

Janus Henderson Asia Pacific Capital Growth Fund

Q3 2021

For promotional purposes

Fund Managers Names

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Macro backdrop

Global equity markets corrected in the third quarter due to a combination of profit-taking and signs of slowing growth after the initial economic recovery from the Covid-19 pandemic. The threat of structurally higher inflation lingered while the Delta variant has led to less robust economic recoveries, particularly in Asia. Regulatory action in China also had a major impact on market sentiment in Asia with several of the higher growth sectors such as education, internet and ecommerce and, most recently, Macau gaming, all impacted by significant policy changes. The Chinese property sector has also grabbed the headlines with a number of debt defaults including Evergrande, one of the largest Chinese property developers, unable to make a payment due.

As a result, China underperformed while India was the strongest performer in the region as the economy continued to rebound with the country posting strong purchasing managers' index (PMI) numbers in August, and as investor flows seemed to benefit from the issues in China. By sector, consumer discretionary, communication services, health care and real estate all posted large declines over the quarter while energy and utilities posted positive returns, suggesting that 'value' style shares also outperformed 'growth' sectors in Asia, which was in line with other regions. Commodity prices remained elevated and several supply constraints still exist, which have been worsened by outbreaks of the Delta variant.

Fund performance and activity

The fund fell 7.5% during the quarter and underperformed the MSCI AC Asia Pacific ex Japan Index benchmark which fell 6.1%.

Country allocation was positive while stock selection detracted from relative performance. By country, our underweight position to China was positive over the quarter given its relative market weakness following the regulatory issues and given concerns about the slowing rate of economic growth and financial leverage in the property sector. Our long-standing overweight positions in both India and Taiwan also contributed positively as these markets outperformed.

However, stock selection was negative in China as the fund had exposure to some of the sectors most impacted by regulation changes. In particular, New Oriental Education significantly underperformed following the Chinese government's decision to limit profitability and severely restrict the number of hours that after-school tutoring can be offered to students. Our position in Ping An Insurance also detracted due to concerns about its exposure to the property sector, while its agency reform process is also taking longer than expected and has resulted in weaker new business sales. Sands China also underperformed during the period in response to news of the government's decision to launch a public consultation into the future of Macau, with the likelihood of tightening criteria to pay dividends and ensure a higher proportion of future revenue comes from non-gaming activities. We have maintained the position in Ping An Insurance but exited the positions in both Sands China and New Oriental. The environment in China has changed and there is good reason to be more cautious on potential policy changes, which we will aim to mitigate with smaller position sizes and adjustments to valuation methodology to capture the heightened risks.

Positive contributions came from three of our India positions. HDFC, Bajaj Holdings & Investment and HDFC Bank all benefited from the recovery in the Indian economy and strong operating momentum in the financial sector as loan growth returned towards pre-Covid-19 levels. It was a similar story in Indonesia with Bank Central Asia outperforming as the Indonesian economy recovered later from the virus situation and as the company delivered good profit growth for the first half of the year. Finally, ecommerce and gaming company Sea Ltd also outperformed given good operating momentum (particularly in Latin America) while the shares likely also benefited from some rotation away from these sectors in China.

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We have reduced our exposure to China during the quarter and will maintain a cautious view in the near term. While valuations of the largest Chinese internet and ecommerce companies might look very attractive compared to their previous levels, it is also reasonable to assume that future growth prospects will be more constrained and that valuations should reflect the increased regulatory risks - in addition to the impact on profitability of the government's common prosperity goals. Attractive opportunities remain in China and the local A-share market in particular offers investors exposure to sectors more aligned with the government's economic goals.

Outlook/strategy

We maintain the view that the current inflationary pressures are likely to be transitory as supply struggles to keep up with the demand recovery, while the Delta variant has created further bottlenecks in supply chains. We are already seeing signs of slowing growth, which should ease some of the demand pressures, hence we are not inclined to rotate significantly towards cyclical away from our preference for structural growth. Valuations in Asia remain attractive compared to developed markets and while earnings growth will likely be more subdued next year, we remain optimistic that we will see a reversal in the structural underperformance of Asia and emerging market equities over the past decade. We think economic growth rates will normalise but remain attractive in Asia while demographics and consumption will remain supportive to Asian equities.

Source: Janus Henderson Investors, as at 30 September 2021

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Fund information

Index MSCI All Countries Asia Pacific ex Japan Index
Index usage Target, Comparator

The MSCI All Countries Asia-Pacific (Ex Japan) Index is a measure of the combined performance of large and medium sized companies across developed and emerging stock markets across the Asia-Pacific region but excluding Japan. It forms the basis of the Fund's performance target and provides a useful comparison against which the Fund's performance can be assessed over time.

Peer group benchmark IA Asia Pacific ex Japan Equity
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.

Performance target To outperform the MSCI All Countries Asia Pacific ex Japan Index by at least 2% per annum, before the deduction of charges, over any 5 year period.

Performance in (GBP)

Performance %	I (Net)	Index	Peer group	Quartile ranking	I (Gross)	Target (Gross)
1 month	-1.8	-2.0	-1.2	3rd	-	-
YTD	-8.2	-0.6	1.8	4th	-	-
1 year	3.9	12.1	15.4	4th	-	-
3 years (annualised)	6.8	8.2	9.7	4th	-	-
5 years (annualised)	8.7	9.3	9.6	3rd	9.7	11.5
10 years (annualised)	10.4	10.1	10.2	2nd	11.5	12.3
Since inception 28 Sep 1990 (annualised)	11.2	9.6	9.9	-	12.2	11.8

Source: at 30 Sep 2021. © 2021 Morningstar. All rights reserved, 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)	Index	Peer group	I (Gross)	Target (Gross)
30 Sep 2020 to 30 Sep 2021	3.9	12.1	15.4	4.8	14.3
30 Sep 2019 to 30 Sep 2020	11.2	8.6	8.1	12.2	10.7
30 Sep 2018 to 30 Sep 2019	5.6	4.2	5.8	6.6	6.3
30 Sep 2017 to 30 Sep 2018	6.3	5.2	3.7	7.3	7.3
30 Sep 2016 to 30 Sep 2017	16.9	17.1	15.6	18.0	19.5

Source: at 30 Sep 2021. © 2021 Morningstar. All rights reserved, 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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