpredictable regulatory backdrop. We exited our position in Rackspace after its second quarter results and forward-looking guidance highlighted continued gross margin pressure from lower-margin contracts, which was expected to continue in the mid-term. Finally, we exited our position in Ringcentral as we found more attractive risk/reward opportunities elsewhere in technology.

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Outlook/strategy

The global pandemic accelerated the pace of digital transformation across all demographics and all geographies. While we expect that digital transformation to be ongoing and have lasting effects, we do not expect the pace of adoption to continue at the rate we witnessed in 2020. We are witnessing unparalleled supply chain shortages where sales growth in several technology verticals from high end PCs to electric vehicles are being dictated by supply availability rather than demand. While we view these supply constraints from raw materials and semiconductor chips as transitory, we do view this as medium term (6- 12 months and lasting into 2022) rather than a short-term issue. Broadly we expect the liquidity backdrop to remain favourable and fiscal support for infrastructure with more strategic intent for a greener and more inclusive economy to be forthcoming.

The acceleration of technology adoption will require ongoing future investment in infrastructure as we move towards a steadier work environment. Payment digitisation will be further spurred by ongoing migration of commerce and business to consumer, government to consumer, and business to business moving further online. Consumer-related experiences continue to migrate to a virtual setting with a broadening of our internet transformation theme to areas such as education, e-sports, primary health care, grocery shopping and social meetings setting the stage for a long-term access to "the metaverse". As society moves towards a new normal for hybrid work and home working, and digital transformation becomes more of a choice than a necessary behaviour, the benefits of technology we believe will become more apparent from greater flexibly for workers, more convenience for families, greater efficiency for businesses, and more accessibility for students and patients - as well as benefits to environment through the low carbon economy. Next-generation infrastructure is a key focus for the fund as we believe the broadening adoption of technology by consumers and businesses will require an acceleration of investment to ensure scalable, seamless, fast and reliable connectivity.

As technology fund managers we are excited by the step change that has occurred since the pandemic began and the digital transformation that many more industries are now undergoing. However, we remain cognisant of the rapid acceleration in valuations in some segments of the sector over the last year. While this has unwound to some degree, in recent months we do still see vulnerability to a further normalisation in interest rates for those companies where profitability remains a distant potential and where valuation is not underpinned by cash flow expectations. We continue to invest in companies where we see unappreciated earnings power - unappreciated in terms of strength and sustainability or growth and also in terms of the what the valuation already reflects. We continue to see a bifurcation in valuations within the sector that is extreme by historical standards. This reflects the increasing diversity of the sector but also some short-term hype that warrants select caution.

We remain focused on the global technology leaders of today and companies with the potential to be the leaders of tomorrow. We believe the fund remains well positioned to benefit from the long-term secular trends of internet transformation, payment digitisation, artificial intelligence, next-generation infrastructure and process automation. Our investment process gravitates to high quality technology companies with strong cash flows and balance sheets while aiming to maintain the highest standard of liquidity controls. We remain consistent in applying our unique approach of navigating the hype cycle, applying valuation discipline and identifying attractive growth/valuation combinations. We will continue to engage proactively with our companies on their role in being responsible disruptors and generating value for all stakeholders.

Source: Janus Henderson Investors, as at 30 September 2021

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Fund information

Index	MSCI ACWI Information Technology Index + MSCI ACWI Communication Services Index
Index usage	Target,Comparator

The MSCI ACWI Information Technology Index + MSCI ACWI Communication Services Index is a measure of the combined performance of large and medium sized information technology and communication services companies from developed and emerging stock markets around the world. It is the performance target for the Fund and provides a useful comparison against which the Fund's performance can be assessed over time.

Peer group benchmark	IA Technology and Technology Innovations
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 capital growth over the long term.
Performance target	To outperform the MSCI ACWI Information Technology Index + MSCI ACWI Communication Services Index, after the deduction of charges, over any 5 year period.

Performance in (GBP)

Performance %	I (Net)	Index	Peer group	Quartile ranking
1 month	-3.1	-3.7	-3.3	2nd
YTD	12.9	14.7	11.8	2nd
1 year	24.0	24.9	25.7	3rd
3 years (annualised)	21.0	20.8	23.1	3rd
5 years (annualised)	23.5	23.1	22.2	3rd
10 years (annualised)	20.8	21.9	19.3	3rd
Since inception 08 Oct 1984 (annualised)	14.8	-	11.8	-

Source: at 30 Sep 2021. 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
30 Sep 2020 to 30 Sep 2021	24.0	24.9	25.7
30 Sep 2019 to 30 Sep 2020	32.2	29.1	34.8
30 Sep 2018 to 30 Sep 2019	8.1	9.3	10.2
30 Sep 2017 to 30 Sep 2018	27.5	26.8	21.6
30 Sep 2016 to 30 Sep 2017	27.2	26.3	20.0

Source: at 30 Sep 2021. 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.

From 1 July 2020, the fund name changed from Janus Henderson Global Technology Fund to Janus Henderson Global Technology Leaders Fund.

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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