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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.

UK equity income – what's wrong with a 5% dividend yield?!

January 2020

Laura Foll

Fund Manager, Janus Henderson UK Equity Income & Growth Fund



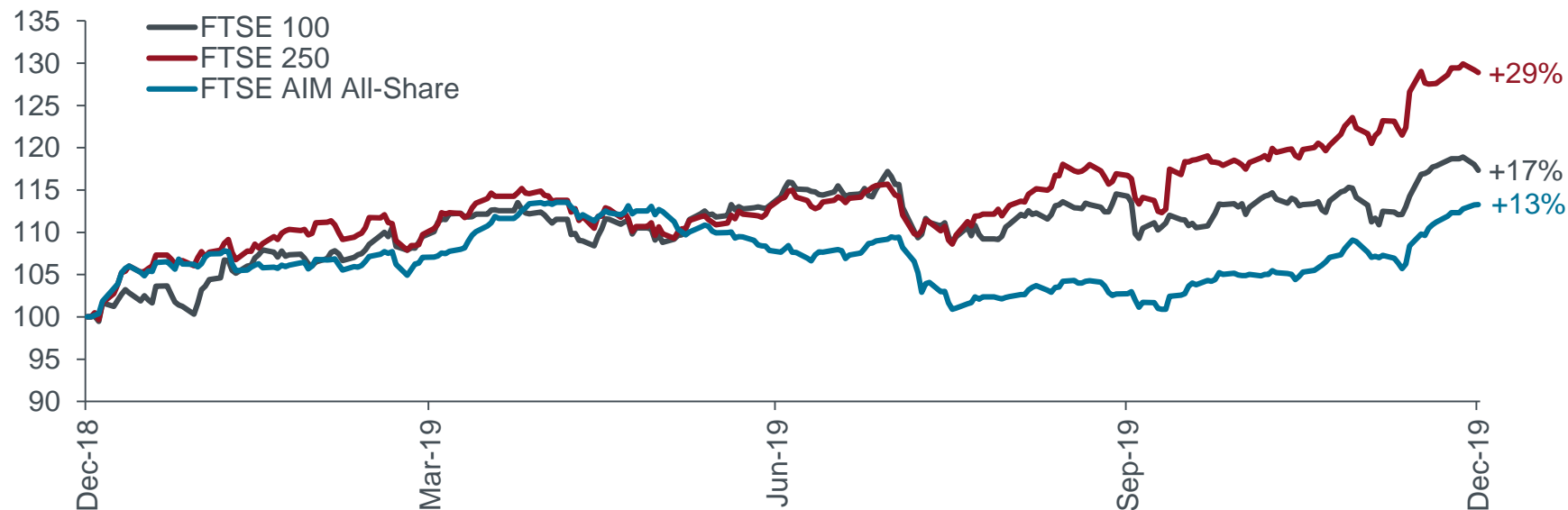
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Agenda

- UK equity market backdrop – performance, valuation levels and sentiment
- UK equity income backdrop and the case for diversification of income
- Specific opportunities in the UK market

Has the opportunity in the UK been missed?

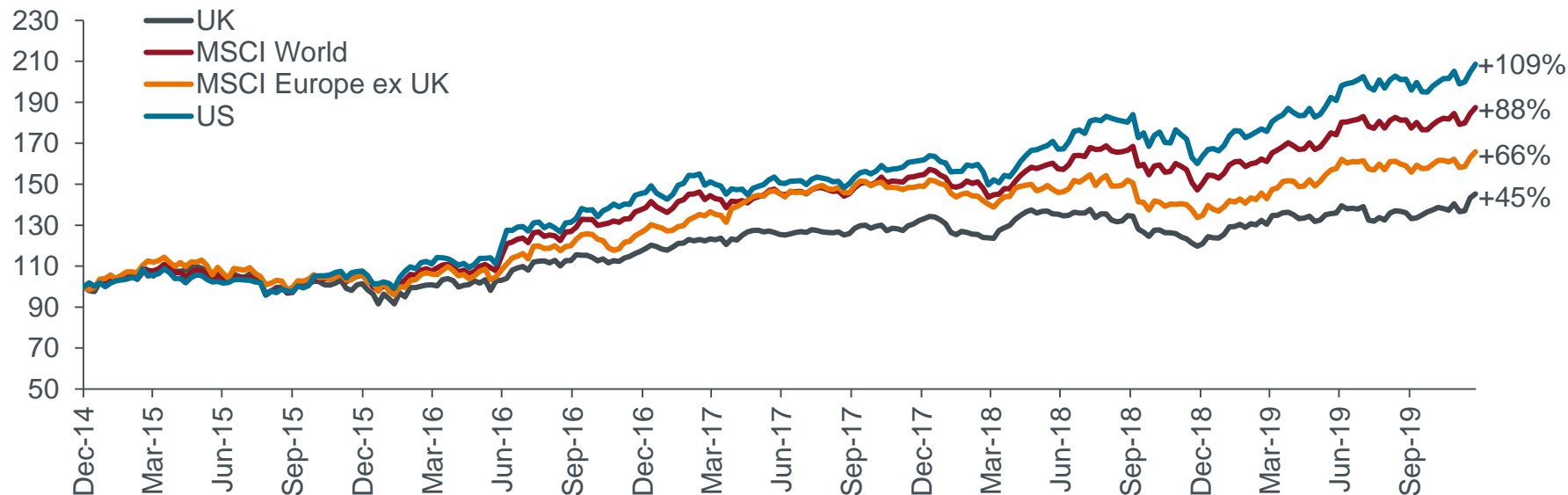
2019 performance was strong, particularly in medium sized companies



Source: Datastream, as at 31 December 2019. Total return, GBP, rebased to 100 as at 31 December 2018.

UK performance in a longer term context

The UK market has materially underperformed other global markets in the last five years



Source: Datastream, as at 31 December 2019. Total return, GBP, rebased to 100 as at 31 December 2014. UK – FTSE All Share, Europe ex UK – MSCI Europe ex UK, World – MSCI World, US – S&P 500.

Individual share examples

Share price gains in 2019 have in some cases barely made up what was lost in Q4 2018

Company name	1 year total return (%)	2 year total return (%)	FY20 P/E	FY20 dividend yield (%)
Morgan Advanced Materials	+25.6%	+1.5%	11.7x	3.5%
RBS	+24.9%	-1.8%	9.7x	5.2%*
Taylor Wimpey	+58.7%	+13.6%	9.5x	9.8%**
Headlam	+37.7%	+1.9%	13.4x	4.9%

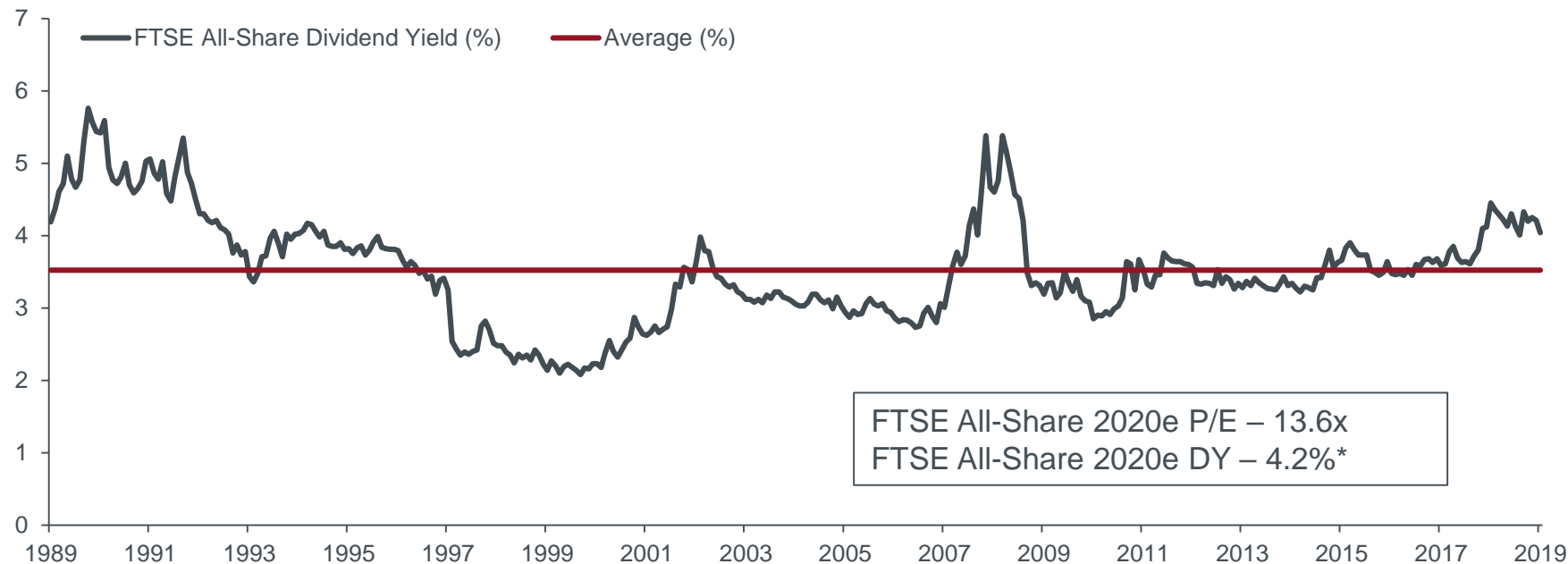
Source: Bloomberg as at 31 December 2019. Total return all in GBP.

Note: * Assumes further special dividends but at a reduced level on FY19.

** Assumes a special dividend will recur.

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UK valuation levels look attractive relative to history

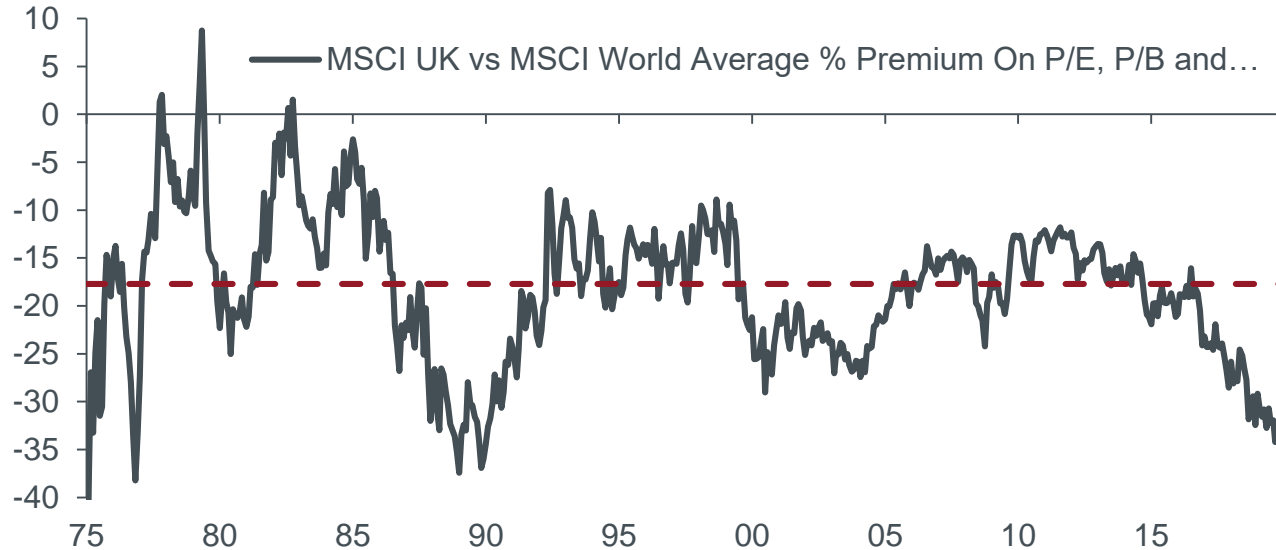


Source: Datastream as at 31 December 2019

* Source: Bloomberg as at 9 January 2020

UK valuation levels look attractive relative to other global markets

MSCI UK at a discount to MSCI World

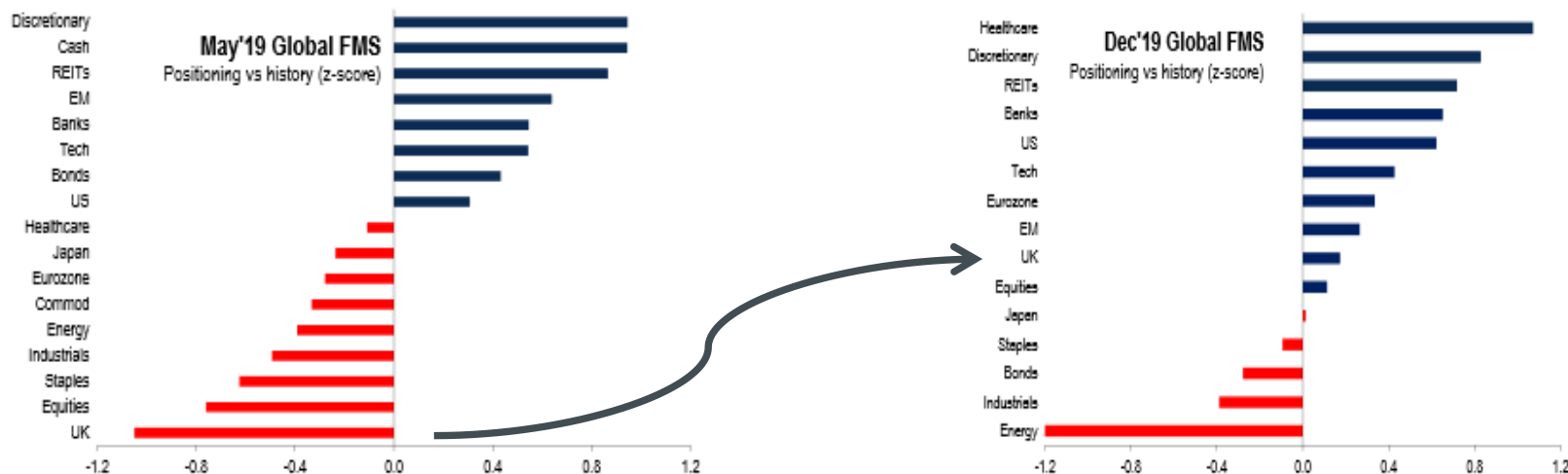


- Brexit uncertainty has driven a significant de-rating of UK equities
- 30% upside to return to the normal relative valuation

Source: Morgan Stanley as at 31 December 2019.

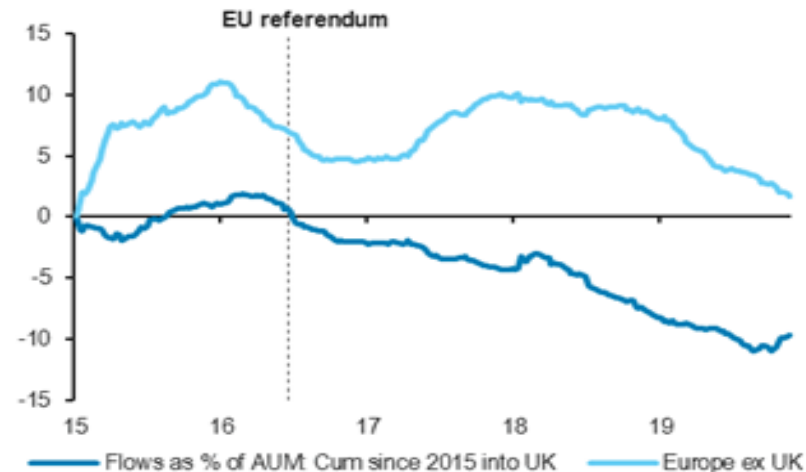
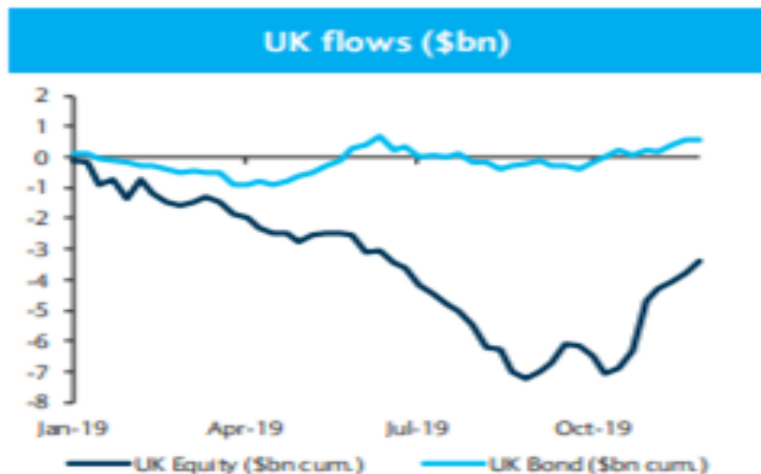
Interest in the UK is increasing

BAML Fund Manager Survey from earlier in 2019 vs latest:



Source: Bank of America Merrill Lynch Fund Manager Survey as at 17 December 2019. Data goes back to 2001 with the exception of commodities and real estate, where data goes back to 2006. FMS = Fund Manager Survey.

There are tentative signs of improvement in flows (from a low base)

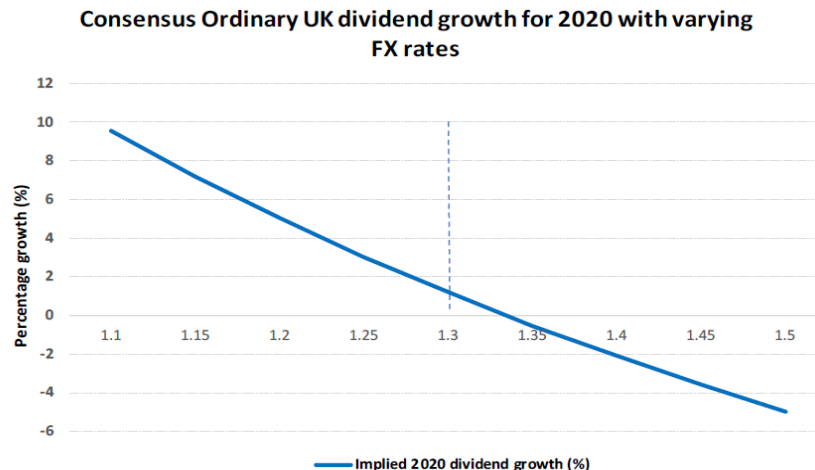


Source: Barclays, as at 29 November 2019

UK equity income backdrop

2019 overview and 2020 outlook

- In 2019 FTSE All-Share dividends grew 8% and within this ordinary dividends grew 3%
- High profile dividend cuts (e.g. Vodafone, M&S) were offset by strong dividend growth from banks (e.g. RBS) and miners (e.g. Rio Tinto)
- Consensus for 2020 has ordinary dividend growth of 1%, although growth is dependent on FX rates (particularly USD)



Source: Baden Hill as at 6 January 2020

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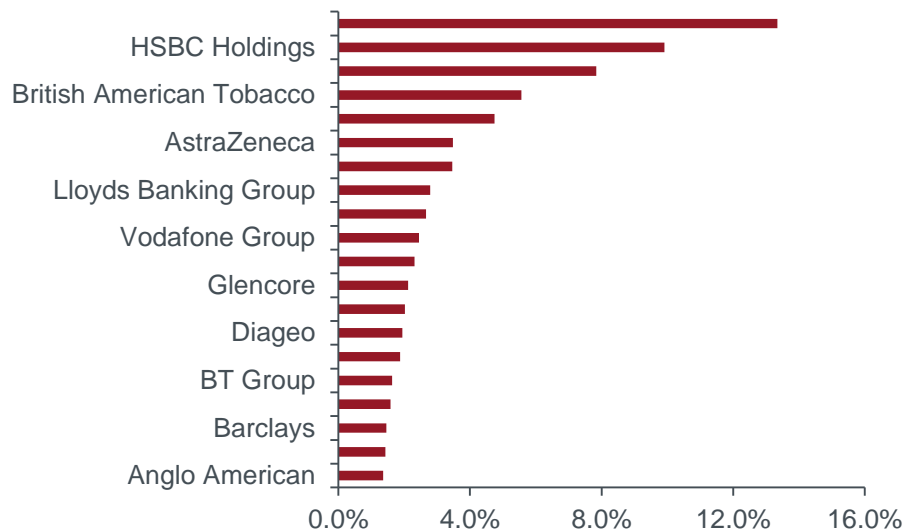
UK equity income backdrop

The case for diversification of income

- Top 20 income payers in the UK contribute 74% of FTSE 100 income (equivalent number in the FTSE 250 only 34%*)
- Small and medium sized companies are under-appreciated in terms of income generation:
 - FTSE 250 – 3.5% dividend yield
 - FTSE Small Cap – 3.8% dividend yield
 - FTSE AIM 100 – 2.5% dividend yield

Source: Liberum as at 6 December 2019
* Lazarus Economics as at 9 January 2020

Contribution to FTSE 100 income of top 20 income payers (%)

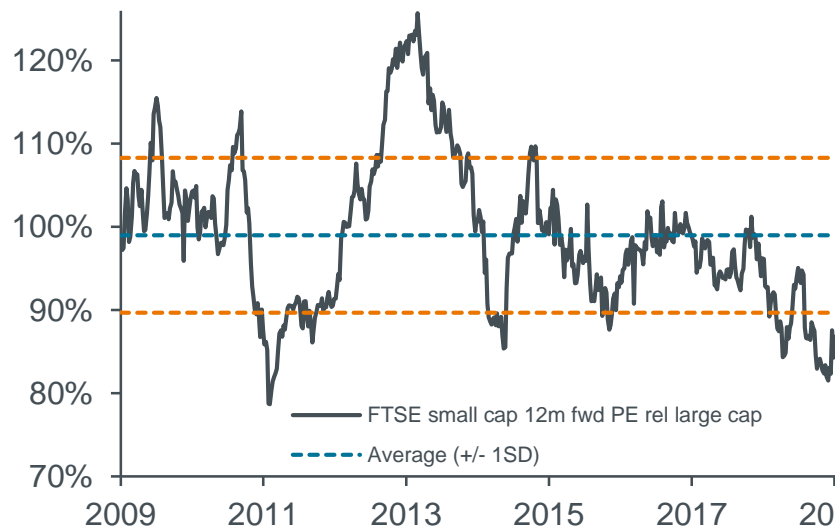


Source: Factset as at 30 November 2019
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Where are the opportunities in the UK market?

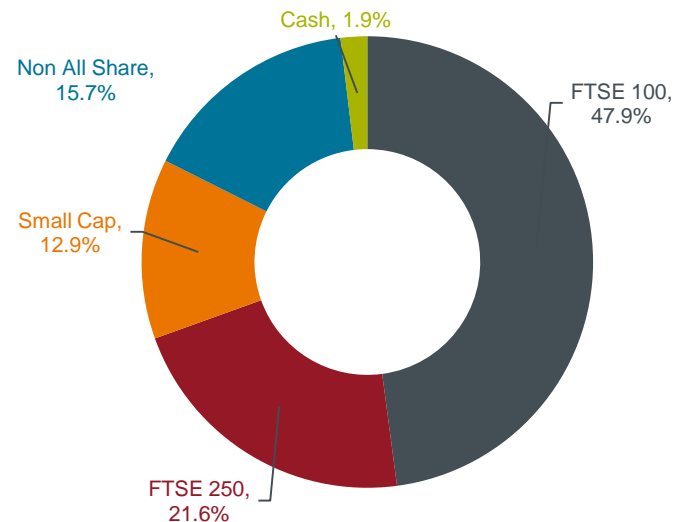
Small cap is at a large discount to the rest of the market

FTSE Small Cap relative to FTSE 100 on 12m forward P/E



Source: Credit Suisse, 4 December 2019

JH UK Equity Income & Growth Fund index weightings (%)



Source: Janus Henderson Investors as at 31 December 2019

Specific examples – UK small cap opportunities

- Palace Capital:
 - Regional office, industrial and leisure properties in the UK
 - £150mn market cap
 - 23% discount to forward NAV
 - 5.8% dividend yield
- Shoe Zone:
 - Low priced shoes – predominantly back to school, work shoes
 - £82mn market cap
 - ~50% insider owned
 - Co-founder back in charge as CEO
- Other examples – TT Electronics, Ten Entertainment, Epwin Group

Source: Bloomberg as at 2 January 2020

Reference to individual companies or any securities is purely for the purpose of information only and should not be construed as a recommendation to buy or sell the same

2020 Outlook

- Valuations are modest and sentiment towards UK is weak (but improving) – a good place to start
- UK dividend yields are attractive across the market cap spectrum
- Further corporate activity is likely in 2020 if UK equities do not re-rate – small companies look particularly vulnerable

Appendix

- Introduction to JH UK Equity Income & Growth Fund
- Fund Management team and wider Global Equity Income team
- Approach to risk management
- Approach to liquidity
- Approach to ESG

Janus Henderson UK Equity Income & Growth

Investment objective:

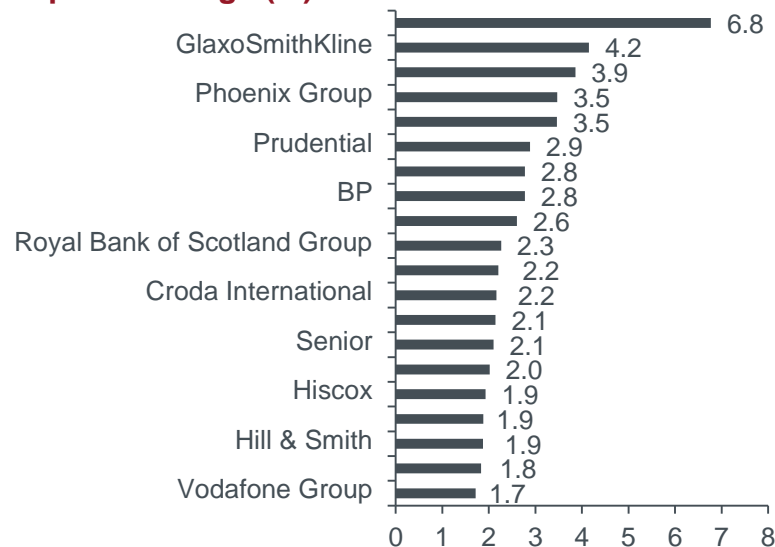
To provide dividend income with prospects for both income and capital growth over the medium to long-term by investing primarily in UK companies

Key statistics	
Fund managers	James Henderson Laura Foll
Fund size	£257.1m
Benchmark	FTSE All Share
Current dividend yield	4.9%
Portfolio 12m forward P/E	12.5
Number of holdings	69
Dividend frequency	Quarterly

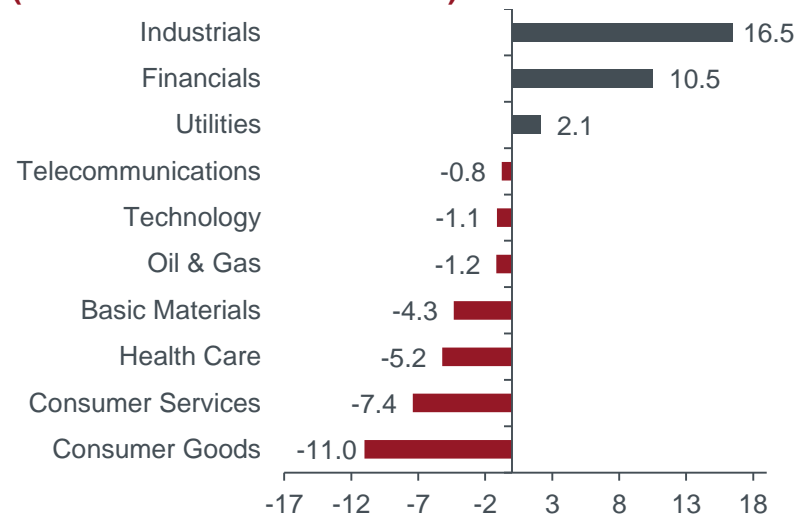
Source: Janus Henderson Investors, as at 31 December 2019
Past performance is not a guide to future performance

Current portfolio positioning

Top 20 holdings (%)



Active sector positions (% relative to FTSE All Share)



Source: Janus Henderson Investors, as at 31 December 2019

Note: Figures exclude cash and derivatives

References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security

Long term performance (as at 31 December 2019)

%	1-year	3-year	5-year	10-year
Fund	12.1	6.4	20.0	160.1
Benchmark (FTSE All Share)	19.2	22.0	43.8	118.3
Fund vs Benchmark	-7.0	-15.6	-23.8	41.8
Sector average (IA UK Equity Income)	20.1	19.8	38.4	127.3

Source: Janus Henderson Investors, Morningstar, as at 31 December 2019
 Note: Based on I Inc share class, midday prices, net income reinvested, net of fees, in GBP
 Fund: Janus Henderson UK Equity Income & Growth Fund
 Peer group benchmark: IA UK Equity Income – Peer group benchmark usage: Comparator
 Index: FTSE All Share Index – Index usage: Comparator
 Notes: * **For a full description of the peer group benchmark and index usage please refer to slide 24**
 Past performance is not a guide to future performance

Introduction to Janus Henderson UK Equity Income & Growth

Investment team



**James Henderson,
Fund Manager**

- Over 30 years' investment experience
- James also manages Lowland Investment Company, Law Debenture and Henderson Opportunities Trust
- Total £1.6bn* under management (across all strategies)



**Laura Foll,
Fund Manager**

- Joined Henderson Global Investors in 2009
- CFA Charterholder
- Laura was previously a global analyst in the Value and Income team and became fund manager in October 2014

Source: * Janus Henderson Investors, as at 30 September 2019

Janus Henderson Global Equity Income team

Highly experienced, dedicated equity income team managing £11.8bn

Global Equity Income



Alex Crooke
Co-Head of Equities
Fund Manager
29 years' experience



Laura Foll
Fund Manager
10 years' experience



James Henderson
Fund Manager
36 years' experience



Olivia Vernall
Assistant Investment Director
2 years' experience



Ben Lofthouse
Head of Global Equity
Income
Fund Manager
21 years' experience



Hamish Robertson
Analyst
13 years' experience



David Smith
Fund Manager
17 years' experience



Amber Milam
Client Portfolio Manager (US)
22 years' experience



Andrew Jones
Fund Manager
24 years' experience



Faizan Baig
Analyst
12 years' experience



Steven Payne
Fund Manager
24 years' experience



Job Curtis
Fund Manager
36 years' experience



Charlotte Greville
Analyst
8 years' experience



Jane Shoemake
Investment Director
25 years' experience

We believe that over the long term dividend paying stocks that exhibit consistent dividend growth will outperform the broader market

Source: Janus Henderson Investors, as at 30 September 2019

Approach to risk management

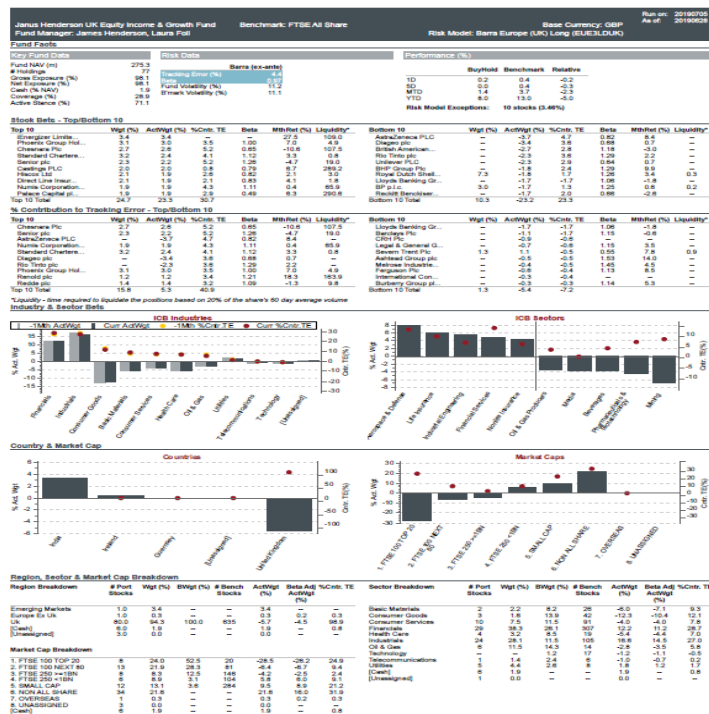
- Independent risk team sit as part of the investment floor
- Quarterly meetings with the fund managers to discuss key issues regarding performance, material changes to the portfolio, risk metrics and liquidity – genuine challenge process in place
- Ad hoc meetings for any issues that arise between scheduled quarterly meetings
- Monthly risk report produced for each Fund (example on the next slide)

Approach to risk management

Monthly risk report

Key stats including:

- Active share
- Tracking error
- Beta



Key sector positions

Indices weighting for Fund and Benchmark

Source: Janus Henderson Investors

Key risk characteristics and index breakdown

Risk characteristics – as at 31 December 2019	
Predicted 12 month tracking error	5.5
Active risk*	71.9
Beta	0.9
Portfolio 12 month forward P/E	12.5
Benchmark 12 month forward P/E	13.5

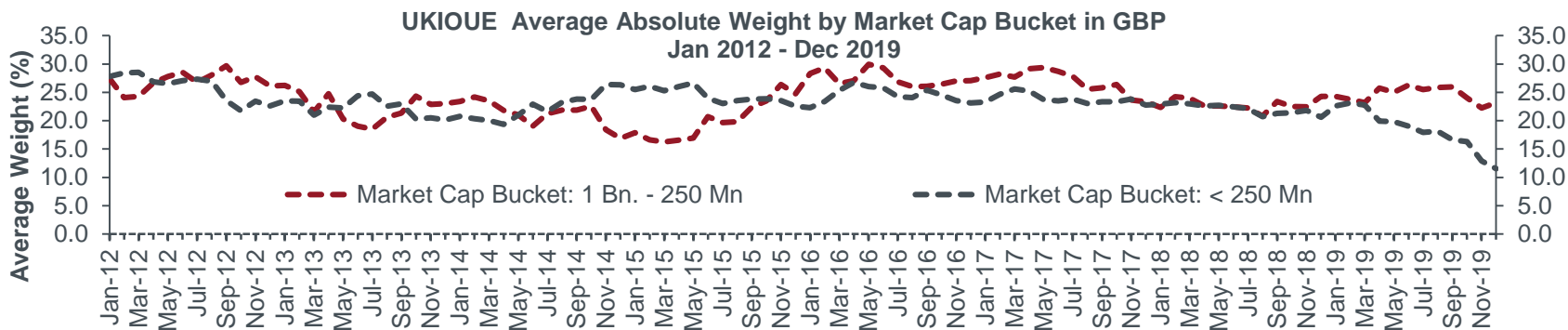
	% portfolio
FTSE 100	47.9
FTSE 250	21.6
FTSE Small-Cap	12.9
Non All-Share	15.7
Overseas	0.0
Cash	1.9

Source: BARRA, Factset, as at 31 December 2019

* Active risk/stance = (sum of absolute deviation from benchmark)/2

Approach to liquidity

- Daily risk report produced
- Multi-cap investing brings with it liquidity risk - there needs to be careful monitoring that the positioning of the Fund does not shift to more illiquid stocks over time
- The monitoring comes from both the independent risk team and the Fund Management team
- The Fund has been consistent over time:



Source: Janus Henderson Investors, Factset, as at 31 December 2019

Approach to ESG

- Each new position reviewed for ESG issues – any that flag as material discussed with company prior to purchase
- Potential or current investments not rigidly excluded on ESG ratings – in some cases data is missing or quality is poor, particularly in small company area
- ESG issues are considered by both Governance and Responsible Investing team and the Fund Managers
- Responsible investing incorporates:
 - Focus on the long-term – go beyond legislative requirements and recognise changing societal standards e.g. what should the valuation be of a plastic packaging company?
 - React to evidence of poor corporate governance where identified – engage with company, monitor improvement
 - Engage thoughtfully on corporate remuneration – there needs to be defensible logic to how managers are paid
 - Always voting at company AGMs

Approach to ESG

Monthly ESG risk report

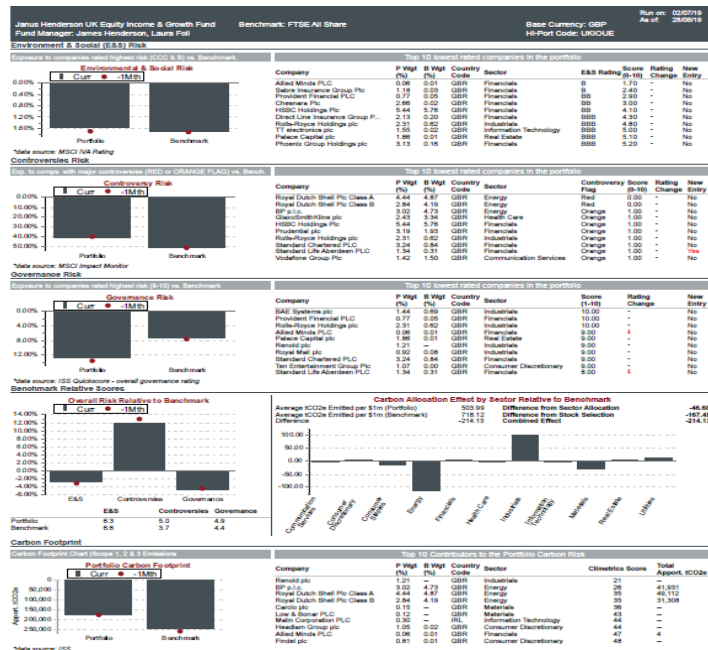
Environmental
and Social



Governance



Carbon footprint



Controversies

Overall portfolio
exposures

Source: Janus Henderson Investors

Additional information

Discrete performance and descriptions

Janus Henderson UK Equity Income and Growth Fund

	December 2018 – December 2019	December 2017 – December 2018	December 2016 – December 2017	December 2015 – December 2016	December 2014 – December 2015
Fund (%)	12.1	-12.8	8.8	9.5	3.0
Index (%)	19.2	-9.5	13.1	16.8	1.0
Peer group benchmark (%)	20.1	-10.5	11.5	8.9	6.1

Index

FTSE All Share Index

Index usage: comparator

The FTSE All Share Index is a measure of the combined performance of a large number of the companies listed on the London Stock Exchange and includes large, medium and smaller companies. It provides a useful comparison against which the Fund's performance can be assessed over time.

Peer group benchmark

IA UK Equity Income

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.

Source: Janus Henderson Investors, as at 31 December 2019

Note: Returns are shown net of fees in GBP. Past performance is not a guide to future performance

Janus Henderson Investors

201 Bishopsgate, London EC2M 3AE

Tel: 020 7818 1818 Fax: 020 7818 1819

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