COMMENTARY

Janus Henderson Horizon Asian Growth Fund

Quarter 4 2019

Fund Managers Names: Andrew Gillan & Mervyn Koh, CFA

Macro backdrop

After several months of negotiations between the US and China, President Trump and President Xi Jinping finally called a truce in the trade war, with both parties agreeing on a deal for phase one. This included both a suspension and reduction of various US tariffs on $280 billion worth of Chinese imports, as well as the China agreeing to increase the purchase of US goods and services by at least $200 billion over the next two years. Markets around the region rallied following the announcement, building on the decent gains since the start of the quarter, unsurprisingly led by the export-oriented countries like China, Korea and Taiwan.

Elsewhere in the region, in a bid to stimulate credit and economic growth against a backdrop of benign inflation, the Reserve Bank of India reduced its benchmark interest rate by 25 basis points (bps) during the quarter, culminating in total interest rate cuts of 135 bps throughout 2019. In terms of sectors, semiconductor foundries and memory plays continued their strong performance on the back of the expectations of a robust 5G deployment in the telecommunication sector. Taiwan and Hong Kong were the best performing countries while the smaller Southeast Asian countries like Thailand and the Philippines lagged the overall regional index.

Fund performance and activity

The fund returned 8.4% over the quarter, compared to the MSCI All Countries Asia Pacific ex Japan Index, which rose 10.5%. For 2019 overall, the fund gained 20.4%, outperforming the MSCI AC Asia Pacific Ex Japan Index which returned 19.2%.

The fund's overweight position in Hong Kong and underweight position in Australia contributed from a country allocation perspective while our overweight positions in India and in the Philippines detracted most from performance. From a sector perspective, our decision to remain overweight the financials sector and underweight the communications sector benefited the fund, while our overweight position to the consumer staples sector was the largest drag on performance.

After extremely strong share price performance by some of the fund's holdings during the first nine months of the year, it was inevitable that stock selection turned into a drag on performance during the quarter. Stock selection however, remained as the key driver of the fund's outperformance throughout the year. During the quarter, our position in HDFC Limited contributed the most to the fund. Amid a challenging operating environment, the leading mortgage provider in India posted an impressive set of financial numbers as the highly regarded management team proved its worth once again. In Taiwan, the fund continues to benefit from its exposure to Taiwan Semiconductor as its share price rose sharply, with investors seemingly cheering the surprise increase in capital expenditure from $10 billion to $14 billion, on the interpretation that the company's already strong business moat would be strengthened even further.

The fund's holdings in Ayala Corp, a leading conglomerate in the Philippines, detracted from performance. Sentiment was affected as the Duterte administration threatened drastic actions against one of the conglomerate's subsidiaries, a water utilities company. Despite the issue, we believe the share price had been unfairly punished, with the subsidiary accounting for less than 5% of the total net asset value of Ayala Corp. More importantly, we believe its management will be able to navigate the current crisis well and guide the company through these tough times. Thus, we maintain our conviction in the holding. Our position in Treasury Wine in Australia also caused a drag on the fund, as there were a number of senior management changes, including the well-regarded CEO who had to retire for family reasons. However operational performance remains good and the company has reiterated its growth target of 15-20% operating profit growth. We believe the shares are attractively valued given the strong growth prospects, particularly for the Asian business.

In terms of changes to fund holdings, we sold Indian IT services provider Infosys. Having owned the shares for a fairly lengthy period of time they have done reasonably well for the fund, but we decided to exit our position against what in our view is an unfavourable risk-reward perspective after a series of damaging and negative news flow in the media. We also sold out of a smartphone supply chain hardware manufacturer in Taiwan due to structural concerns, and exited a luggage manufacturer listed in Hong

Kong, as we felt that the growth prospects of the company would remain challenging given a very tough operating environment - not helped by the ongoing trade war.

The proceeds were re-deployed into a leading sports garment and footwear manufacturer, as well as an education provider (both in China). We felt that the former has proven its track record with some of the largest global sportswear brands over the years and will continue to gain market share, while the long-term growth potential and excellent operating abilities of its management formed the main investment thesis for the latter.

We continue to reduce the fund's underweight position to China through several purchases of shares of companies which have seen price weakness during the quarter.

Outlook/strategy

The trade war truce brought some relief to the markets and with phase one effectively over, attention should now turn to the fourth quarter earnings and more importantly, corporate commentaries with regards to the outlook on business fundamentals. After a somewhat disappointing earnings growth from Asian companies so far in 2019, we are more positive on underlying corporate profits in the region and see much brighter prospects for earnings in 2020. Although valuations have come off the lows, Asian equities continue to trade a significant discount to developed market equities. Rising consumption and technology innovation remain the key areas of interest for the fund, while we continue to maintain good exposure in the economic giants of the region, India and China. The case for Asia remains very positive over the long term and thus we continue to take a constructive stance on Asia equities, with a key focus on identifying high-quality businesses at reasonable prices and offering our investors a high-conviction portfolio.

Source: Janus Henderson Investors, as at 31 December 2019

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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.

Benelux
Janus Henderson Investors
Tel: +31 20 675 0146
Fax: +31 20 675 7197
Email: info.nederlands@janushenderson.com

France/Monaco/Geneva
Janus Henderson Investors
Tel: +33 1 53 05 41 30
Fax: +33 1 44 51 94 22
Email: info.europe.francophone@janushenderson.com

Germany/Austria
Janus Henderson Investors
Tel: +49 69 86 003 0
Fax: +49 69 86 003 355
Email: info.germany@janushenderson.com

Dubai
Janus Henderson Investors
Tel: +9714 401 9565
Fax: +9714 401 9564
Email: JanusHenderson-MEACA@janushenderson.com

Hong Kong
Janus Henderson Investors
Tel: +852 2905 5188
Fax: +852 2905 5138
Email: marketing.asia@janushenderson.com

Italy
Janus Henderson Investors
Tel: +39 02 72 14 731
Fax: +39 02 72 14 7350
Email: info.italy@janushenderson.com

Latin America
Janus Henderson Investors
Tel: +44 20 7818 6458
Fax: +44 20 7818 7458
Email: sales.support@janushenderson.com

Nordics
Janus Henderson Investors
United Kingdom
Tel: +44 20 7818 4397
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

Singapore
Janus Henderson Investors
Tel: +65 6836 3900
Fax: +65 6221 0039
Email: marketing.asia@janushenderson.com

Spain/Portugal/Andorra
Janus Henderson Investors
Tel: +34 91 562 6172
Fax: +34 91 564 6225
Email: info.iberia@janushenderson.com

Switzerland (Germanic)
Janus Henderson Investors
Tel: +41 43 888 6262
Fax: +41 43 888 6263
Email: info.switzerland@janushenderson.com

United Kingdom
Janus Henderson Investors
Tel: +44 20 7818 1818
Fax: +44 20 7818 1819
Email: sales.support@janushenderson.com

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