Janus Henderson INVESTORS

HORIZON CHINA OPPORTUNITIES FUND

At a glance

Performance*
The Fund returned −5.46%, the Index returned −5.79% and the Sector returned −9.10%.

Contributors/detractors
Key contributors included Industrial and Commercial Bank of China and China Mengniu Dairy, while holdings in Lenovo and Naura Technology detracted from performance.

Outlook
China's transition towards innovation-led economic growth is reshaping its equity market and widening the gap between corporate winners and losers. We believe this supports the case for active stock selection.

Portfolio management



Victoria Mio, CFA

Investment environment

- Artificial intelligence (AI)-related concerns weighed on Chinese equities, while third-quarter GDP expansion of 4.5% year on year was stronger than expected. The Chinese economy continued to be supported by exports and industrial activity, although subdued retail demand and property market softness indicated sustained headwinds to domestic demand.
- China has implemented corporate governance reforms and capital market reforms to improve long-term value for investors, with greater emphasis on dividends, share buybacks, capital efficiency and corporate governance. Moreover, China's value up theme, with the use of administrative rules by regulators, relending facilities from the People's Bank of China, and support from Central Huijin Investment (China's sovereign fund), has the potential to act as a catalyst for a re-rating of the broader market, along with more sustainable shareholder returns over the long run.
- We think state-owned companies could see the highest total shareholder returns via dividends and share buybacks, followed by the financial, energy and utilities sectors. At the same time, we prefer high-yield sectors in Hong Kong, where H-shares are trading at a considerable discount to A-shares.
- We believe export-focused AI firms could underperform their domestic counterparts due to a number of factors, such as a slowdown in the AI capital expenditure (capex) growth rate in the US, higher interest rates (and balance sheet pressures facing hyperscalers), as well as uncertainty about the US's trade policy and data-centre development following the midterm elections. On the other hand, we see better prospects for domestic firms, notably semiconductor equipment manufacturers, due to lower funding costs, rapid capex growth and policy support to achieve self-sufficiency in the AI ecosystem.

Portfolio review

Key contributors to fund performance included Industrial and Commercial Bank of China (ICBC) and China Mengniu Dairy. Shares in ICBC, the largest bank in China, rose after it posted strong third-quarter results, with net profit and net interest income increasing 10% and 9.6% year on year respectively. China's largest banks have reported healthy profit growth, largely due to stabilising net interest margins and as non-performing loan ratios have flattened.

Marketing communication
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*For benchmark and sector, if applicable, refer to Fund details on page 3. For relevant descriptions, risks and the Fund's investment policy statement, refer to Additional fund information on page 4.

Signs of a sustained recovery in farmgate prices lifted shares in the dairy industry, as contract raw milk prices registered year-on-year growth in July for the first time in nearly five years. Mengniu Dairy benefited from higher prices and an operational turnaround, and the company delivered strong first-half performance, with revenue and net profit expanding by 7.8% and 15.9% compared with the prior-year period. We were also encouraged by its efforts to diversify into other sectors, such as cheese and instant formula.

Key detractors included Lenovo and Naura Technology. Shares in Lenovo, a global manufacturer of personal computers (PC) and AI servers, fell due to a combination of profit-taking and concerns around slowing PC demand and the sustainability of AI spending, particularly from neocloud customers (new AI cloud providers). The shares had previously advanced strongly, supported by the company's strong growth of AI-related revenue.

Naura Technology, a state-owned semiconductor equipment manufacturer, was another notable detractor, as its shares fell broadly in line with the technology sector. Weaker-than-expected third-quarter results and management's conservative guidance (forecasts) regarding supply-chain constraints also dampened investor sentiment. Nevertheless, our conviction in the holding remained intact, as we were encouraged by its strong operating cash flow and extensive product portfolio.

During the month, we initiated a position in CGN Power, a nuclear power stations operator, where we continue to expect higher nuclear power prices. The successful commissioning of two new nuclear facilities (Huizhou and Cangnan) also reinforced our positive outlook for the company. We reinitiated a position in Shenzhen Mindray Bio-Medical Electronics, a medical technology manufacturer in China. The company has built its overseas business through a combination of organic growth and mergers and acquisitions (M&As) over the years, which accounts for more than 50% of its revenue. On the domestic front, we believe the prospect of a cyclical recovery in the industry could lead to earnings improvement for the company.

Elsewhere, we took some profits in WuXi AppTec, China Shenhua Energy and HSBC following a rally in their share prices.

Manager outlook

China's stock market remains undervalued compared with the US, Japanese and European markets, despite relatively attractive valuations, distinct economic drivers and a portfolio diversification opportunity. In our view, this merits a strategic, rather than a tactical, allocation in a diversified global equities portfolio.

Exposure to Chinese stocks offers portfolio diversification benefits because the factors that drive its macroeconomic backdrop (such as government policy, liquidity, economic cycles and domestic investor behaviour) diverge structurally from developed markets. For example, inflation rates are below desired levels, while weaker domestic demand and greater scope for monetary and fiscal support may lead to divergent performance relative to developed market benchmarks.

China's growth model is evolving towards technology, healthcare innovation, advanced manufacturing and new consumption shifts, creating new sources of structural growth. Therefore, the country offers investors exposure to a deepening innovation ecosystem, improving policy support for capital markets and potential upside due to persistent investor under-allocation.

We hold an overweight position in the "value up" theme, which captures companies turning cash flow into shareholder returns. Regulators have tied dividends and buybacks to listing, refinancing and state-owned company assessments, and A-share dividends reached a record of about RMB 2.4 trillion in 2025, with the payout ratio rising to about 45%. Yet the CSI Dividend Index was still trading at 0.86x book value with a 4.21% yield, against a 1.68% yield on the 10-year government bond (all at the time of writing). We see this as a potential source of income that may help cushion volatility in our growth holdings, with potential for re-rating if payouts continue to rise.

While risks remain, notably a depressed property sector, a cautious consumer backdrop, deflationary pressures, geopolitics, regulation and policy execution, China's economic transition is creating new growth drivers and wider sector and stock dispersion, strengthening the case for active stock selection.

China's 15th five-year plan signals a strategic pivot to quality growth via technology innovation and self-sufficiency, consumption-led growth and national security resilience. As such, we believe investing in China today requires a new playbook and demands greater awareness of the country's policy priorities.

As such, the structural shift from quantity-led growth to quality-led growth is driving greater divergence in company performance. This has created a more pronounced 'K-shaped' market that is widening the gap between the winners and losers. These conditions call for heightened security selection, which we believe requires local market intelligence and bottom-up fundamental analysis.

We continue to focus on companies with improving corporate fundamentals and what we see as stronger potential for shareholder returns, trading at reasonable valuations.

Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (25/01/08)
A2 USD (Net)	-5.46	-9.26	-9.49	-10.08	8.26	-5.72	1.06	3.13
Index	-5.79	-10.03	-13.18	-15.32	9.83	-2.95	3.89	3.05
Sector	-9.10	-12.59	-13.77	-15.54	8.13	-5.75	2.36	1.58
A2 USD (Gross)	—	—	—	—	—	-3.92	2.99	5.12
Target	—	—	—	—	—	-0.52	5.53	3.91

12 month rolling	Sep 2025-Sep 2026	Sep 2024-Sep 2025	Sep 2023-Sep 2024	Sep 2022-Sep 2023	Sep 2021-Sep 2022
A2 USD (Net)	-9.24	31.75	8.75	-1.76	-35.45
Index	-12.86	27.47	21.68	3.76	-33.08
Sector	-10.21	28.07	16.09	-2.83	-35.23

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Note that any differences among portfolio securities currencies, share class currencies and costs to be paid or represented in currencies other than your home currency will expose you to currency risk. Costs and returns may increase or decrease as a result of currency and exchange rate fluctuations.

Investment objective

The Fund aims to provide capital growth over the long term. Performance target: To outperform the MSCI Zhong Hua 10/40 Index by 2.5% per annum, before the deduction of charges, over any 5 year period.

For the fund's investment policy, refer to the Additional fund information on page 4.
Past performance does not predict future returns.

Fund details

Inception date	25 January 2008
Total net assets	54.11m
Asset class	Equities
Domicile	Luxembourg
Structure	SICAV
Base currency	USD
Index	MSCI Zhong Hua 10/40 Index
Morningstar sector	China Equity

Additional fund information

Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records/scenarios are detailed within the fund's specific KIID/KID; fees and charges, and the respective risk rating may vary. Further information can be found in the fund's prospectus and KIID/KID, which must be reviewed before investing. Please consult your local sales representative and/or financial adviser if you have any queries. From 1 July 2020, the Fund's benchmark changed from MSCI China Index to MSCI Zhong Hua 10/40 Index, the Fund's investment policy and performance target also changed. Past performance shown before 1 July 2020 was achieved under circumstances that no longer apply. This is a Luxembourg SICAV Fund, regulated by the Commission de Surveillance du Secteur Financier (CSSF). These are the views of the author at the time of publication and may differ from the views of other individuals/teams at Janus Henderson Investors. Any securities, funds, sectors or indices mentioned within this article do not constitute or form part of any offer or solicitation to buy or sell them. The information in this commentary does not qualify as an investment recommendation. Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.

Investment policy

The Fund invests at least 80% of its assets in shares (equities) of companies, of any size, in any industry, in China or Hong Kong. Companies will have their registered office in or do most of their business (directly or through subsidiaries) in this region. The Fund may invest up to 50% of its assets in China A-Shares. The Investment Manager may use derivatives (complex financial instruments) to reduce risk or to manage the Fund more efficiently. The Fund may also invest in other assets including companies outside this region, investment grade bonds (including convertible bonds), cash and money market instruments. The Fund is actively managed with reference to the MSCI Zhong Hua 10/40 Index, which is broadly representative of the companies in which it may invest, as this forms the basis of the Fund's performance target. The Investment Manager has discretion to choose investments for the Fund with weightings different to the index or not in the index, but at times the Fund may hold investments similar to the index.

Investment strategy

The Investment Manager seeks to identify companies that can generate unexpected earnings growth, at both an industry and stock level, not yet recognised by the broader market. These companies will typically operate in markets that the Investment Manager believes to offer sustainably high levels of growth at a reasonable price.

Fund specific risks

Shares can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result. The Fund follows a growth investment style that creates a bias towards certain types of companies. This may result in the Fund significantly underperforming or outperforming the wider market. Emerging markets expose investors to higher volatility and greater risk of loss than developed markets; they are susceptible to adverse political and economic events, and may be less well regulated with less robust custody and settlement procedures. The Fund may invest in China A-shares via a Stock Connect programme. This may introduce additional risks including operational, regulatory, liquidity and settlement risks. High exposure to a particular country or geographical region carries a higher level of risk than a more broadly diversified portfolio. Derivatives may be used with the aim of reducing risk or managing the portfolio more efficiently. However, this introduces other risks, in particular, that a derivative counterparty may not meet its contractual obligations. If the Fund holds assets in currencies other than the base currency of the Fund, or you invest in a share/unit class of a different currency to the Fund (unless hedged, i.e. seeks to mitigate exchange rate movements between the share/unit class currency and the base currency of the Fund), the value of your investment may be impacted by changes in exchange rates. Securities could become hard to value or to sell at a desired time and price, especially in extreme market conditions when asset prices may be falling, increasing the risk of investment losses. Losses could be incurred if a counterparty became unwilling or unable to meet its obligations, or as a result of failure or delay in operational processes or the failure of a third party provider.

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