COMMENTARY

Janus Henderson Global Life Sciences Fund

October 2021 **For promotional purpose**

Fund Manager Name

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Marco backdrop

Like the broad equity market, health care stocks rebounded during the month due to positive earnings and falling COVID-19 case numbers. On average, managed health care firms saw the largest returns, thanks in part to lower-than-expected medical costs. Life sciences tools and services companies also outperformed given increased demand for COVID-19 tests. In contrast, health care suppliers finished the month in negative territory, while biotechnology stocks were close to flat during the period.

Fund performance and activity

The fund returned 4.4% and outperformed its benchmark, the MSCI World Health Care Index℠, which returned 4.2%. Stock selection in health care equipment contributed the most to relative returns, while an overweight position to biotechnology detracted from performance.

Looking at individual holdings, an overweight position to Humana aided performance during the period. Medicare Advantage (MA), the health insurance program for those 65 and older in the US, makes up a large share of Humana's revenues. Uncertainty about the pandemic's impact on that population had weighed on the stock earlier in the year but these worries have eased as the COVID-19 Delta variant surge waned. Longer term, the Centers for Medicare & Medicaid Services projects MA membership will grow 10% in 2022. In the past, Humana has outpaced the industry in taking share of the market.

Our underweight position to Moderna also contributed positively to returns. The stock experienced uneven performance during the month, particularly after a competitor COVID-19 vaccine was approved for use in young children; regulators are still reviewing Moderna's application. Even so, Moderna's COVID-19 vaccine remains one of the most effective for adults and vaccination rates are expected to continue rising through 2022. Beyond that, it remains to be seen whether messenger RNA technology, the science behind Moderna's vaccine, can be used for other indications, to sustain revenues.

In contrast, two of our top detractors were only recently top contributors. For example, Sarepta Therapeutics is developing SRP-9001, a gene therapy for Duchenne muscular dystrophy (DMD), a muscle-wasting hereditary disease that affects tens of thousands of children. After starting to recover last month, the stock declined when the company announced a $500 million stock sale – a decision the market reacted negatively to. Even so, SRP-9001 recently began phase 3 testing. Sarepta also plans to start registration studies for an improved next-generation version of its alternative DMD program, known as exon skipping, which could provide dramatically better clinical benefits than its current franchise (expected to achieve sales of over $500 million this year).

Ascendis Pharma also weighed on performance. This year, the US Food and Drug Administration (FDA) approved Skytrofa, a once-weekly human growth hormone that has demonstrated superiority to a daily injectable treatment, the standard of care for more than two decades (annual spending on human growth hormone treatments top $1 billion annually in the US). The company is also applying its Transient Conjugation (TransCon) technology, which extends the release of parent medicines, to other areas including treatments that address imbalances of parathyroid hormone. Even so, during the month this small-cap stock succumbed to broader volatility in biotech.

Outlook/strategy

Although small and mid-cap equities remain volatile, we see signs of recovery for the stocks, which have suffered one of their worst relative sell-offs in history in 2021. For one, low valuations have attracted the interest of large-cap biopharma, with several multibilliondollar biotech deals announced in recent months. Historically, investor sentiment for biotech has improved as mergers and acquisitions heat up. The FDA – despite lacking a permanent commissioner and being inundated with applications for COVID-19 treatments – is on track to approve a near record number of novel drugs in 2021. And drug-pricing reform has met with stiff resistance in Washington DC, making drastic proposals such as comprehensive direct drug price negotiation by the government less likely to pass, in our view.

Meanwhile, health care's innovation engine is running at full throttle, with advances continuing to be made in biologics, precision medicines, medical devices and health care delivery. Although demand for routine medical care could face near-term challenges from supply-chain and staffing shortages and the Delta variant, long-term growth drivers such as advanced biological understanding, new treatment modalities and aging populations remain firmly in place. What's more, the pressure to compete while keeping costs in check has focused companies on prioritising medical breakthroughs and finding efficiencies, which in turn are leading to new end markets. In short, we believe the health care sector remains well positioned for growth and that small and mid-cap biotech's underperformance, while unsettling, should be viewed as an opportunity for long-term investors rather than a cause for concern.

Source: Janus Henderson Investors, as at 31 October 2021

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Fund information

Index MSCI World Health Care Index

Objective The Fund aims to provide capital growth over the long term.

Performance in (USD)

Annualised performance %	A2	A2 (with sales charge)^	Benchmark
1 month	4.4	-0.8	4.2
3 months	3.1	-2.0	1.5
1 year	22.8	16.6	30.0
3 years (p.a)	16.0	14.1	16.2
5 years (p.a)	15.7	14.5	15.1
Since inception (p.a)	7.8	7.6	8.3

Source: at 31 Oct 2021. © 2021 Morningstar. All rights reserved, performance is net of fees, with gross income reinvested. Performance figures of less than 1 year are not annualized. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

^Performance with sales charge assume 5.00% initial sales charge/front-end load (FEL) applied.

Past performance is not a guide to future performance.

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.

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For further information on the Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com/sg

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Date of issue: November 2021