

## Janus Henderson Horizon Japanese Smaller Companies Fund

August 2018

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### Key differentiators

- Style neutral, high conviction, stock picking:** The fund is a diversified portfolio and has historically held around 50-70 stocks\*. The investment approach focuses on stock valuation, investment catalysts and structural growth to drive earnings and returns.
- In-depth fundamental proprietary research:** Quarterly company meetings are used to discover incremental changes that may impact a company's growth potential and share price. This information is used to tactically rebalance the portfolio based on the manager's conviction levels.
- Integrated risk management:** Risks are minimised by ensuring a diverse mix of industries and potential company or sector-specific investment catalysts, along with regular portfolio monitoring.
- Breadth of expertise:** Janus Henderson has managed Japanese equity funds since 1974 with the Japanese small and large caps teams managing assets over US\$1.7bn at 30 June 2018. The Japanese Smaller Companies Team has a combined experience of over 30 years researching and managing Japanese equities.

\* Number of holdings at 30 June 2018. This is an illustrative range and may vary.

### Overview

The fund is designed to capture the earnings growth and share price appreciation potential of Japanese smaller companies, by investing in the bottom 25% of the market capitalisation range over a three to five-year time horizon. In-depth fundamental proprietary research is a key driver of performance. Quarterly meetings are conducted for all holdings to discover incremental changes that may impact a company's growth potential and share price. Information gathered is used to tactically rebalance the portfolio based on the manager's conviction levels. The fund is a high conviction, diversified portfolio and has historically held around 50-70 stocks (at 30 June 2018). The investment approach focuses on stock valuation,

investment catalysts and structural growth to drive earnings and returns.

### Management team

The fund has been managed since 2005 by Yunyoung Lee, who has over 25 years of industry experience. Yunyoung is assisted by dedicated Japanese smaller companies analyst Yusuke Suzuki who has 12 years of industry experience. The team also leverages on the research and expertise of the Japanese Large Caps Team and Janus Henderson's global equities teams.

### Investment philosophy

The manager believes that there are significant inefficiencies in the under-researched Japanese smaller companies sector, and it is important to focus on three key criteria: valuation, catalyst events and structural growth. In the manager's view this approach has the potential to deliver outperformance over time.

The manager seeks to take advantage of market inefficiencies through:



#### Stock analysis

The team believes in-depth stock analysis, coupled with superior stock picking capability are the main drivers of superior long-term performance in Japanese equities.



#### Understanding management

The fund manager meets with the same key contacts at the companies held in the portfolio (typically on a quarterly basis) to validate the investment thesis and adjust the conviction level and position size.



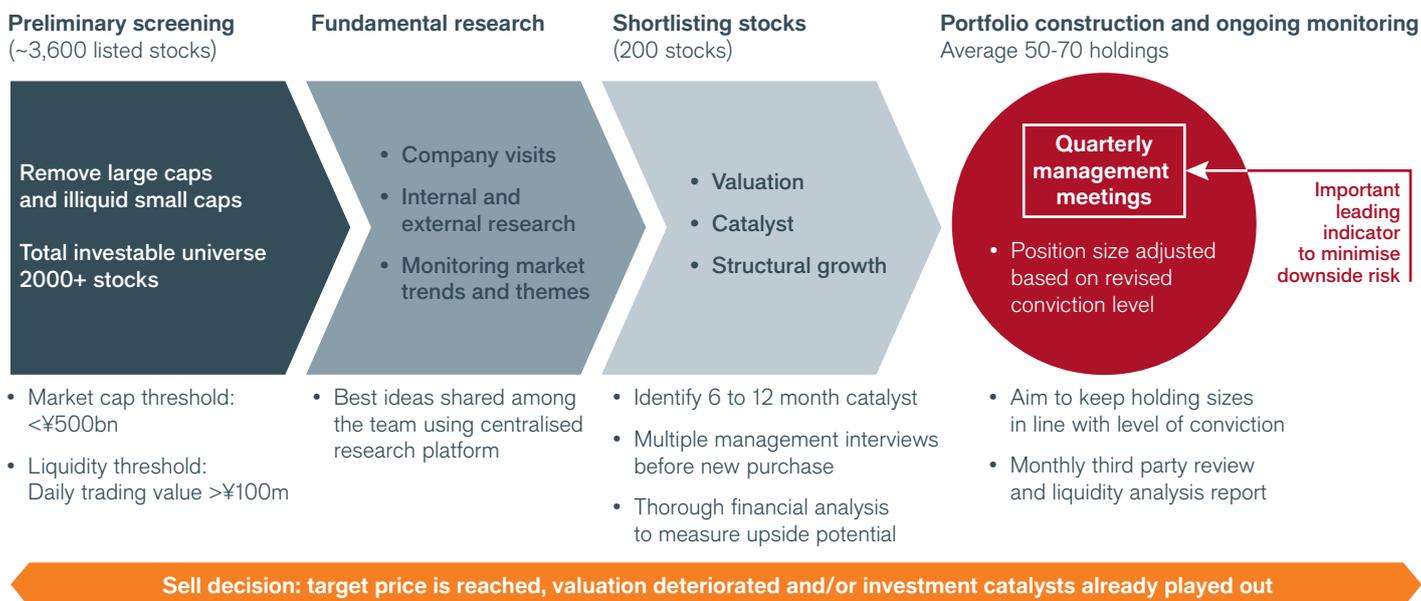
#### Focused approach

A rigorous and disciplined investment process gives the fund manager the confidence to manage a concentrated portfolio of high-conviction stocks.

# Janus Henderson Horizon Japanese Smaller Companies Fund

## Investment process

The bottom-up investment process focuses on stock valuation, investment catalysts and structural growth. The fund manager expects the majority of the portfolio's added value to be derived from superior stock selection. An intensive programme of quarterly company contacts aims to uncover incremental changes in a stock's current or mid-term growth potential that may not be fully priced into the prevailing share price.



Source: Janus Henderson Investors, at 30 June 2018.

## 1. Preliminary screening

### Initial screening factors:

- Amount of analyst coverage:** over-researched large and mid-cap stocks are excluded to maximise the value of the fund manager's research
- Liquidity and free-float:** particularly important in smaller companies to maintain investment flexibility, and meet client flow requests
- Quantitative valuation metrics:** stocks with undesirable valuation metrics are eliminated but may be reconsidered if there are sufficient redeeming characteristics (eg. superior business model, healthy balance sheet or potential investment catalyst)
- Share price:** stocks with relatively attractive price entry points are preferred.

## 2. Fundamental research

### External research

External research is used to gain insights into sector developments and for idea generation. Analyst valuation forecasts are tracked over the year and only an approved list of analysts are followed.

The fund manager recognises that economic forces drive stock markets and that market cycles generate investment themes. This is reflected in the selection of individual companies and can influence the timing of trades. All research gathered by the team is shared on Janus Henderson's internal Research Hub, which facilitates idea generation and debates on stock-specific research, market views and research methodologies.

### Internal research

The core of the team's investment process is forecasting future earnings prospects for a company, and deciding whether these are reflected in the company's market valuation. The Japanese Smaller Companies Team places a strong emphasis on regular meetings with the same key management contacts. The team conducts around 300 meetings per year, with a quarterly management interview schedule for each of the fund's holdings.

These meetings allow the team to rigorously assess a company's prospects and offer unique insights into how the business is run. The aim of frequent management contact is to uncover incremental changes in a company's current or mid-term growth potential that is not fully priced into the prevailing share price.

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## 3. Shortlisting stocks

Stocks are selected based on three key considerations: valuation, investment catalyst and structural growth.

### Valuation

Despite being growth investors, the team is value conscious, and conducts rigorous fair value analysis.

Key valuation metrics employed include:

- **ROCE** (return on capital employed) – shows how shareholders benefit from the activities of the company. Earnings momentum alone is inadequate if returns to shareholders are not forthcoming.
- **PER** (price to earnings ratio) – indicates what the market thinks of a company's growth prospects, and how it is rated against its peers.
- **Dividend yield** – provides a good indication of the resilience of a company's earnings, and is useful when the fund manager is looking to position the fund defensively.

### Investment catalysts

The fund manager looks for undervalued stocks with an investment catalyst (typical lifespan 9-12 months) for appreciation to fair value. Examples of catalysts include changes in industry regulations, new product launches or any significant internal change. A combination of multiple senior management interviews and thorough financial analysis to measure share price upside potential is used to analyse investment catalysts.

### Structural growth

The fund manager may opportunistically hold stocks exhibiting structural growth. These companies may be undervalued given a variety of factors, eg, change in business environment, a significant one-off cost, or other unexpected event. However, the manager may decide to purchase the stock as the company's strong fundamentals (eg, superior business model, potential increase in demand, management action) may lead the manager to believe the company still has the potential for strong structural growth.



“A skilled manager can add value by exploiting significant inefficiencies in the under-researched Japanese small cap market.”

Yunyoung Lee, Fund Manager, Japanese Equities

## Portfolio construction and monitoring

The fund is a high conviction portfolio of between 50-70 holdings. This concentration ensures that each position will drive fund performance, and therefore a high degree of conviction is required to invest in each holding. Sector weightings are purely the outcome of the companies the manager seeks to include in the fund, rather than an attempt to mirror the index. Strong emphasis is placed on regular portfolio monitoring and risk management. This includes portfolio liquidity analysis, risk and exposure attribution, and monitoring of tracking error.

### Sell discipline

Positions may be sold for the following reasons:

- **Change in valuation**
- **Change in macroeconomic view**
- **Change in competitive position**
- **Change in company-specific factors** – internal, eg, management change or disruption, increasing labour costs, profit warnings; or external, eg, change in market sentiment or regulation
- **Completed catalysts** – the position will be reviewed when the fund manager believes the investment catalyst that led to the buy decision has been fully priced into the share price

### Typical portfolio characteristics

The fund manager uses the following informal guidelines to assist with portfolio construction. Please note these indicative ranges may vary over time and should be used for illustrative purposes only.

Parameter	Indicative range (at 30 June 2018)
Number of stocks	50-70
Style	Growth blend
Market cap	¥10bn to ¥500bn*
Tracking error range	5-12% pa**
Typical position range	3-5% (maximum 10%)

Please refer to the fund's Prospectus. Portfolio parameters not defined within the Prospectus are informally used to guide portfolio construction and may vary over time; they are used here for illustrative purposes and correct at the time of publication.

\* There are no hard restrictions that prohibit the fund manager from holding a stock in the portfolio with a market capitalisation greater than ¥500bn.

\*\* This is a target and is not guaranteed.

### Derivatives

While the use of derivatives is permitted, the fund manager does not utilise this in the management of the fund.

### Currency hedging

The fund manager generally does not hedge currency risk for active management purposes. The fund's currency hedged share classes are hedged passively by external service providers.

### Cash

The fund manager aims to be as close to fully invested as possible. A 5% cash position is normally maintained to manage liquidity and investor flows.

# Janus Henderson Horizon Japanese Smaller Companies Fund

## Risk management

Janus Henderson has an independent Investment Risk Team (reporting into the Chief Risk Officer), which is ultimately responsible for the oversight and challenge of market risk. The day-to-day market risk activities are carried out by the Portfolio Risk & Analytics Team reporting into the Chief Investment Officer (CIO). This ensures that the resourcing of market risk is appropriate and in line with the investment strategies followed under the CIO, while providing an independent check of the suitability and effectiveness of the market risk function.

The Janus Henderson Market Risk Function, comprising the Portfolio Risk & Analytics Team and the Investment Risk Team, work closely with senior management and portfolio managers as part of the overall

investment risk management and oversight process.

Portfolio managers and senior management have access to a variety of third party and internally built risk management tools in order to qualify and quantify the various types of market risks. Daily reports and dashboards are used for day-to-day monitoring of the portfolio's exposures and risks and regular oversight meetings are held with the portfolio managers to discuss any relevant risk in the portfolio. A monthly investment performance and risk meeting is held with senior management, allowing the teams to escalate any potential remaining issues and provide senior management with an independent view of the portfolio.

## Fund management team



### Yunyoung Lee, CFA

#### Fund Manager, Japanese Equities

Yunyoung Lee is a portfolio manager for Japanese equities at Janus Henderson Investors, a position he has held since joining Henderson in 2005. He is also a portfolio manager for the International Small Cap Equity Strategy. Yunyoung is based in Singapore.

Prior to Henderson, he worked at Putnam Investments as an equity analyst in Japanese smaller companies. Prior to this, he worked for Tokyo Securities and Dow Chemicals.

Yunyoung graduated from the Korea Advanced Institute of Science and Technology (KAIST) with an MS in chemical engineering and has an MBA from the University of Hawaii at Manoa. He holds the Chartered Financial Analyst designation and has over 25 years of financial industry experience.



### Yusuke Suzuki

#### Analyst, Japanese Equities

Yusuke Suzuki is an analyst at Janus Henderson Investors, a position he has held since joining Henderson in 2016. Yusuke is based in Tokyo.

Before joining Henderson he was an analyst at Haitong International Japaninvest KK covering small and medium-sized equities. Prior to this he held a number of roles at Mitsubishi UFJ Morgan Stanley.

Yusuke graduated from the Keio University with a BA in business and commerce, is CMA qualified and has 12 years of financial industry experience.

### 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.

### Contact us

General enquiries: +44 (0)207 818 4411

Email: [sales.support@janushenderson.com](mailto:sales.support@janushenderson.com)

Website: [janushenderson.com](http://janushenderson.com)

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—KNOWLEDGE. SHARED—

### Important Information

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The Janus Henderson Horizon Fund (the "Fund") is a Luxembourg SICAV incorporated on 30 May 1985, managed by Henderson Management S.A. Issued in the UK by Janus Henderson Investors. Janus Henderson Investors is the name under which Henderson Global Investors Limited (reg. no. 906355) (incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE and authorised and regulated by the Financial Conduct Authority) provide investment products and services. 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 local offices of Janus Henderson Investors: 201 Bishopsgate, London, EC2M 3AE for UK, Swedish and Scandinavian investors; Via Dante 14, 20121 Milan, Italy, for Italian investors and Roemer Visscherstraat 43-45, 1054 EW Amsterdam, the Netherlands, for Dutch investors; and the Fund's: Austrian Paying Agent Raiffeisen Bank International AG, Am Stadtpark 9, A-1030 Vienna; French Paying Agent BNP Paribas Securities Services, 3, rue d'Antin, F-75002 Paris; German Information Agent Marcard, Stein & Co, Ballindamm 36, 20095 Hamburg; Belgian Financial Service Provider CACEIS Belgium S.A., Avenue du Port 86 C b320, B-1000 Brussels; Spanish Representative Allfunds Bank S.A. Estafeta, 6 Complejo Plaza de la Fuente, La Moraleja, Alcobendas 28109 Madrid; Singapore Representative Henderson Global Investors (Singapore) Limited, 138 Market Street, #34-03/04 CapitaGreen, Singapore 048946; or Swiss Representative BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich who are also the Swiss Paying Agent. RBC Investor Services Trust Hong Kong Limited, a subsidiary of the joint venture UK holding company RBC Investor Services Limited, 51/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, Tel: +852 2978 5656 is the Fund's Representative in Hong Kong. © 2018, Janus Henderson Investors. The name Janus Henderson Investors includes HGI Group Limited, Henderson Global Investors (Brand Management) Sarl and Janus International Holding LLC

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