COMMENTARY

Janus Henderson Global Responsible Managed Fund

Q3 2021 **For promotional purposes**

Fund Manager Name

Hamish Chamberlayne, CFA, Philip Payne, CFA, Andrew Jones

Macro backdrop

Despite concerns about the spread of the more infectious COVID-19 Delta variant in several countries, global equity markets finished the third quarter in positive territory helped by a strong corporate earnings season. The MSCI World Index rose 2.6% in sterling terms while the FTSE All Share gained 2.2%. However, investors did become increasingly concerned about the outlook for global growth as the quarter progressed amid rising inflationary pressures, higher gas prices, supply-chain bottlenecks and Chinese regulatory risks.

The possibility that central banks such as the US Federal Reserve (Fed) and the Bank of England (BoE) would start tapering monetary policy sooner than anticipated also weighed on sentiment. Several central banks upgraded their inflation forecasts over the quarter and comments from the Fed and the BoE regarding tapering led investors to reassess the likely timing of any monetary tightening. The BoE let investors know that interest rates could rise before the current quantitative easing (QE) program ends later this year while US QE is now expected to end in the middle of next year with an interest rate hike to follow. As a result, bond yields rose (prices fell) with the UK 10-year gilt yield rising sharply from 0.72% to 1.02% over the quarter - its highest level for over two years. Against this backdrop the Barclays Sterling Aggregate Return GBP Index (unhedged) fell 1.7%, led by the poor performance of the relatively long duration UK market. Meanwhile, the Barclays Global Aggregate Corporate Total Return GBP Index (unhedged) gained 1.7%, helped to a large extent by US dollar and euro strength in the second half of September.

Energy prices are significant contributors to inflation and the recent sharp rises are likely to encourage investment as governments look to substitute fossil fuel energy sources with renewables. World leaders will converge at COP26 in Glasgow in November with a central topic being the acceleration of the transition to a cleaner energy economy.

Fund performance and activity

The fund returned 1.9% in sterling terms over the quarter compared with a 1.3% return from the IA Mixed Investment 40%-85% Shares benchmark.

The fund's overweight equity position and its underweight bond position was beneficial for performance this quarter. However, this was partially offset by disappointing stock selection with both the international and UK equity portfolios underperforming their respective indices. Strong stock selection in industrials helped returns but stock selection in health care and financials had a negative impact. The rising oil price, with Brent Crude achieving its highest level in three years, saw the energy sector outperform. This was particularly unhelpful in the UK given that the fund has no exposure to BP or Shell due to its responsible investment approach.

The three largest positive contributors to performance were project management software developer Atlassian, global provider of risk management and insurance AON, and bicycle part manufacturer Shimano. Atlassian reported strong earnings in July with revenue growth of over 30% and subscription revenues increasing by 50%. Its transition to a cloud-based model has strengthened demand, which has accelerated new product development and increased customer adoption. Shares in AON rose after its acquisition of Willis Towers Watson was mutually terminated, with AON's management emphasising the company's ability to grow organically and expand margins. AON also delivered strong results, with organic revenues growing by 11%. Shimano is a leading global manufacturer of bicycle components and reported excellent sales growth in orders, spurred on by a shortage in end-market bicycle inventory and a dramatic rise in bicycle demand since the start of the pandemic. The fund's holding in WM Morrison was also beneficial after the company was subject to a competitive takeover situation with CD&R ultimately outbidding Fortress.

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Conversely, laser manufacturer IPG Photonics, customer relationship software provider Zendesk and medical technology company Smith & Nephew were among the largest detractors. Although IPG Photonics posted 25% revenue growth year-over-year, the shares fell after missing analyst estimates due to underperformance in China, where industrial activity has been hampered by power shortages, outbreaks of the Delta variant and a slowdown in the property sector. Zendesk also missed expectations, despite revenue growth of 29% and strong customer adoption. The 'miss' was simply due to a lack of guidance from the new Chief Financial Officer regarding the timing of large deals for its enterprise customers with Zendesk seeing continued demand for its customer relationship software solutions. Smith & Nephew highlighted a more difficult second half of the year for margins because of several temporary logistical challenges. However, the long-term outlook for the company remains intact in our view. The fund's fixed income holdings performed broadly in line with their respective benchmark over the quarter. The further compression of credit spreads saw lower-rated issuers perform well with bonds whose credit rating is likely to be upgraded, such as Netflix, Centene and MSCI all outperforming. Real estate holdings including Canary Wharf green bond, Tritax Big Box and CTP (logistics) also performed well. However, this was offset by exposure to UK gilts which detracted from returns as the BoE became more hawkish in September with yields rising sharply.

We made no major changes to asset allocation over the quarter with the fund's equity weighting at around 77%. Although equity markets have performed well, there continue to be attractive opportunities for capital growth in international markets, while the UK equity market remains very attractively valued on an earnings and dividend yield basis. We maintained an underweight position to fixed income relative to the fund's peer group with exposure of around 14%. There are limited opportunities to add value given the low yields on offer and the fact that credit spreads are at all-time lows - and may start to widen as central banks tighten liquidity.

Within equities we initiated a position in clinical research organisation ICON during the quarter. ICON is one of the six largest companies globally in this space and we liked the potential for the company to increase in scale over the coming years. ICON excels in assisting in the running of clinical trials, helping deliver drugs to the market more quickly. The holdings in financial companies M&G and Phoenix were also increased. While these companies operate in different areas, they both had robust capital positions and very attractive dividend yields.

Outlook/strategy

In November the UK will host the COP26 (Conference of the Parties) in Glasgow. This will encompass 12 days of talks on tackling climate change with delegations from over 190 countries in attendance. In the past year, the world's most influential governments have made ambitious commitments to tackle climate change and further commitments and action plans are expected at COP26. Keeping global warming to 1.5°C is of fundamental importance and further agreement on a pathway forward is anticipated.

There are strong signals that the world is entering a period of more persistent inflation and businesses with strong franchises, robust free cash flow-generation and pricing power should provide some protection. The fund remains focused on digitalisation, electrification and decarbonisation and this continues to be the framework for investment decisions and portfolio construction.

Source: Janus Henderson Investors, as at 30 September 2021

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Fund information

Peer group benchmark	IA Mixed Investment 40 - 85% Shares
Peer group benchmark usage	Comparator

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The Fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Objective	The Fund aims to provide capital growth over the long term (5 years or more).

Performance in (GBP)

Performance %	I (Net)	Peer group	Quartile ranking
1 month	-2.1	-1.4	4th
YTD	8.3	8.1	3rd
1 year	17.4	16.8	2nd
3 years (annualised)	12.7	6.8	1st
5 years (annualised)	11.1	7.0	1st
10 years (annualised)	11.8	8.1	1st
Since inception 24 Oct 2000 (annualised)	5.8	4.9	-

Source: at 30 Sep 2021. 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 %	I (Net)	Peer group
30 Sep 2020 to 30 Sep 2021	17.4	16.8
30 Sep 2019 to 30 Sep 2020	10.0	-0.1
30 Sep 2018 to 30 Sep 2019	11.0	4.3
30 Sep 2017 to 30 Sep 2018	8.1	5.4
30 Sep 2016 to 30 Sep 2017	9.5	9.2

Source: at 30 Sep 2021. 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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Important information

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