COMMENTARY

Janus Henderson Horizon Global Technology Leaders Fund

November 2021

For promotional purpose

Fund managers

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Macro backdrop

The earnings season in the technology sector continued through November and painted a mixed picture with internet and ecommerce-related companies facing tough year-on-year compares and struggling to meet expectations. As economic re-opening has occurred, investors have struggled to anticipate what the growth rate of many work-from-home beneficiaries might be in the long term. The emergence of the Omicron variant of the coronavirus towards the end of the month, along with expectations of further interest rate hikes in 2022, drove increased volatility in markets more broadly and within technology sub-sectors.

Fund performance and activity

The fund returned 0.3% versus a benchmark return of 0.5%. Qualcomm performed strongly off the back of both its results and an investor day which demonstrated diversification beyond wireless by highlighting franchise positions across the internet of things (IoT), autos and the metaverse. Rivian also contributed to performance as we participated in the initial public offering (IPO) of the Amazon-backed electric SUV and pick-up truck manufacturer. We are admirers of the franchise, but our valuation discipline drove us to take profits. Our underweight position in Disney helped performance as results confirmed Disney+ subscriber additions are slowing faster than the market anticipated. SK Hynix performed robustly as DRAM pricing was better than feared. Being underweight Mastercard also provided a performance tailwind as stock volatility remained linked to news flow around new Covid-19 variants and in particular cross-border travel. Amazon helped performance as the company's increase in fulfilment charges were well received by the market. Lastly, Broadcom's Software Infrastructure Day gave the market greater confidence in the ability of its software growth strategy and market position to drive strong performance.

Our underweight position in NVIDIA detracted from performance as the company delivered strong results driven by a major acceleration in datacentre, and was also seen as a key beneficiary of the emerging metaverse theme. Alibaba was also a headwind to performance as the company reported weaker than expected results against a backdrop of broader China macroeconomic softness and increasing competition. Chegg's role in helping lower income students hurt short-term performance as many students chose not to enrol in new courses and took advantage of stronger labour market conditions. Fewer students resulted in fewer subscribers than expected. CrowdStrike also contributed negatively to performance as market concerns over increasing price competition from smaller players in the space adversely impacted share price performance during the month.

In terms of activity, we initiated a position in Accton, a manufacturer of network switches to hyperscalers that has been well placed in the 100G spend cycle and the upcoming transition to 400G. We initiated a position in Be Semiconductor, a market leader in back-end advanced semiconductor packaging. Upcoming node changes have been driving increased use of chiplets, resulting in an inflection in hybrid bonding where the company has a dominant market position. We initiated a position in CapGemini, a global provider of IT services, where we like its exposure to Digital Transformation project activity across the market – and particularly in the industrial space following its acquisition of Altran. We also initiated a position in luxury platform Farfetch. The company took further steps to becoming the platform of choice for luxury retail as Richemont announced it was in talks with Farftech over a potentially deeper relationship for its Yoox Net a Porter brand and potentially broader brand adoption.

We sold our position in ASMI as we sought greater risk-reward in other areas of semiconductor capital equipment. We exited our position in Ericsson after the company disclosed a breach of its obligations under a settlement agreement with the DOJ, and after its management indicated a greater probably of merger and acquisition (M&A) outside of its core areas. We sold our Fiserv position following weaker than expected results (where its Financial Technology/Banking division underperformed) as we saw better opportunities elsewhere in IT services.

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Outlook/strategy

The global pandemic has accelerated the pace of digital transformation across all demographics and all geographies. While we expect that digital transformation to be ongoing and have lasting effects, we do not expect the pace of adoption to continue at the rate we witnessed in 2020. We are witnessing unparalleled supply chain shortages where sales growth in several technology verticals from high end PCs to electric vehicles are being dictated by supply availability rather than demand. While we view these supply constraints from raw materials and semiconductor chips as transitory, we view this as medium term – say 6-12 months lasting into 2022 – rather than a short-term issue. Broadly we expect the liquidity backdrop to remain favourable and fiscal support for infrastructure with more strategic intent for a greener and more inclusive economy to be forthcoming.

The acceleration of technology adoption will require ongoing future investment in infrastructure as we move towards a steadier work environment. Payment digitisation will be further spurred by ongoing migration of commerce and business to consumer, government to consumer, and business to business moving further online. Consumer-related experiences continue to migrate to a virtual setting with a broadening of our internet transformation theme to areas such as education, e-sports, primary health care, grocery shopping and social meetings setting the stage for a long-term access to "the metaverse". As society moves towards a new normal for hybrid work and home working and digital transformation becomes more of a choice than a necessary behaviour, we believe the benefits of technology will become more apparent from greater flexibly for workers, more convenience for families, greater efficiency for businesses, and more accessibility for students and patients – as well as benefits to environment through the low carbon economy. Next-generation infrastructure is a key focus for the fund as we believe the broadening adoption of technology by consumers and businesses will require an acceleration of investment to ensure scalable, seamless, fast and reliable connectivity.

As technology fund managers we are excited by the step change that has occurred since the pandemic began and the digital transformation that many more industries are now undergoing. However, we remain cognisant of the rapid acceleration in valuations in some segments of the sector over the last year. While this has unwound to some degree, in recent months we do still see vulnerability to a further normalisation in interest rates for those companies where profitability remains a distant potential and where valuation is not underpinned by cash flow expectations. We continue to invest in companies where we see unappreciated earnings power – unappreciated in terms of strength and sustainability or growth and also in terms of the what the valuation already reflects. We continue to see a bifurcation in valuations within the sector that is extreme by historical standards. This reflects the increasing diversity of the sector but also some short-term hype that warrants select caution.

We remain focused on the global technology leaders of today and companies with the potential to be the leaders of tomorrow. We believe the fund remains well positioned to benefit from the long-term secular trends of internet transformation, payment digitisation, artificial intelligence, next-generation infrastructure and process automation. Our investment process gravitates to high quality technology companies with strong cash flows and balance sheets while aiming to maintain the highest standard of liquidity controls. We remain consistent in applying our unique approach of navigating the hype cycle, applying valuation discipline and identifying attractive growth/valuation combinations. We will continue to engage proactively with our companies on their role in being responsible disruptors and generating value for all stakeholders.

Source: Janus Henderson Investors, as at 30 November 2021

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Fund information

Index MSCI ACWI Information Technology Index + MSCI ACWI Communication Services 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	0.3	-4.7	0.5
3 months	-0.6	-5.6	-0.3
1 year	22.7	16.6	26.4
3 years (p.a)	28.6	26.4	28.6
5 years (p.a)	25.0	23.7	25.4
Since inception (p.a)	12.2	12.0	11.0

Source: at 30 November 2021. 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.

Effective 1 July 2020, the fund name has been changed from Janus Henderson Horizon Global Technology Fund to Janus Henderson Horizon Global Technology Leaders Fund.

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.

Janus Henderson Horizon Global Technology Leaders Fund

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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