

Janus Henderson UK Absolute Return Fund

October 2019

For promotional purposes

Fund Managers Names: Ben Wallace & Luke Newman

Macro backdrop

October saw a busy earnings season drive a number of individual share price movements, while efforts to break the Brexit stalemate and a continuing growth/value grapple created volatility at the wider market level. The UK government yet again failed to pass its latest EU withdrawal bill which - after prolonged wrangling - resulted in a General Election date being agreed for 12 December. Sterling rallied strongly on the expectation for the return of a parliamentary majority for the ruling Conservative Party, however continued uncertainty persists.

Fund performance and activity

While corporate earnings in Europe and the US were broadly in-line with market expectations, the high hurdle set for a number of well-owned growth stocks meant that a material earnings beat was needed to see positive share price moves on results day. Meanwhile, downgrades in more cyclical value-orientated names were absorbed into already-depressed valuations. As with the more pronounced growth/value rotations in August and September, we sought to maintain flexibility towards factor risks, as some of the long book's quality growth names such as Nestle, Orsted and Danone gave back some of their recent strong performance. This was counterbalanced by the Core long positions in strong sterling beneficiaries Land Securities, Capita, Legal & General and Next.

Elsewhere, attribution was more stock specific. The long position in housebuilder Bellway disappointed as its management team moderated its margin guidance. However, this was offset by a short position in a more London-centric, higher average selling price housebuilder, where management surprised the market with a material lowering of guidance. Also within the short book, a position in a French advertising agency contributed following a profit warning citing ongoing margin pressure and contract losses. Conversely, it was pleasing to see a second sequential quarterly profit beat from rival WPP, where the fund has a long position, despite facing the same macro pressures.

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Outlook/strategy

There are a number of outstanding issues to contend with before we reach the end of the year. First on the agenda; will the incumbent Conservative Party win the General Election by enough margin to subsequently force through their EU withdrawal bill? The myriad issues currently driving party politics, combined with the potential for tactical voting, all have an unpredictable effect on the UK's first-past-the-post electoral system, meaning there are a number of plausible alternate scenarios as to both the make-up of any new government and the direction of Brexit. The persistent valuation discount means we remain positive on UK domestics. However, the likelihood of prolonged volatility in sterling and share prices means we remain patient with both the long and short book, and will seek to use this volatility over the course of the next month to incrementally build positioning in our target list of attractive names.

Source: Janus Henderson Investors, as at 31 October 2019

Benchmark information

Index benchmark: UK Base Interest Rate

Index benchmark usage: Target, Comparator

The UK Base Interest Rate is the interest rate set by the Bank of England. It is the performance target of the Fund and it provides a useful comparison against which the Fund's performance can be assessed over time.

Discrete year performance % change	I Acc	Index
30 Sep 2018 to 30 Sep 2019	0.1	0.7
30 Sep 2017 to 30 Sep 2018	0.8	0.5
30 Sep 2016 to 30 Sep 2017	2.4	0.2
30 Sep 2015 to 30 Sep 2016	5.2	0.5
30 Sep 2014 to 30 Sep 2015	6.4	0.5

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.

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