COMMENTARY

Janus Henderson Horizon Global Sustainable Equity Fund

Q2 2021

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Fund Manager Name

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Macro backdrop

It was another strong quarter for global equity markets with the MSCI World Index delivering a total return of 7.9% in US dollar terms. The first five months of this year have been dominated by the mean reversion and reflation trades with pro-cyclical and interest rate sensitive sectors outperforming. This trade reversed in June, however, as a subtle change in tone from central banks around inflation and the timing of rate rises, and a very strong earnings season, brought the focus back to growth stocks.

The news stories dominating the headlines during the quarter were President Biden's initiative for a minimum global corporation tax rate, a crackdown by the Chinese government on technology companies, cryptocurrency volatility, record breaking heatwaves in the US North West, and more infectious Covid-19 variants. To us, the most significant news flow over the quarter was in relation to climate action. The catch phrase to come out of the G7 meeting in Cornwall was 'Build Back Better' and central to that statement is the recognition that climate change mitigation and adaption, and protection of biodiversity, lie at the heart of achieving that. All G7 countries committed to deep emission reduction targets in the coming decade and to reach net zero carbon by 2050.

A few weeks before the G7 summit the International Energy Agency (IEA) published a special report containing the world's first comprehensive study of how to transition to a net zero energy system by 2050 while ensuring stable and affordable energy supplies, providing universal energy access, and enabling robust economic growth. A step change in investment in clean technologies is required this decade with a fourfold increase in annual renewable energy investment and a twentyfold increase in electric car production. Overall, the IEA sees a requirement for $100 trillion in total clean energy investment over the next three decades. Whether Net Zero is achievable or not by 2050, one thing is certain: an enormous investment opportunity lies ahead of us. The investment logic for low carbon investing has never been stronger and we see a large and diverse opportunity set.

Fund performance and activity

The fund returned 8.4% over the quarter compared with a 7.7% return from the MSCI World Index benchmark in US dollar terms.

Having lagged for much of this year the information technology (IT) sector had a very strong end to the quarter as the market responded positively to the first quarter earnings season. Many technology companies reported strong growth and provided positive outlooks for the remainder of the year. The digitalisation trend is showing no signs of slowing down as the global economy recovers from the global pandemic. Our overweight stance towards the IT sector was beneficial to performance but good stock selection in consumer discretionary and industrials also contributed positively.

At the stock level the three largest positive contributors to performance were semi-conductor manufacturer Nvidia, creative software provider Adobe and water technology company Evoqua.

Nvidia has been a well-timed new addition for us. We initiated a position in the first quarter after a period of underperformance and since then the stock has been one of our top contributors. It reported a strong set of first quarter results with revenue growth of over 13%, and guided to much stronger than expected growth for the second quarter. Its datacentre business has been firing on all cylinders with the shift to cloud computing and as the adoption of hyperscale computing and Enterprise AI has strengthened demand further. Nvidia is successfully positioning itself as the platform for next-generation computing and its products are key to enabling its customers access the power of artificial intelligence and to improve the energy efficiency of computing.

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Adobe's first quarter results showed that its digital transformation growth story was far from over. It reported organic revenue growth of over 19%, demonstrating that its Creative and Document Clouds were not 'just' COVID-19 beneficiaries. In fact, its management sees design and creativity as never having been more important, with content consumption and digital engagement "going through the roof". It also serves several multi-billion dollar addressable markets that have continued to grow.

Evoqua Water Technologies was one of our industrial holdings that performed well in the quarter as its management reported strong growth in its services backlog. As a leading provider of technologies for the treatment and purification of water, Evoqua is exposed to multiple trends around the circular economy and water re-use and re-circulation, regulations around removal of toxins in drinking water, and environmental remediation. The increased emphasis on sustainability from large corporations, and the disruptive impacts of climate change on the water cycle, have also driven structural growth in demand.

The three largest detractors to performance over the quarter were rail and truck technology provider Knorr Bremse, post-acute care provider Encompass Health and electronic component manufacturer Murata.

Knorr Bremse declined in reaction to an announcement that the company was considering an acquisition of German automotive technology company Hella. Investors took a negative view on the strategic merits of the proposed deal, with no clearly identifiable synergies between the two companies. Shortly after the end of the quarter its management confirmed it was no longer considering the deal and the shares have recovered somewhat. Knorr Bremse has one of the world's leading franchises in the provision of critical components and systems for the rail and commercial vehicle industries and we like its exposure to themes such as electrification, urbanisation, investment in public transport systems, and regulation regarding safety and efficiency.

Encompass Health has lagged the market rise this year while investors wait for clarity on a strategic review of the business being undertaken by its management. The company has two main divisions - post-acute care and home health - and the management team does not believe the market is recognising the value of the home health division. The company continued to perform well, recording EBITDA growth of 10% and 110 basis points of margin expansion in the first quarter of this year.

Having had a very strong period of performance in the second half of 2020, shares in Murata have consolidated in the first half of this year as the company gave conservative earnings guidance for the coming year due to it not raising prices as much as expected. Similar to semiconductors, there is supply tightness in passive electric components such as multi-layer ceramic capacitors (MLCCs) and the company is exposed to increasing electrification of the global economy and 5G communications.

During the quarter we initiated four new positions which included home improvement retailer Home Depot, health care benefits manager Accolade, Chinese supply chain finance technology provider Linklogis and logistics real estate operator Prologis. To fund these new positions we made two full divestments of Getlink and Physicians Realty Trust and trimmed our holdings in Lam Research, Cadence Design, ASML, Equinix and Crown Castle. We also made additions to our holdings in IPG Photonics, Nvidia, Autodesk, Wabtec and DS Smith, all of which have been relative laggards this year and were trading at what we saw as attractive valuations.

Outlook/strategy

The recent IEA report 'Net Zero by 2050' highlighted that central to decarbonisation are electrification and an increase in energy efficiency. In a sustainable future, electricity will power activities from industrial manufacturing to personal transportation, and there are a diverse set of investment opportunities associated with electrification in every economic sector. The scale and pace of required investment is staggering and, combined with the recent political commitments at the G7 meeting, this reinforces our conviction that we are standing at the beginning of a transformational decade. A decade where we make a decisive break from a fossil analog global economic system to an electric digital system.

Earnings results in the first quarter of this year provided evidence that the digitalisation trend is showing no signs of slowing down as we recover from the global pandemic. Digital behaviour is becoming entrenched and we see the technology sector playing a key role in transforming our societies and our relationship with the environment for the better. Digital tools and services helped our societies and economies to carry on throughout the pandemic. They have a key role to play in helping us to break the link between our economic activity and our impact on natural capital. We also note that the IT sector is leading the charge in terms of environmental impact and decarbonisation by making huge strides in energy efficiency and direct procurement of renewable energy.

So, there is little change to our outlook aside from the fact that our conviction grows. We remain focused on digitalisation, electrification and decarbonisation and this continues to drive our investment decisions and portfolio construction. Our disciplined investment framework helps us to identify the companies that are playing a positive role in the transformation of the global economy towards a more sustainable footing. And we believe we can generate attractive investment returns by investing in these businesses - those with large growth opportunities, winning franchises, cultures of innovation and pricing power.

Source: Janus Henderson Investors, as at 30 June 2021

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Fund information

Index	MSCI World Index
Morningstar sector	Europe OE Global Flex-Cap Equity
Objective	The Fund aims to provide capital growth over the long term (5 years or more) by investing in companies whose products and services are considered by the investment manager as contributing to positive environmental or social change and thereby have an impact on the development of a sustainable global economy.

Performance in (USD)

Performance %	A2 (Net)	Index	Sector	Quartile ranking
1 month	3.0	1.5	0.0	1st
YTD	9.1	13.0	12.3	3rd
1 year	42.1	39.0	43.7	2nd
3 years (annualised)	-	-	-	-
5 years (annualised)	-	-	-	-
10 years (annualised)	-	-	-	-
Since inception 29 May 2019 (annualised)	30.2	21.8	20.0	-

Source: at 30 Jun 2021. © 2021 Morningstar. All rights reserved, 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 %	A2 (Net)	Index	Sector
30 Jun 2020 to 30 Jun 2021	42.1	39.0	43.7
30 Jun 2019 to 30 Jun 2020	15.7	2.8	-3.2
30 Jun 2018 to 30 Jun 2019	-	-	-
30 Jun 2017 to 30 Jun 2018	-	-	-
30 Jun 2016 to 30 Jun 2017	-	-	-

Source: at 30 Jun 2021. © 2021 Morningstar. All rights reserved, 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.

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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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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The Janus Henderson Horizon Fund (the "Fund") is a Luxembourg SICAV incorporated on 30 May 1985, managed by Henderson Management S.A. Issued by Janus Henderson Investors. Janus Henderson Investors is the name under which investment products and services are provided by Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Equity Partners Limited (reg. no.2606646), (each registered in England and Wales at 201 Bishopsgate, London EC2M 3AE and regulated by the Financial Conduct Authority) and Henderson Management S.A. (reg no. B22848 at 2 Rue de Bitbourg, L-1273, Luxembourg and regulated by the Commission de Surveillance du Secteur Financier).

A copy of the Fund's prospectus, key investor information document, articles of incorporation, annual and semi-annual reports can be obtained free of cost from the local offices of Janus Henderson Investors: 201 Bishopsgate, London, EC2M 3AE for UK, Swedish and Scandinavian investors; Via Dante 14, 20121 Milan, Italy, for Italian investors and Roemer Visscherstraat 43-45, 1054 EW Amsterdam, the Netherlands. for Dutch investors; and the Fund's: Austrian Paying Agent Raiffeisen Bank International AG, Am Stadtpark 9, A-1030 Vienna; French Paying Agent BNP Paribas Securities Services, 3, rue d'Antin, F-75002 Paris; German Information Agent Marcard, Stein & Co, Ballindamm 36, 20095 Hamburg; Belgian Financial Service Provider CACEIS Belgium S.A., Avenue du Port 86 C b320, B-1000 Brussels; Spanish Representative Allfunds Bank S.A. Estafeta, 6 Complejo Plaza de la Fuente, La Moraleja, Alcobendas 28109 Madrid (Registered in Spain under CNMV 353. The Custodian in Spain is BNP PARIBAS SECURITIES SERVICES S.C.A.); Singapore: Singapore Representative Janus Henderson Investors (Singapore) Limited,138 Market Street, #34-03/04 CapitaGreen, Singapore 048946; or Swiss Representative BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich who are also the Swiss Paying Agent. RBC Investor Services Trust Hong Kong Limited, a subsidiary of the joint venture UK holding company RBC Investor Services Limited, 51/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, Tel: +852 2978 5656 is the Fund's Representative in Hong Kong.

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