COMMENTARY

# Janus Henderson Horizon China Fund

December 2019

## **Fund Managers Names:** Charlie Awdry, CFA & May Ling Wee, CFA

## Macro backdrop

Chinese equity markets rallied in December on the back of further signs of an improving economic cycle as shown by the Caixin purchasing managers' index (PMI) survey of manufacturing activity, a stronger yuan and, importantly, on rallies in the shares of mega capitalisation blue chip Chinese equities such as Tencent in Hong Kong and Alibaba in the US and Hong Kong. We are pleased to see investors finally recognising the "growth at a reasonable price" nature of these Chinese internet behemoths that has been out of investors' focus for a little while. If they continue to perform well this is likely to provide a bullish tailwind for Chinese equity markets.

## Fund performance and activity

In December the fund* rose 7.3% compared to the 8.3% rise in the benchmark MSCI China Index. In 2019 overall the fund rose 25.9% compared to a 23.5% increase in the benchmark MSCI China.

In December top stock contributors were Macau casino operators Sands China and Galaxy Entertainment, Chinese property developers Longfor Group and China Resources Land and energy companies CNOOC Ltd and China Oilfield Services Limited.

Detractors from performance included internet game live streaming broadcaster HUYA Inc, where competition is stepping up and we have reduced our exposure as a result, Hong Kong telecom and broadband internet supplier HKT Trust & HKT, and US-listed education company New Oriental Education, which did not rally along with the broader markets.

In terms of portfolio activity we followed the improving economic data and bought a basket of cyclical and relatively attractively priced shares including Anhui Conch Cement and diesel engine manufacturer Weichai Power. We also topped up our Macau casino positions. These were funded from further profit taking in growth names with elevated valuations and sentiment, some of which were in the onshore Ashare markets.

## Outlook/strategy

We are seeing a cyclical upswing in the Chinese economy as we head into the big Lunar New Year festival and welcome in the Year of the Rat. It may be driven by the possible agreement on trade between the US and China, it may be re-stocking, it may be driven by increased government investment spending. However, high frequency data from cyclical companies provide further evidence, in addition to manufacturing activity surveys.

We believe a highly active portfolio strategy is vital at these times. We continue to believe that investments in the financial sectors need to be highly selective and we are still avoiding the banking sector as it faces a lot more regulatory pressure and as bail outs and borrower's debt restructurings play out in the economy. We are seeing many "growth at a reasonable price" investment opportunities such as Macau casino operators and China has long been a place to find pockets of investible value such as in property developers (well capitalised ones only for our portfolios) and energy shares. As we write the Chinese yuan has broken through to the strong side of 7.0 to the US dollar which is a welcome development and a positive surprise that will help sentiment towards the Chinese equity asset class.

Source: Janus Henderson Investors, as at 31 December 2019

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* Gross of fees - gross of 5% initial sales charge. Calculated on a bid to bid basis, with gross income reinvested in USD.

Note: Reference to any specific company or stock is for information purposes only and should not be construed as a recommendation to buy or sell the same.

**Important information**



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