COMMENTARY

Janus Henderson Global Equity Fund

October 2019

For promotional purposes
For professional investors only

Fund manager names: Gordon Mackay

Performance and activity

The fund returned -0.3% in October, underperforming its benchmark index, the MSCI All Countries World, which returned 0.4%. Relative to its category peers, the fund was 76 percentile over the month.

From a sector perspective, the fund's holdings in the consumer discretionary, healthcare and industrials sectors were among the more significant detractors, while holdings in the communication services sector were among the most positive. Overall the sector positioning of the fund provided a positive relative contribution, and so over the month it was stock selection within the sectors that negatively impacted relative performance.

The fund's most significant detractor in October was Estee Lauder. This is a company that continues to perform very well operationally and has been one of the fund's most successful investments since it was initially purchased. Its collection of prestige brands in beauty and skincare are selling well across a variety of global distribution channels, most notably in Asia, ecommerce and travel retail. It is also successfully showing margin improvement while continuing to invest for growth, a strategy we admire. Its weaker share price performance during the month was likely a combination of concerns over the levels of luxury spend in Hong Kong, given the recent civil disturbances, coupled with some profit-taking by investors coming into its quarterly report. Regardless of this period of share price weakness, we remain high-conviction owners of the stock given its long-term demand drivers, impressive operational execution, and robust financial characteristics.

Another notable detractor was Unilever, a more recent addition to the fund. Our investment in Unilever is predicated on the strength of its global market positioning. Across the diverse range of country categories it operates in, it holds the number one or two market positions in about 85% of them. It derives nearly 60% of its revenues from the emerging markets, giving it the prospect of strong long-term growth opportunities. And in these markets it is operating in categories that are generally characterised by regular repeat purchases of lowly priced products where consumers attach high brand values, giving it higher long-term resilience and predictability to its growth. It is these qualities that attracted us to Unilever, but we are also aware that there will be periods when it will experience tougher competitive environment in some of its markets; and when its share price may be subject to changes in "style preference" in the equity market. The recent period has been characterised by both of these dynamics and as a result it was a relative underperformer in October. However, none of this detracts from what we believe are strong long-term growth and quality characteristics, that will provide patient shareholders with attractive returns.

On the positive side, the fund's two largest contributors were UK-listed companies, Autotrader and Rightmove. These companies have both been long-term holdings in the fund and both are benefiting from the structural shift from print advertising to online advertising in the used car and real estate listings markets respectively. Both have built dominant market positions and continue to see pricing power and customer-stickiness, despite cyclical issues in the UK economy. During October, it was largely the UK market backdrop that helped the share prices, as foreign exchange strengthened, and the potential for a Brexit-deal caused some enthusiasm for more domestically focused UK share prices. We have never taken a view on the UK economic backdrop as a reason to invest in these companies. It is their distinct company fundamentals we find exciting, but this was a month in which these macro factors that certainly helped.

We made a couple of changes to the fund's holdings during the month, introducing US-listed software company, Intuit and the UK-listed industrial technology company Halma.

Intuit is a leading provider of financial, tax and accounting software to both small businesses and consumers. The network effect and competitive moat around branded consumer software can be a strong one, and Intuit has developed its brand in a way that gives it both differentiation and a strong incumbency advantage. It is a highly cash generative business model, and returns nearly all of this free cash flow to its shareholders. With a high proportion of recurring revenues and a net cash balance sheet, this company exhibits all of the high quality fundamental characteristics we look for when we invest.

Halma is a health and safety sensor technology company. It manufactures products that detect hazards and protects assets in the safety, environmental and healthcare markets. The company comprises almost 50 separate businesses across a diverse range of end markets, but ones where demand tends to be non-discretionary in nature and where there are often high-specification standards and certifications that apply. This provides strong barriers to entry and customer loyalty. Halma is generally the market leader in the niches it competes in and as a result the business has grown its revenues at around 10%, and its earnings at around 12% annualised over the last ten years. With a highly-aligned management team, a strong margin structure, disciplined merger and acquisition (M&A) methodology and a robust balance sheet we believe this is a company well positioned to deliver long-term returns.

To fund these purchases we exited our holdings in IT systems integrator Cognizant and the German healthcare company Fresenius. The law of large numbers is starting to challenge Cognizant's growth rate while changes to German hospital regulations and some recent capital allocations decisions have reduced our conviction in Fresenius.

Outlook

As ever, our strategy is to avoid making major macroeconomic calls and to instead focus bottom-up on finding companies with underappreciated growth and high barriers to entry at attractive valuations. Through purchasing undervalued securities that are exposed to strong secular tailwinds of growth, we aim to generate attractive returns over the longer term.

Source: Janus Henderson Investors, as at 31 October 2019

Janus Henderson Global Equity Fund

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

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The Janus Henderson Fund (the "Fund") is a Luxembourg SICAV incorporated on 26 September 2000, managed by Henderson Management S.A. A copy of the Fund's prospectus and key investor information document can be obtained from Henderson Global Investors Limited in its capacity as Investment Manager and Distributor.

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A copy of the Fund's prospectus, key investor information document, articles of incorporation, annual and semi-annual reports can be obtained free of cost from the Fund's registered office in Luxembourg: 2 Rue de Bitbourg, L-1273 Luxembourg, in Germany: Janus Henderson Investors, Tower 185, Friedrich-Ebert-Anlage 35-37, 60327 Frankfurt am Main, in Austria: UniCredit Bank Austria, Schottengasse 6-8, 1010 Wien, in Spain: offices of the Spanish distributors, a list of which may be obtained at www.cnmv.es (Janus Henderson Fund is registered with the CNMV under number 259. The Custodian in Spain is BNP PARIBAS SECURITIES SERVICES S.C.A.); in Belgium: Belgian Financial Service Provider CACEIS Belgium S.A., Avenue du Port 86 C b320, B-1000 Brussels; in Singapore: Singapore Representative: Janus Henderson Investors (Singapore) Limited, 138 Market Street, #34-03/04 CapitaGreen, Singapore 048946; and in Switzerland from the Swiss representative: BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich who are also the Swiss Paying Agent.

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