1Q20 Global & International Equity

FUND COMMENTARY

European Focus Fund

Market Environment

- The first quarter was characterized by breakneck volatility in March.
- Typically, extreme volatility was aggravated by forced liquidation of excess leverage: leveraged corporates and leveraged funds found themselves in the crosshairs.
- The banking system, courtesy of much tougher regulation since the Global Financial Crisis, seemed better prepared than usual. That preparation included the forced "postponement" or cancellation of dividends. Shareholders in banks were now relegated further down the pecking order, more than a decade after what many saw as the great bailout of "greedy bankers" at the expense of the wider workforce.
- It was the latter that governments were desperate to be seen to protect this time around. Governments decided that it is time to try – emphasis on "try" – to favor labor over capital. They knew they would be judged on this as well as on how effectively they protected their voters' health. The era of big government arrived.
- Together with extraordinary monetary and fiscal stimulus, this should mean an intact transmission mechanism so that credit and liquidity remain available in this recession. While this cannot reduce the severity of the economic crash in the very near term, it at least should significantly shorten its duration.

Performance Summary

The Janus Henderson European Focus Fund outperformed its benchmark, the MSCI Europe Index[SM], over the quarter ended March 31, 2020.

For detailed performance information, please visit janushenderson.com/performance.

Portfolio Discussion

On a sector allocation basis, our underweight position in European banks was beneficial to relative returns. In our view, European banks' share count will remain fixed at the current level except for niche, highly levered, investment banking and asset management performance-fee-reliant business models. Even so, we feel the sharply rising credit spreads will weigh on earnings. Return on tangible equity (ROTE) remains in the low- to mid-single digits, thus below the cost of equity. Strategically, we feel while they may bounce, there is still no fundamental long-term investment case in European banks. Our underweight to the defensive health care sector was a negative for relative returns.

The majority of the favorable relative return, however, was driven by standalone stocks in semiconductors, offshore wind farms, beauty products, a high-quality chocolatier, specialty chemicals and a consumer goods conglomerate. These companies are generally known for their defensive qualities and are names we were adding to early in the quarter when cyclicals had run ahead of defensives and amid a slowly improving macro picture. In late March we believed the inverse largely was true and sought entry points into quality early-cycle names. As always, balance sheet and management strength are key criteria for us when analyzing opportunities. We made small trims from some of our winners as sources of capital over the month of March.

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We deployed capital into China-consumer-facing names under our "always looking good" theme. Namely, we bought a French luxury goods company and a German shoe and athletic apparel company as high-quality bounce-back candidates that primarily are driven by the Chinese consumer. Our thinking was that China went into this crisis first and is likely to come out of it first. In our view, semiconductors are another area that could bounce back quickly. Notably, memory pricing continued going up throughout the crisis. This seemed driven by increased server capacity demand from remote working, video conferencing and data-intensive entertainment and gaming demand.

In materials, our favorite sub-space remained the pulp, paper and packaging industry. We felt it should benefit from increasing displacement of plastics packaging as well as rising e-commerce. Supply discipline upstream was good, and wood resource and logistics remained key long-term barriers to entry, enabling higher future returns on capital. We felt this sub-sector remained well placed to spring back quickly once the COVID-19 coronavirus passes. During the quarter we added to our new holding in an Irish packaging company that sits beside our large position in a Finnish paper producer. We also added to our holding in the leading online bank and brokerage in Italy, which saw an increase in its customer base, as it was one of the few brokerages to offer a near-uninterrupted service.

Despite the declines in the energy sector, we believe it is structurally challenged not just from low oil prices but also from investment needs to fund the transition to renewables. Until significant change is visible, the sector probably will suffer from higher cost of equity than the majority of the market. Unfortunately, those are often highly leveraged companies, which may compound the negative impact.

Top Contributors	Average Weight (%)	Relative Contribution (%)
Barry Callebaut	3.47	0.55
Givaudan SA	2.28	0.50
Orsted A/S	1.97	0.45
Edp-Energias De Portuga	2.86	0.40
Nexi S.p.A.	1.86	0.38

Top Detractors	Average Weight (%)	Relative Contribution (%)
Kion Group AG	3.45	-0.50
Wizz Air Holdings Plc	1.66	-0.35
Mowi ASA	1.91	-0.34
Porsche Automobil Holding SE	1.61	-0.32
Hella KGaA Hueck & Co	1.05	-0.27

The holdings identified in this table, in compliance with Janus Henderson policy, do not represent all of the securities purchased, held or sold during the period. To obtain a list showing every holding as a percentage of the portfolio at the end of the most recent publicly available disclosure period, contact 800.668.0434 or visit janushenderson.com/info.
Relative contribution reflects how the portfolio's holdings impacted return relative to the benchmark. Cash and securities not held in the portfolio are not shown.

Manager Outlook

There are hopeful signs that the COVID-19 infection rate is peaking. Social distancing and lockdown measures are working. Testing capacity and the testing-to-results conversion speed is ramping up. Various trial treatments for severe cases seem promising. This should provide encouragement that the virus outbreak will be brought under control relatively soon. Potentially, the month of May will see pressure for hard decisions regarding the reopening of economies without risking further waves of virus spread before a vaccine is available. Politicians are likely to err on the side of caution.

True to the old adage that markets stop panicking when policymakers start panicking, the record stimulus injections have managed to stabilize markets. As usual, the largesse will take several quarters before it delivers its boost to activity levels in the real economy. For the next few months, equity markets are likely to be working on reducing volatility levels and establishing a broader base as opposed to narrow leadership. Given the forced deleveraging, very widespread investor bearishness and potentially short duration of the recession, we may already have seen the absolute price lows. Sector rotation could be quite surprising and painful. Once the stock market sniffs out the virus peak/economic lead indicator trough, the very extended elastic band of defensives over cyclicals could snap back sharply. It is usually the recession that ends the bear market, not the other way around.

Portfolio Management

Robert Schramm-Fuchs

For more information, please visit **janushenderson.com.**

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Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus Henderson at 800.668.0434 or download the file from janushenderson.com/info. Read it carefully before you invest or send money.

Past performance is no guarantee of future results. Call 800.668.0434 or visit janushenderson.com/performance for current month-end performance.

Discussion is based on the performance of Class I Shares.

As of 3/31/20 the top ten portfolio holdings of Janus Henderson European Focus Fund are: Nestle SA (4.95%), Vat Group Ag (4.68%), UPM-Kymmene Oyj (3.95%), Roche Holding AG (3.62%), Barry Callebaut (3.50%), Kion Group AG (3.41%), SAP SE (3.31%), Volvo AB (3.21%), STMicroelectronics NV (3.19%) and Kering SA (3.14%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

The opinions are as of 3/31/20 and are subject to change without notice. Janus Henderson may have a business relationship with certain entities discussed. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

For equity portfolios, relative contribution compares the performance of a security in the portfolio to the benchmark's total return, factoring in the difference in weight of that security in the benchmark. Returns are calculated using daily returns and previous day ending weights rolled up by ticker, gross of advisory fees, may exclude certain derivatives and will differ from actual performance.

Investing involves risk, including the possible loss of principal and fluctuation of value.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Concentrated investments in a single sector, industry or region will be more susceptible to factors affecting that group and may be more volatile than less concentrated investments or the market as a whole.

Increased portfolio turnover may result in higher expenses and potentially higher net taxable gains or losses.

MSCI Europe IndexSM reflects the equity market performance of developed markets in Europe.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

Credit Spread is the difference in yield between securities with similar maturity but different credit quality.

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