

Janus Henderson Horizon Japan Opportunities Fund

Q3 2021

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Fund Manager Name

Junichi Inoue

Macro backdrop

The global equity market was almost flat in the third quarter with investors concerned about the outlook for global growth amid inflationary pressure, supply-chain bottlenecks and China regulatory risks. The likelihood of central banks tapering monetary support also weighed on sentiment. The Japanese market outperformed other developed markets as investors found out that a recovery of corporate profit was as fast as other major economies. Political visibility also improved ahead of the general election in late October as LDP's support ratio rebounded after Mr. Kishida was elected as Prime Minister. Covid-19 related restrictions will be lifted from October, which also improved sentiment.

Fund performance and activity

The fund rose by 5.7% in US dollar terms over the quarter, outperforming the TOPIX Index which rose 4.6%.

As the economic recovery entered into mid-cycle, there appeared to be no clear sector or factor leadership. The recovery in corporate earnings turned out to be much stronger than expected as companies restructured their costs during the pandemic. We think this is likely to result in historically high profits and dividends this fiscal year and has triggered an appetite for stock picking, which has impacted fund performance positively over the quarter.

At the individual stock level Persol Holdings was the best contributor, a staffing agency and recruiting firm which has benefited from economic reopening. Z holdings recovered all its losses in the first half of the year as the company demonstrated strong growth from the previous year while Daiichi Sankyo, which became a victim of the return reversal trade in the first half of the year, bounced back triggered by robust results from several of its drug's clinical trials and recovered its earlier losses. Conversely, SoftBank Group was the biggest detractor from performance amid increasing China regulatory risk around its internet business, while Nintendo also dropped based on disappointing first quarter results.

In terms of trading activity, we sold the whole position in Komatsu as our investment case was not working out. We reintroduced Ryohi Keikaku, the MUJI brand store operator, as the worst of its troubles seemed to be over with the arrival of a new CEO.

Outlook/strategy

We believe that the earnings-per-share (EPS) of TOPIX-listed companies is likely to exceed pre-pandemic levels this fiscal year - a year earlier than originally expected. The TOPIX Index was trading at 14x EPS and the market does not seem to have priced in any growth beyond that level over coming years, which in our view could make Japanese equities very attractive to global investors.

Ongoing concerns about the impact of inflationary pressures, supply-chain disruptions and the possibility of earlier than anticipated monetary policy tightening seem likely to continue to create some volatility in the short-term. However, our longer-term outlook remains positive due to low inventories throughout supply chains and high household savings - which suggests strong consumption potential. Capital expenditure towards carbon-neutral is also likely to boost spending across a wide range of businesses, which may result in a bigger and longer economic cycle than recent ones.

We have been consistent with our approach. We focus on companies that we think can create shareholder value by delivering excess free cash flow return over cost of capital. Following strong active returns in 2019 and 2020, fund performance has lagged the index in the first half of 2021 as the market took a constructive view on a broad economic recovery. Although we suffered from rotations, and as the recovery is now entering into mid-cycle, there are little opportunities left for "bottom fishing" or return reversal. As the cycle matures, we believe the market will once again focus on individual stocks. We have strong confidence in the stocks that we own and will continue to focus on stock picking, which we expect to be a key determinant of the fund's future performance.

Source: Janus Henderson Investors, as at 30 September 2021

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Fund information

Index	TOPIX
Morningstar sector	Europe OE Japan Large-Cap Equity
Objective	The Fund aims to provide capital growth over the long term.
Performance target	To outperform the Tokyo SE First Section Index by 2% per annum, before the deduction of charges, over any 5 year period.

Performance in (USD)

Performance %	A2 (Net)	Index	Sector	Quartile ranking	A2 (Gross)	Target (Gross)
1 month	4.6	2.6	2.6	1st	-	-
YTD	1.6	5.8	5.7	4th	-	-
1 year	18.3	20.2	21.5	4th	-	-
3 years (annualised)	8.5	6.5	6.9	1st	-	-
5 years (annualised)	9.7	8.9	9.2	2nd	12.0	11.1
10 years (annualised)	8.6	8.5	8.4	2nd	10.9	10.6
Since inception 31 Jul 1985 (annualised)	4.4	5.7	6.2	-	6.4	7.8

Source: at 30 Sep 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	A2 (Gross)	Target (Gross)
30 Sep 2020 to 30 Sep 2021	18.3	20.2	21.5	21.4	22.6
30 Sep 2019 to 30 Sep 2020	14.2	7.0	7.9	16.7	9.1
30 Sep 2018 to 30 Sep 2019	-5.4	-6.2	-6.8	-3.6	-4.3
30 Sep 2017 to 30 Sep 2018	7.5	9.5	9.4	9.6	11.7
30 Sep 2016 to 30 Sep 2017	15.6	15.9	16.3	17.9	18.2

Source: at 30 Sep 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.

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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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